



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

The business covers five major product groups: Fixed Income Securities and their derivatives; Interest Rate Derivatives, Treasury Products, Equities and Energy. The business brokers the products on a Name Passing basis (where all counterparties to a transaction settle directly with each other), a Matched Principal basis (where the business is counterparty to both sides of a matching trade), or an Executing Broker basis (where the business executes transactions on certain regulated exchanges in accordance with client orders and then 'gives-up' the trade to the client). Tullett Prebon does not take any proprietary positions.

Tullett Prebon operates a hybrid voice broking business, 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 information 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.

## Tullett Prebon's electronic platforms

### Hybrid platforms

tpAGENCY – Rates  
 tpCADDEAL – Canadian Bonds  
 tpCREDITDEAL – Credit  
 tpENERGYTRADE – Energy  
 tpFORWARD DEAL – FX  
 tpIRODEAL – Rates  
 tpSPOTDEAL – Spot FX  
 tpSWAPDEAL – Rates  
 tpTRADEBLADE FXO – FXO

### Post-trade risk management services

tpMATCH – Rates  
 tpMATCH BASIS – Rates  
 tpMATCH NDF – Treasury

### Pure electronic platforms

tpQUICKDEAL – Auctions  
 tpREPO – Rates

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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.

## Financial highlights

Underlying, before exceptional and acquisition related items (including PVM since acquisition on 26 November 2014)

Revenue  
**£703.5m**  
(2013: £803.7m)

Operating profit  
**£100.7m**  
(2013: £115.4m)

Operating margin  
**14.3%**  
(2013: 14.4%)

Profit before tax  
**£86.6m**  
(2013: £99.6m)

Basic EPS  
**32.3p**  
(2013: 36.0p)

Reported, after exceptional and acquisition related items (including PVM since acquisition)

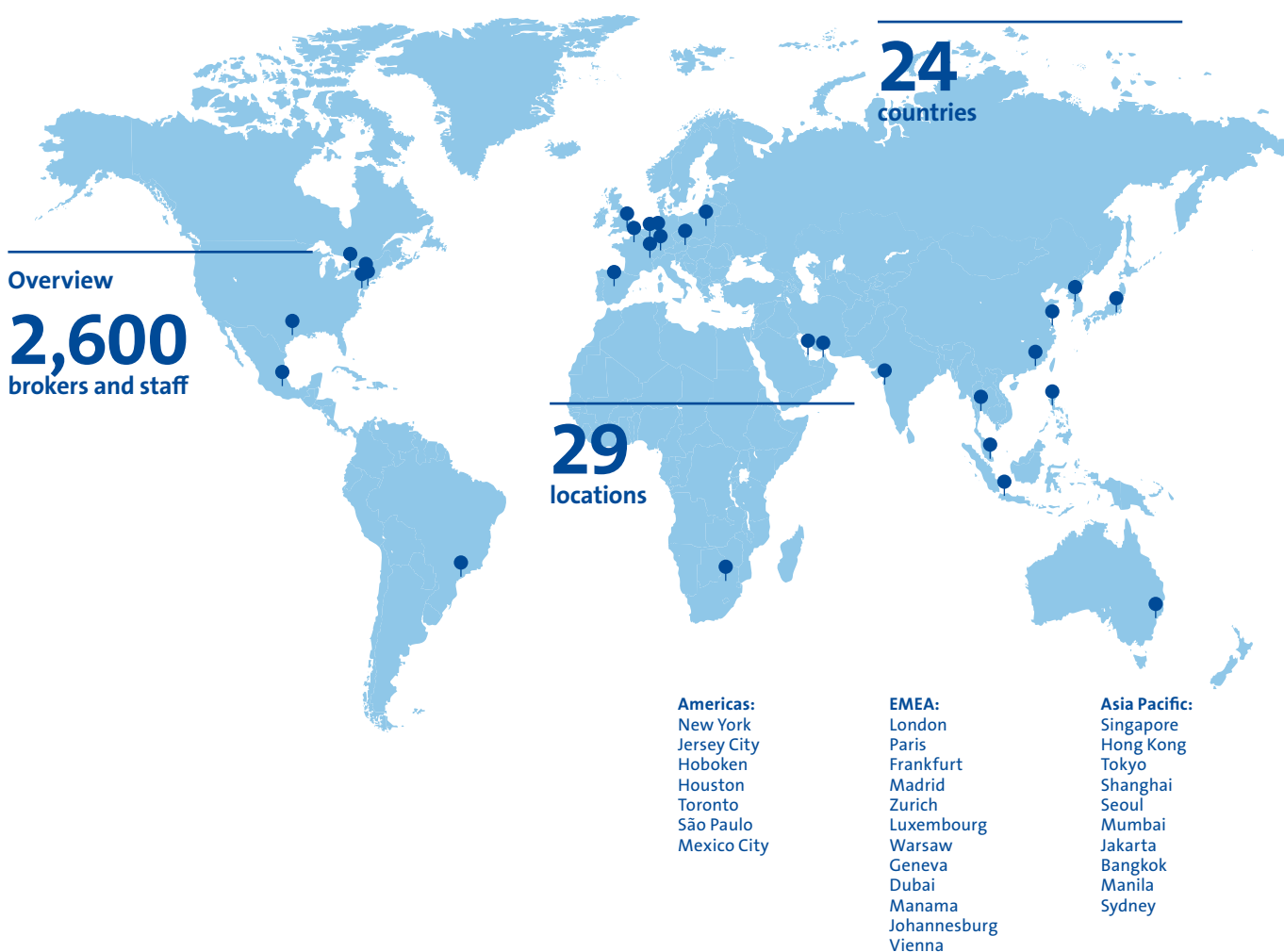
Profit before tax  
**£33.5m**  
(2013: £84.4m)

Basic EPS  
**11.2p**  
(2013: 30.1p)

Dividend per share  
**16.85p**  
(2013: 16.85p)

A table showing Underlying and Reported figures for each year, detailing the exceptional and acquisition related items, is included in the Financial Review on pages 12 to 16.

## Tullett Prebon's global presence



# Chief Executive's Review

I am delighted to have joined Tullett Prebon as Chief Executive in September 2014 and I would like to thank everyone for their warm welcome.

This is a strong, resilient company that is highly regarded by its clients, has a loyal, long-serving employee base and is placed firmly at the heart of the global financial services industry.

A great amount was achieved in 2014:

- The acquisition of PVM, a leading global energy broker, which propels our pro forma energy revenues to 22% of the Group total;
- Hiring 40 fixed income brokers in the US from Murphy & Durieu, takes our broker headcount in the Americas to nearly 550 people;
- We reached a favourable settlement of all litigation between ourselves and BGC;
- We launched our new culture and conduct agenda – “time for change”;
- We are finalising a global strategic review; and
- We maintained our disciplined focus on costs and acted quickly and decisively to align our cost base to our revenues.

## Financial performance and sector conditions

Conditions were again challenging for the global brokerage sector and our revenues fell £100m to £704m. Global markets participants continue to adapt to tighter capital controls and regulation which has a direct bearing on trading volumes. We maintained the underlying operating margin above 14% reflecting the positive impact of our cost improvement programme which has reduced annual fixed costs by over £45m, and we will continue to see the benefits of this flow through in 2015.

Towards the end of 2014 we saw an uptick in volatility in some markets as a result of concerns about global economic growth and political turbulence in many parts of the world. The price of crude oil fell sharply, taking almost everybody by surprise.

In these conditions our brokers' depth of knowledge and experience proved invaluable to achieve clients' desired outcomes. As a result, we saw evidence of an upturn in business activity in the latter part of 2014.

Our Information Sales business, Tullett Prebon Information, continues to be a market leading supplier of over-the-counter ('OTC') data and we expanded the content portfolio in 2014. This business is benefiting from demand, driven in part by compliance and regulatory requirements, for high quality, reliable and independent information on the global OTC markets. We have also continued to invest in our hybrid e-Broking platforms which connect clients and brokers to live markets.

## Strategic review

In the light of the decline in revenues in recent years, one of my first actions after joining Tullett Prebon was to commence a global strategy review to evaluate our position and prospects in each of our products and markets around the world.

The exercise is reaffirming the strength and resilience of our global business lines, each of which is being evaluated for existing and forecast fee pools, competitive landscape, the outlook for margins, the outlook for regulation, the threat and opportunity of technology and the regional attractiveness. In addition to highlighting those of our products and services

where we hold leading market positions, the project will help us define a road map where there is significant upside potential for us and our clients.

As part of our strategy review, we surveyed all our employees to seek their opinions and I am pleased to say that more than 75% responded. 90% of our staff who responded said they are proud to work at Tullett Prebon and the exercise underlined the enormous knowledge, talent, pride and commitment that exists in our workforce.

We have also sought the views of our clients. Their responses show how highly they value our depth of market knowledge, the strength and breadth of our networks and the quality services that they receive from us.

This global strategy review is currently being finalised, and the conclusions will be communicated to shareholders in due course. When the exercise is concluded we will have developed plans to optimise our core franchises, and identified opportunities to invest in products and services that offer long term value incorporating technology that best suits client needs. Our commitment to our capital markets customer base will remain undiminished while we will look to continue to add new streams of revenue from additional sources.

The barriers to entry into this sector have risen with the cost of IT infrastructure investment and the rising cost of regulation. In Europe, MiFiD II represents another investment challenge, while the US has also introduced far reaching protocols that affect the cost of doing business. Long awaited market consolidation is underway. This represents an opportunity for the larger global players as the smaller market participants will struggle to bear these investment costs. We will remain vigilant regarding the acquisition of value creating assets and we will continue to evaluate interesting opportunities as they arise.

## Acquisitions

In November we closed the acquisition of PVM, a leading energy brokerage firm which brings 33 new product desks and 129 new specialist brokers. This is an exciting development for Tullett Prebon and is consistent with our strategy of expanding in the energy sector.

PVM's main activities are in crude oil and petroleum products, and the business is particularly strong in London. It has an average daily turnover of more than 150 million barrels of OTC oil derivatives. It also participates in the biomass and biofuels sectors, and has started the physical and financial broking of coal and the physical options broking of EU Carbon allowances and offsets. It adds Singapore distillates, Urals and energy-related shipping to the Tullett Prebon Group.

PVM's client base diversifies that of Tullett Prebon and includes commodity producers and consumers, traders and risk managers within large oil and gas corporations, energy utilities, fund managers, professional traders and hedge funds.

PVM also brings to the Group its energy data set which will enable our information business to extend and deepen its global crude, refined and middle distillates coverage.

In early 2015, we enhanced our US brokerage activities with the addition of 40 new fixed income brokers from Murphy & Durieu L.P. They bring expertise and access to deep liquidity pools in a diverse range of fixed income products including corporates, convertible, municipal, high yield, distressed and government securities. Our total number of front office employees in the Americas is now almost 550 having re-established critical mass in the region.

## Our Swap Execution Facility (tpSEF)

During 2014, tpSEF continued to provide execution services globally for swaps clients across the five major assets classes: rates, credit, equities, FX, and commodities. tpSEF has provided Tullett Prebon's customers with a seamless transition from voice broking to trading swaps on a regulated venue, enabling us to maintain our long-established status as a leader in swaps liquidity and in the execution of swaps transactions.

It is tpSEF's intention to apply for registration as a security-based SEF when final rules on those instruments are published by the SEC which is currently expected in 2015.

## Awards and recognition from our clients

As in previous years, in 2014 we won plaudits from our clients and the industry. These are testament to our excellence of products, services and execution capabilities.

For the fifth consecutive year Tullett Prebon was voted number one in more product categories than any other interdealer broker in Risk Magazine's 2014 annual interdealer rankings. We also won:

- Overall Currency IDB of the Year, 2014 Risk Magazine's annual interdealer rankings;
- Commodities Broker of the Year and Innovator of the Year at the 2014 Global Derivatives Awards;
- Commodity Broker of the Year, Futures and Options Awards 2014;
- Best Broker for Forward FX, 2014 FX Week Best Banks Awards; and
- Best Data Provider (Broker), Inside Market Data Awards for the 4th consecutive year.

## New hires

I am delighted to have made some key new appointments in 2014. Philip Price joins as our new Group Chief Legal Counsel and Global Head of Compliance. Carrie Heiss joins as Group Global Head of Human Resources. Stephen Breslin is our new Group Head of Communications. All of these individuals bring a wealth of experience from previous appointments and all are committed to our agenda for conduct and culture as part of their roles.

## Conduct, culture and regulation

Regulators around the world have placed the whole of the financial services industry under heavy scrutiny following the financial crisis and we fully support their desire to inculcate the industry with a stronger culture.

At Tullett Prebon, we have recognised that how we conduct ourselves as individuals and as a firm is as important as the products and services we deliver. Our commitment to instilling the highest standards of conduct at Tullett Prebon culminated in the launch of our new framework "Our Culture, Time for Change" in December 2014. It was devised following numerous discussions with our employees, Executive Committee members and the Board, and we challenged ourselves and our assumptions again and again during a rigorous and intense process.

The resulting cultural framework has three pillars: our values, our principles, and our behaviours, which are the practical, day-to-day manifestation of our culture.

Our values are simple and central to everything we do: Honesty, Integrity, Respect and Excellence.

Our principles are:

- To act as a good intermediary – we act honestly, fairly and professionally in serving our clients;
- Clean pricing – we always communicate prices and market data based on levels that reflect market supply and demand, market liquidity and risk;
- Appropriate disclosure of information – we always uphold client confidentiality and do not provide misleading or false information;
- Financial crime – we ensure that our services are not used to facilitate financial crime and we report all suspicious transactions and activities to the relevant authorities; and
- Quality of market infrastructure – we provide resilient infrastructure to meet our client and market obligations. We invest in new technologies to innovate and protect against threats such as cyber crime.

We are embedding these principles and behaviours of our culture, and the monitoring of them, in all our systems and processes. We have issued a new Enterprise Risk Management Framework and toolset which is directly linked to our culture and how we execute business. We are introducing new HR policies and processes to ensure that our culture and values underpin everything we ask of our employees.

There will always be some risk in our industry, but we are committed to building an outstanding culture throughout our Group and in 2015 we will more closely link compensation for our senior management to the firm's overall conduct scorecard.

## Conclusion of legal actions in the US

In January 2015 the action taken by Tullett Prebon against BGC in the New Jersey Superior Court, in response to the raid of Tullett Prebon brokers by BGC in 2009 came to a favourable conclusion, as we entered into a settlement agreement with BGC under which BGC will pay \$100m to the Company. We have a duty to our shareholders to seek to protect our legal rights and interests and although legal action can be uncertain, protracted and expensive, it was appropriate to take action in order to do so.

## The year ahead

Looking ahead to 2015, I see many areas of exciting potential for Tullett Prebon. We will be outward looking, we will embrace technology and we are optimistic. We have a solid platform from which to push ahead with changes in the business that will give us the potential to deliver sustainable growth.

I have been enormously encouraged by the positive engagement from colleagues across the Group, at all levels, who have embraced change and demonstrated extraordinary commitment to our customers and to Tullett Prebon. Our business achievements are down to them. I am grateful for their skill and dedication and I would like to thank them all for their contribution.

## John Phizackerley

Chief Executive  
3 March 2015

# Strategic Report

## Chairman's Statement

I am pleased to report that during 2014 we have taken further steps to strengthen the Company to position it to succeed in colouring its objective to create shareholder value.

Market conditions remained challenging throughout 2014 as the overall level of activity in the financial markets remained subdued, although there was some pick-up in activity in some products and markets in the second half of the year.

In the light of the continuation of difficult market conditions a number of actions were taken during the year to further reduce headcount and other fixed costs in order to maintain flexibility in costs and to better align the cost base with the lower level of revenue. The benefit of this cost improvement programme, together with the continued benefit from cost management actions taken in previous years, is reflected in the maintenance of the underlying operating margin at 14.3%, compared with 14.4% in the previous year, despite the reduction in revenue.

The Company entered into an agreement with BGC in January 2015 under which BGC will pay \$100m to the Company to settle the litigation in the New Jersey Superior Court. It is pleasing to note that, following this agreement, the group is not now involved in any significant legal proceedings. The Company has a duty to shareholders to seek to protect its legal rights and interests, and we will not hesitate to initiate proceedings should any party seek to breach them and damage our business.

The Board is recommending an unchanged final dividend of 11.25p per share, making the total dividend for the year 16.85p per share (2013: 16.85p per share). The final dividend will be payable on 14 May 2015 to shareholders on the register at close of business on 24 April 2015.

The Board has considered whether the settlement money from BGC should be returned to shareholders or retained to fund business developments, including acquisitions. In the light of the opportunities to invest in products and services to facilitate our clients' strategies that would further strengthen our business and earn an attractive return on capital, the Board has decided that the funds should be retained for those purposes. The Board does not have any intention to hold capital in excess of the Company's regulatory and business development requirements.

### Board and Governance

I was delighted to welcome John Phizackerley as Tullett Prebon's new Chief Executive from the beginning of September 2014 to replace Terry Smith. John Phizackerley, known as Phiz, has a distinguished track record in the investment banking industry and wide international experience. His deep understanding of our customers' needs and his regulatory expertise will be invaluable in taking Tullett Prebon forward in these changing times to the next stage in its development.

The Board is immensely grateful to Terry Smith for his huge contribution to the business which he served as Chief Executive for over ten years. Terry Smith had the vision to bring together Tullett Liberty and Prebon Yamane to create what is today one of the leading interdealer brokers in the world. He steered the Group through the financial and regulatory upheavals of the last few years, and created significant value for shareholders. We all wish him well for the future.

The Board spent a considerable amount of time during 2014 reviewing its risk management governance arrangements and its risk management framework. One of the conclusions from the review is that the Board should appoint a new Non-executive Director with extensive experience in risk management who would chair a new Risk Committee of the Board, and in addition act as the Non-executive Chairman of the business's UK regulated entities and their risk committees. The Company's risk management governance arrangements are described in detail later in the Strategic Report.

We have continued to actively engage with shareholders during 2014, and I believe that we have established a useful and constructive dialogue to ensure that the Board stays abreast of the development of shareholder views on governance, remuneration, and other key issues.

### Strategy

One of John Phizackerley's first actions was to conduct a strategy review to evaluate our position and prospects in each of our products and markets around the world. This in-depth strategy review exercise will culminate shortly, and the results will then be reported to shareholders.

### Outlook

Tullett Prebon has produced a robust set of results reflecting a strong operational performance in what was another challenging year for the interdealer brokerage sector. Due to ongoing cost discipline we have maintained our margins. Looking forward, we will continue to add products and services to facilitate our clients' strategies, incorporating content and technologies that add value. Our focus on conduct and culture emphasises our ongoing commitment to play a central role in global financial markets and to be viewed as a trusted partner. We will continue to look to make strides to exploit the opportunities in a consolidating marketplace.

The benefits from the acquisition of PVM and the arrival of brokers from Murphy & Durieu will flow through in 2015. PVM significantly increases the scale of the Group's activities in the energy sector, and diversifies the Group's client base, reducing our dependence on wholesale investment and commercial banks. We will continue to expand the data content for our high margin, growing, Information Sales business through the oil price data generated from the PVM business, and through other exclusive data content deals.

It remains difficult, however, to predict accurately the level of activity in the markets we serve. Revenue in the first two months of 2015, excluding PVM, and at constant exchange rates, is unchanged compared with the equivalent period last year. We will continue to show discipline on costs. The benefit of the actions we have taken through the cost improvement programme in 2014 will continue to flow through in 2015, particularly in the first half.

### Rupert Robson

Chairman  
3 March 2015



# Objectives, strategy, business model and risk profile

## Corporate objective

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

## Strategy

The Company has commenced a global strategic review to evaluate the business's position and prospects in each of its products and markets around the world. This review, which is currently being finalised, is discussed in more detail in the Chief Executive's Review on pages 2 and 3. The conclusions will be communicated to shareholders in due course.

The Group's strategy is to continue to develop its business, operating as an intermediary in the world's major wholesale OTC and exchange traded financial and commodity markets, with the scale and breadth to deliver superior performance and returns, underpinned by strong financial management disciplines, and without actively taking credit and market risk.

The business objectives to deliver the strategy are:

- To provide a high quality broking service to clients, facilitating their trading activity through developing and maintaining strong pools of liquidity across all major asset classes and all major financial centres. The key actions to meet this objective include:
  - attracting and retaining broking expertise and client relationships;
  - providing clients with a variety of execution methods consistent with market demand and evolving regulatory requirements; and
  - maintaining the business's reputation for trustworthiness and integrity in the financial markets.
- To develop revenue streams from non-broking services related to financial and commodity markets. The key actions to meet this objective include:
  - developing the Group's Information Sales business through extension of its product offering and expansion of its customer base; and
  - identifying potential opportunities to acquire or develop other value added non-broking services capable of generating an adequate financial return.
- To deliver superior and consistent operating margins and return on capital. The key actions to achieve this objective include:
  - maintaining cost discipline and flexibility in the cost base;
  - maintaining a prudent financial structure; and
  - operating an effective risk management governance structure and risk management framework so that the Group can manage its risks within its risk appetite.

## 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 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 Group's risk management policies explicitly prohibit any active taking of trading risk and the Group does not trade for its own account. However, whilst the Group does not actively seek to assume risk as part of its business model, the Group is exposed to certain risks as a consequence of its broking activity, primarily to counterparty credit risk and operational risk, and also to a limited amount of market risk.

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

Around 75% of the Group's broking revenue (on a pro forma basis including PVM) is derived from Name Passing activities, where the Group 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.

Around 20% of the Group's broking revenue is 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 Group's risk management policies require that transactions are undertaken on a strict delivery versus payment basis. In the event that a client defaults prior to settlement in a Matched Principal trade, the Group's 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 failure to match clients' orders precisely or through broker error.

# Strategic Report continued

Around 5% of the Group's broking revenue is derived from the business operating 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 the trade day. Once the trade has been claimed, the Group's only exposure to the client is for the invoiced commission receivable.

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 on the Group's Enterprise Risk Management Framework, and further information on the Group's Principal Risks is included on pages 16 to 21.

## Main trends and factors likely to affect the future development, performance and position of the Company's business

### The level of financial market volatility

The Group generates revenue from commissions it earns by facilitating and executing customer orders. The level of revenue is substantially dependent on customer trading volumes. The volumes of transactions the Group's customers' conduct with it are affected by the level of volatility in financial markets and by their risk appetite. Volatility is one of the key drivers of activity in the financial markets. During periods of market turbulence the level of volatility tends to be high and the business benefits from the increased volumes that occur during such periods. Levels of activity in the financial markets can reduce sharply, however, when high volatility is overshadowed by structural uncertainty, resulting in a reduction in risk appetite amongst clients. During periods of low volatility the level of financial market activity is generally lower, and the volume of transactions undertaken by the business on behalf of its clients tends to be lower.

### The impact of the changing regulatory environment for the Group's customers

In response to the financial crisis following the collapse of Lehman Brothers in 2008, regulators worldwide have been adopting an increased level of scrutiny in supervising the financial markets and have been generally tightening the capital, leverage and liquidity requirements of commercial and investment banks, and taking steps to limit or separate their activities in order to reduce risk.

The level of the Group's revenue is substantially dependent on customer trading volumes. The volumes of transactions the Group's customers conduct with it are affected by their reaction to the actions being taken by regulators affecting their willingness and ability to trade.

### The impact of new regulations directly affecting OTC derivatives markets and the costs of complying with new regulations

Part of the regulatory reforms being introduced relates directly to the operation of OTC derivatives markets, which are the most important markets for the Group. The regulatory reforms of the OTC derivatives markets are being effected in the United States through the implementation by the Commodity Futures Trading Commission ('CFTC') and the Securities Exchange Commission ('SEC') of the provisions of the Dodd-Frank Act, and in Europe through the European Markets Infrastructure Regulation ('EMIR') and the review of the Markets in Financial Instruments Directive ('MiFID'). 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 are executed through regulated execution venues (the Swap Execution Facility ('SEF') in the United States, and the Organised Trading Facility ('OTF') in Europe).

The Company's swap execution facility, tpSEF Inc. ('tpSEF') started operating in October 2013 under its temporary registration from the CFTC. tpSEF provides swap execution services across the five major asset classes utilising many of the Group's electronic broking platforms to satisfy the regulatory requirements relating to trade execution, trade reporting, audit trail, and submission to clearing for instruments required to be cleared. tpSEF offers execution services for both Required Transactions (certain interest rate and credit index instruments subject since February 2014 to the CFTC's mandatory clearing requirement and the "made available to trade" determination) and Permitted Transactions (all other instruments within the scope of the legislation). Third party analysis of the notional volume of trades reported through SEFs shows that the total volumes, including the dealer-to-client segment, have increased during 2014 and that the volumes in the dealer-to-dealer segment, and the market shares of the interdealer brokers within that segment, have been largely maintained.



In Europe, the implementation of EMIR, which contains provisions governing mandatory clearing requirements and trade reporting requirements for derivatives, is coming into effect in stages as the various technical standards are agreed. The requirements that details of derivative contracts must be reported to recognised trade repositories came into effect from 12 February 2014, the first clearing obligations are expected to come into effect during 2015, subject to the authorisation of a relevant CCP, and margin requirements for non-cleared trades will apply from 1 December 2015. The legislative framework governing permissible trade execution venues, and governance and conduct of business requirements for trading venues, (MiFID II) and a new regulation (MiFIR), has been adopted by the EU Council and European Parliament, and the rules set out in MiFID II will become effective at the beginning of 2017.

The introduction of the reforms in both the US and Europe has caused considerable uncertainty amongst the Group's customers, which can persist in the period after the date at which the various requirements have come into force, about which counterparties and which transactions may be covered by the reforms and about the actions necessary to ensure compliance, which has affected, and may continue to affect, the volumes of transactions the Group's customers conduct with it.

The reforms reinforce the role of the intermediary in the OTC markets, and the introduction of more electronic platforms into these markets represents an evolution of the facilitation service that the Group provides, rather than fundamentally changing the way in which OTC markets operate, but the reforms do introduce new rules for intermediaries and changes in the way in which trading is undertaken by participants in these markets. The reforms are therefore likely to have an effect on the Group's business and the revenue the business is able to generate from its activities, including potentially through changes in commission rates, the size of the market that is intermediated, or the Group's market share.

In addition, significant expenditure is being incurred in order to comply with the regulations, including the costs of development, launch and the ongoing running of new electronic platforms and associated technology infrastructure, and additional compliance resources. In 2014, the charge in the income statement for these additional costs was 3% of revenue.

## Commercial and competitive environment

The Group operates in a competitive and dynamic environment, and the markets in which the Group competes are characterised by rapidly changing technology, evolving customer demand and uses of services, and the potential emergence of new industry standards and practices. Such changes may increase the risk that the Group faces additional costs or barriers to entry to markets that its competitors do not experience. New entrants or new methods of delivering broking services may gain first mover advantage that the Group may not be able to respond to in a timely manner.

The Group competes with other interdealer brokers for staff. The costs of employing front office broking staff is currently the largest cost faced by the Group. The effect of the competition for broking staff can result in an increase in staff costs, or if staff leave the Group, can result in the loss of capability, customer relationships and expertise.

Consolidation within the industry or integration with adjacent sectors may provide competing firms or platforms with advantages of scale, access to wider pools of liquidity, or service capability that may put the Group at a competitive disadvantage.

## Management of the cost base

The Group actively manages its cost base, by seeking to reduce fixed costs and to maintain flexibility in the cost base, to support its profitability as circumstances require it. The Group has in the past undertaken major restructuring programmes involving the exit, or restructuring of contracts, of staff, and the exit from certain activities. The Group may undertake further restructurings from time to time in the future, and any such future restructuring might involve significant costs or have a disruptive effect on the Group's business, or the anticipated benefits of any restructuring might not be realised in full.

## Changes in the carrying value of goodwill

The Group's consolidated balance sheet includes a balance relating to goodwill. The initial recognition of goodwill represents the excess of the costs of acquisitions over the identifiable net assets of the entities acquired. The carrying value of the goodwill allocated to each region is reviewed for impairment at least annually. Impairment testing requires that the estimated value of the business in each region is compared with the balance sheet carrying value of the business in that region, including goodwill, and any shortfall is recognised as an impairment of goodwill. Changes in the estimated value of the business for each region from time to time may result in impairments in the carrying value of goodwill.

# Strategic Report continued

## Overview

Market conditions remained challenging throughout 2014 as the overall level of activity in the financial markets remained subdued, although there was some pick-up in activity in some products and markets in the second half of the year.

In the light of the continuation of difficult market conditions a number of actions were taken during the year to further reduce headcount and other fixed costs in order to maintain flexibility in costs and to align the cost base with the lower level of revenue. The benefit of this cost improvement programme, together with the continued benefit from cost management actions taken in previous years, is reflected in the maintenance of the underlying operating margin at 14.3%, compared with 14.4% in the previous year, despite the reduction in revenue.

### Market conditions and revenue

The Group generates revenue from commissions it earns by facilitating and executing customer orders. The level of revenue is substantially dependent on customer trading volumes which are affected by the level of volatility in financial markets, by customers' risk appetite, and by their willingness and ability to trade.

Volatility is one of the key drivers of activity in the financial markets. Measures of financial market volatility, which reached post financial crisis lows during the first half of the year, picked up during the second half. The business experienced the effects of the pick-up in volatility most strongly in Asia Pacific and in some products in North America, but the level of market activity in Europe and the Middle East continued to be largely subdued reflecting the cyclical effect of further flattening and lowering of yield curves and spread compression in bond markets.

Market volumes also continue to be adversely affected by the more onerous regulatory environment applicable to many of our customers. Regulators worldwide have been adopting an increased level of scrutiny in supervising the financial markets and they continue to generally tighten the capital, leverage and liquidity requirements of commercial and investment banks, and to implement steps to limit or separate their activities in order to reduce risk. This has reduced risk appetite and reduced the willingness and ability of our customers to trade.

The introduction of new regulatory reforms directly affecting the operation of the OTC derivatives markets has also created some uncertainty and has resulted in the fragmentation of some liquidity pools which has also reduced market volumes.

Excluding PVM Oil Associates, which was acquired on 26 November 2014, revenue in 2014 was 10% lower than in 2013 at constant exchange rates. Consistent with the lower level of market activity, revenue in the first half of the year was 15% lower than last year, and was 5% lower in the second half.

### Cost management and operating margin

In the light of the continuation of difficult market conditions a number of actions were taken during the year to further reduce headcount and other fixed costs. This cost improvement programme has involved the exit of 166 front office staff, 51 support and other staff, and the vacating of office space, reducing annual fixed costs by over £45m with an annualised

operating profit benefit, as previously estimated, of around £35m. Just over half that amount has been realised in 2014, with the balance expected to flow through in 2015. The cost of these actions is £46.7m, of which £22.0m are non-cash charges, including the £3.2m write down of an employment incentive grant receivable that may not be recoverable due to the reduction in headcount. This cost has been charged as an exceptional item in the 2014 accounts.

The objectives of the cost improvement programme, and the objectives of actions taken in previous years, have been to preserve the variable nature of broker compensation and to reduce it as a percentage of broking revenue, and to generally reduce fixed costs throughout the business, in order to ensure that the business is well positioned to respond to less favourable market conditions and to maintain operating margins. Broker compensation costs as a percentage of broking revenue have reduced to 56.1% in 2014, 2.2% points lower than in 2013, and 3.7% points lower than in 2012. The overall contribution margin of the business after broker employment costs and other front office direct and variable costs was 2.0% points higher in 2014 than in the prior year, but reflecting the lower level of revenue, the absolute amount of contribution was 6% lower at constant exchange rates.

The management and support costs of the business are not directly variable with revenue. Despite the increase in the costs of 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) to 3% of revenue compared with 2% in 2013, total management and support costs in 2014 are unchanged in absolute terms compared with 2013. As a percentage of revenue, however, the business's management and support costs are higher in 2014 than in 2013, offsetting the benefit from the higher contribution margin.

### Business development

We have continued to focus on delivering innovative products and a first class broking service to our clients. Action has also been taken to develop and strengthen the broking business through hiring brokers and through acquisitions, and to develop the Group's information sales and post-trade risk management services activities.

The Company completed the acquisition of PVM Oil Associates Limited and its subsidiaries ('PVM'), a leading independent broker of oil instruments, on 26 November 2014. PVM is focused entirely on energy products, and has a long history as an international crude oil and products broker covering OTC swaps, forwards and physical crude oil and refined products, and exchange traded instruments including WTI, Brent and Gasoil futures. PVM's customers are major oil companies, independent refiners and producers, government agencies, trading houses, banks, investment funds and corporations.

The acquisition of PVM increases the scale of the Group's activities in the energy sector, particularly in Europe, and will give the Group a significant presence in broking crude oil and petroleum products, complementing its existing activities in these areas. Crude oil is the world's most actively traded commodity. The acquisition will also allow Tullett Prebon

Information to expand its data offering to include the current and historical oil price data generated from the PVM business and to offer this data to a broader set of customers.

PVM's unaudited management accounts for the 12 months to December 2014 show revenue of \$125.8m (£76.2m) with operating profit of \$21.2m (£12.9m). In its audited accounts for the year ended 31 July 2013, PVM reported revenue of \$107.5m, with operating profit of \$18.2m. PVM's broker headcount at the end of 2014 was 129.

Information relating to the consideration for the acquisition of PVM, its balance sheet, and the impact on the Group's Income Statement for 2014 and on a pro forma basis, is set out in the Financial Review below.

In early January 2015, the Company announced the expansion of its broking activities in North America through the acquisition of 40 brokers from Murphy & Durieu, a New York based interdealer broker. The 40 new brokers have expertise and access to deep liquidity pools in a wide range of fixed income products including corporate bonds, convertibles, municipal bonds and government securities, allowing the business to provide even stronger and better execution to clients in the US Fixed Income market.

For the fifth consecutive year the Company was voted number one in more product categories than any other single interdealer broker in Risk magazine's 2014 annual interdealer rankings published in September. Dealers across the wholesale banking markets in all three regions in which the business operates voted Tullett Prebon number one in 32 out of 99 categories, reflecting the Company's focus on first class service and delivery of flexible and innovative products.

The business was also named Commodities Interdealer Broker of the Year at GlobalCapital's 2014 Global Derivatives Awards in October, Best Broker for Forward FX for the fourteenth year running at the 2014 FX Week Best Bank Awards in November, and Commodities Broker of the Year and Innovator of the Year in the 2014 Futures and Options World awards in December.

The majority of OTC product markets are not characterised by continuous trading, and depend upon the intervention and support of voice brokers for their liquidity and effective operation. The business has continued to focus on its hybrid electronic broking offering, deploying platforms to comply with regulatory requirements and to respond to market demand. The platforms we offer provide clients with the flexibility to transact either entirely electronically or in conjunction with the business's comprehensive voice execution broker network.

The business in all three regions is supported by the deployment of the Group's electronic broking platforms. The platforms facilitate client trading through electronic execution or with voice broker support, and provide a range of functionality including streaming prices, analytics, and auction capability, and operate as highly efficient front end order management and trade capture systems for both brokers and customers.

The Information Sales business was awarded, for the fourth consecutive year, the title of Best Data Provider (Broker) at the Inside Market Data Awards in May. Clients continue to

demand an ever higher standard of independent, quality data and the award, which is determined by an independent poll of end-users, reaffirms the industry's recognition of our position as the leading provider of the highest quality independent price information and data from the global OTC markets.

Whilst the vast majority of the trades we arrange for customers involve voice brokers, a growing proportion of our broking activity is supported by and relies upon the functionality provided by electronic platforms. The revenue from those products supported by electronic platforms, together with the revenue from the Information Sales and Risk Management Services businesses, accounted for over 30% of total revenue in 2014.

Our key financial and performance indicators for 2014, excluding PVM in order to aid the comparison with those for 2013, are summarised in the table below.

	2014	2013	Change
Revenue	£696.0m	£803.7m	-10%*
Underlying operating profit	£99.2m	£115.4m	-13%*
Underlying operating margin	14.3%	14.4%	-0.1% points
Average broker headcount	1,625	1,702	-5%
Average revenue per broker (£'000)	400	430	-7%*
Broker employment costs: broking revenue	56.1%	58.3%	-2.2% points
Broker headcount (year end)	1,573	1,687	-7%
Broking support headcount (year end)	704	747	-6%

\* At constant exchange rates

Underlying operating profit is operating profit before exceptional and acquisition related items. A table showing Underlying and Reported figures for each year, detailing the exceptional and acquisition related items, is included in the Financial Review.

Average broker headcount during 2014 was 5% lower than during the previous year, with the year end broker headcount of 1,573, 7% lower than at the end of 2013, reflecting the exit of headcount through the cost improvement programme. The lower level of market activity in 2014 is reflected in the reduction in average revenue per broker which, at £400k for 2014, is 7% lower than for 2013.

Including PVM and the 40 brokers acquired from Murphy & Durieu in January this year, the pro forma year end broker headcount was 1,742.

The year end broking support headcount of 704 was 6% lower than at the end of 2013, reflecting the exit of staff through the cost reduction programme.

# Strategic Report continued

## Operating Review

The tables below analyse revenue by region and by product group, and underlying operating profit by region, for 2014 compared with 2013.

### Revenue

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 2013 translated at the same exchange rates as those used for 2014, with growth rates calculated on the same basis. The revenue figures as reported for 2013 are shown in Note 4 to the Consolidated Financial Statements.

The commentary below reflects the presentation in the tables.

### Revenue by product group

	2014 £m	2013 £m	Change
Treasury Products	190.5	203.1	-6%
Interest Rate Derivatives	140.6	166.9	-16%
Fixed Income	186.5	218.0	-14%
Equities	39.5	41.6	-5%
Energy	100.0	101.6	-2%
Information Sales and Risk Management Services	46.4	46.0	+1%
At constant exchange rates	703.5	777.2	-9%
Exchange translation		26.5	
Reported	703.5	803.7	-12%

Revenue was 9% lower in 2014 than in 2013 at constant exchange rates, driven by lower volumes in the traditional interdealer broker product groups of Interest Rate Derivatives and Fixed Income in Europe and North America.

Revenue from Treasury Products (FX and cash) was 6% lower, reflecting the lower level of market activity in the major currency spot and forward FX markets in Europe and North America, partly offset by higher activity in emerging markets currencies, particularly in offshore Renminbi products and forward JPY in Asia Pacific.

Levels of activity in most Interest Rate Derivatives products (swaps and options) were subdued throughout the period reflecting the further flattening of yield curves for major currencies. Activity in Asia Pacific was generally stronger, particularly in the second half of the year.

The Fixed Income product group includes government and government agency bonds, corporate bonds and related derivatives. The decline in revenue reflects the generally subdued levels of activity in the government and government agency bond markets in Europe and North America, partly offset by higher levels of activity in emerging markets' bonds in North America.

Our Equities business in the Americas delivered a strong performance, with increases in revenue from both equity derivatives and the ADR and GDR conversion desk, but this was offset by lower activity in Europe, particularly in index options.

Revenue from Energy products, including the £7.5m of revenue from PVM since acquisition, was 2% lower than in 2013, held back by lower activity in power markets, and in some oil products and commodities particularly in the first half of the year.

Revenue from Information Sales and Risk Management Services was 1% higher than last year, with increased revenue from the Information Sales business through a combination of expansion in its customer base and the addition of new content sets distributed both directly and via its market data vendor customers, offset by lower revenue from Risk Management Services where market conditions have remained challenging reflecting low interest rate volatility.

### Revenue by region

	2014 £m	2013 £m	Change
Europe and the Middle East	405.6	465.6	-13%
Americas	201.6	219.2	-8%
Asia Pacific	96.3	92.4	+4%
At constant exchange rates	703.5	777.2	-9%
Exchange translation		26.5	
Reported	703.5	803.7	-12%

### Europe and the Middle East

Revenue in Europe and the Middle East, including £6.4m of revenue from PVM since acquisition, was 13% lower than in 2013 at constant exchange rates. Broking revenue was 14% lower than last year, partly offset by growth in revenue from Information Sales. Revenue in the first half of 2014 was 18% lower than in 2013, and in the second half was 7% lower than in 2013.

The difficult market conditions severely affected the traditional major product areas of forward FX, interest rate swaps and government and corporate bonds, which account for a significant proportion of the revenue in the region. Revenue from emerging markets products held up better than those in the G7 currencies, including a good performance in South African Rand bonds and forward FX, benefiting from the opening of an office in Johannesburg, and in Eastern European and Turkish forward FX. Revenue from energy and commodities was held back by weaker power markets, but with the inclusion of PVM was in line with the prior year.

The business has continued to develop its presence in the Middle East through further transfers of brokers from London during the year, and revenue from the offices in Dubai and Bahrain was 17% higher in 2014 than in 2013, reflecting the increase in broker headcount in those centres. Headcount in London, and in the offices in continental Europe, was lower than last year reflecting the transfers to the Middle East and



the reduction through the cost improvement programme. Year end broker headcount in EMEA was 734. Average broker headcount for the region was 6% lower than last year, with average revenue per broker 10% lower than in the prior year reflecting the lower level of market activity.

#### Americas

Revenue in the Americas was 8% lower in 2014 than in 2013 at constant exchange rates. Revenue in the first half was 13% lower than in the same period in 2013, with revenue in the second half 2% lower than in 2013.

The reduction in the overall level of market activity in the Americas in 2014 particularly affected the revenue from Interest Rate Derivatives and from government and agency Fixed Income, which were subdued throughout the year. The improvement in market conditions in North America in the second half of the year resulted in a much stronger performance in Treasury Products (FX and cash) and in credit products, with revenue in the second half up 25% and 15% respectively compared with the same period a year earlier. The Equities business in the region performed strongly throughout 2014 with revenue from both equity derivatives and the ADR and GDR conversion desk up by over 25%, benefiting from the continued investment in the business. The business in Brazil experienced a sharp decline in revenue in the first half of the year reflecting a less buoyant economy and much reduced market activity, but conditions improved in the second half with revenue 7% higher than in the same period in the prior year.

Average broker headcount in the Americas was 3% lower than in 2013, with average revenue per broker 5% lower. Including the brokers hired from Murphy & Durieu who started with the business at the beginning of 2015 the pro forma year end broker headcount in the Americas was 542.

#### Asia Pacific

Revenue in Asia Pacific was 4% higher than last year at constant exchange rates. Broking revenue was 5% higher with revenue from the Risk Management Services business which is operated from the region slightly lower than last year reflecting the low interest rate volatility. Regional revenue was 4% lower in the first half than in the same period in 2013, with a 14% increase in the second half as market conditions improved.

Over 80% of the broking revenue in the region comes from Treasury Products and Interest Rate Derivatives. Revenue from Treasury Products was 14% higher than last year, benefiting from the high levels of activity throughout the year in offshore Renminbi products. Activity in many of the interest rate swaps markets in the region was lower in the first half than a year ago, but activity picked up in the second half, to leave revenue from Interest Rate Derivatives slightly higher for the full year. The region increased its revenue from Energy and Commodities where it has continued to build its presence and extend its product coverage, particularly in oil products.

Average broker headcount in the region was 5% lower than in 2013, with average revenue per broker up 10%. Year end broker headcount in Asia Pacific was 337.

## Underlying operating profit

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

### Revenue – as reported

£m	2014	2013	Change
Europe and the Middle East	405.6	468.7	-13%
Americas	201.6	233.9	-14%
Asia Pacific	96.3	101.1	-5%
Reported	703.5	803.7	-12%

### Underlying operating profit

£m	2014	2013	Change
Europe and the Middle East	80.1	97.9	-18%
Americas	10.5	10.4	+1%
Asia Pacific	10.1	7.1	+42%
Reported	100.7	115.4	-13%

### Underlying operating margin by region

	2014	2013
Europe and the Middle East	19.8%	20.9%
Americas	5.2%	4.4%
Asia Pacific	10.5%	7.0%
	14.3%	14.4%

Underlying operating profit in Europe and the Middle East of £80.1m was 18% lower than in the prior year, and with revenue down 13% the underlying operating margin has reduced by 1.1% points, to 19.8%. Broker employment costs as a percentage of broking revenue have fallen by 1.1% points but the benefit of this has been offset by the operational leverage effect of lower revenue.

In the Americas the underlying operating profit of £10.5m is slightly higher than in 2013 despite the 14% reduction in revenue, and the underlying operating margin has improved to 5.2%. Broker employment costs as a percentage of revenue have been reduced significantly, and other front office costs have also been reduced. The broking contribution margin (before management and support costs) has improved by more than 3% points, but this benefit has been partly offset by the operational leverage effect of lower revenue.

Underlying operating profit in Asia Pacific has increased by over 40% to £10.1m, and the underlying operating margin in the region has increased to 10.5% from 7.0%. Broker employment costs as a percentage of broking revenue and other front office costs have been reduced, and the benefit of the higher contribution margin has been complemented by the operational leverage effect of the higher revenue.



# Strategic Report continued

## Litigation

The legal actions that the Company had been pursuing against BGC Partners Inc. and certain of its subsidiaries (collectively 'BGC') as well as former employees in the US in response to the raid on the business by BGC in the second half of 2009 have concluded.

The outcome of the FINRA arbitration on the claims against BGC and former employees brought by the subsidiary companies in the United States which were raided by BGC, along with various claims asserted against those subsidiary companies, was determined in July 2014.

The Arbitrators determined that BGC and certain of the raided brokers should pay \$33.3m in compensatory damages to the subsidiary companies on account of the claims against them. The Arbitrators also determined that the subsidiary companies should pay \$6.1m in compensatory damages to a representative of the former equity holders of Chapdelaine Corporate Securities & Co. which the Company acquired in January 2007 on account of certain of their claims, and \$0.2m (£0.1m) to one of the raided brokers. The net \$27.0m (£16.0m) compensatory damages were received in August 2014.

The separate action taken by the Company and certain of its subsidiaries against BGC in the New Jersey Superior Court, alleging claims for racketeering, unfair competition, misappropriation of confidential information and trade secrets, and tortious interference, has also concluded.

The Company entered into an agreement with BGC on 13 January 2015 under which BGC will pay \$100m (£66m) to the Company to settle the litigation in the New Jersey Superior Court. In a prior ruling, the Judge had dismissed the Company's claim under the New Jersey racketeering law, and any damages that would have been awarded by the jury in the case would therefore not have been subject to trebling.

The settlement agreement also settles all other outstanding litigation between the parties, which will now be dismissed, and includes a clause that prevents either party hiring desk heads and senior management from the other for one year from the date of the agreement.

The first \$25m of the \$100m settlement was paid to the Company in January 2015, and the balance of \$75m will be paid to the Company before the end of March 2015. The income will be taxed in the UK at the standard rate of corporation tax applicable in 2015.

Consistent with the treatment adopted in previous years, the costs incurred in 2014 in relation to these actions, net of the compensatory damages received during the year, have been included as an exceptional charge in the income statement. The exceptional item in the income statement in 2014 is a net credit of £3.1m (2013: net charge £15.2m). The \$100m settlement will be recognised in exceptional items in the income statement in 2015.

The Company has a duty to shareholders to seek to protect its legal rights and interests, and although legal action can be uncertain, protracted and expensive, the Company believes it is appropriate to take action in order to do so.

## Regulatory Matters

The Company announced on 29 October 2014 that the SFO had issued criminal proceedings against Noel Cryan, a former employee, in connection with the manipulation of LIBOR. The Company has been asked to provide information to the Financial Conduct Authority ('FCA') and other regulators and government agencies in connection with their enquiries in relation to LIBOR and is co-operating fully with those requests. The Company is currently under investigation by the FCA in relation to certain 'wash trades' (trades that are risk free, with no commercial rationale or economic purpose, on which brokerage is paid) carried out by two former employees, one of whom is Noel Cryan. As part of this investigation the Company continues to co-operate with regulators and government agencies.

## Financial Review

The results for 2014 compared with those for 2013 are shown in the tables below.

### 2014

Income Statement £m	Underlying	Exceptional and acquisition related items	Reported
Revenue	703.5		703.5
Operating profit	100.7		100.7
Charge relating to cost improvement programme		(46.7)	(46.7)
Credit relating to major legal actions		3.1	3.1
Acquisition costs		(1.8)	(1.8)
Amortisation of acquisition deferred consideration		(0.9)	(0.9)
Goodwill impairment		(6.8)	(6.8)
<b>Operating profit</b>	<b>100.7</b>	<b>(53.1)</b>	<b>47.6</b>
Net finance expense	(14.1)		(14.1)
<b>Profit before tax</b>	<b>86.6</b>	<b>(53.1)</b>	<b>33.5</b>
Tax	(16.9)	6.5	(10.4)
Associates	1.9		1.9
Minorities	(0.4)		(0.4)
<b>Earnings</b>	<b>71.2</b>	<b>(46.6)</b>	<b>24.6</b>
Average number of shares	220.4m		220.4m
<b>Basic EPS</b>	<b>32.3p</b>		<b>11.2p</b>

## 2013

Income Statement £m	Underlying	Exceptional items	Reported
Revenue	803.7		803.7
Operating profit	115.4		115.4
Charge relating to major legal actions		(15.2)	(15.2)
<b>Operating profit</b>	115.4	(15.2)	100.2
Net finance expense	(15.8)		(15.8)
<b>Profit before tax</b>	99.6	(15.2)	84.4
Tax	(22.4)	2.4	(20.0)
Associates	1.4		1.4
Minorities	(0.2)		(0.2)
<b>Earnings</b>	78.4	(12.8)	65.6
Average number of shares	217.8m		217.8m
<b>Basic EPS</b>	36.0p		30.1p

### Net finance expense

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

£m	2014	2013
Receivable on cash balances	1.4	1.8
Payable on Sterling Notes August 2014	(0.4)	(0.6)
Payable on Sterling Notes July 2016	(9.9)	(9.9)
Payable on Sterling Notes June 2019	(4.2)	(4.2)
Payable on bank facilities, including commitment fee	(1.5)	(1.7)
Amortisation of debt issue costs	(1.1)	(2.3)
Other interest	(0.5)	(0.3)
Net cash finance expense	(16.2)	(17.2)
Net non-cash finance income	2.1	1.4
	(14.1)	(15.8)

The net cash finance expense of £16.2m in 2014 is £1.0m lower than in 2013. The reduction primarily reflects the non-recurrence in 2014 of the £0.9m of accelerated amortisation of debt issue costs recognised in 2013 that related to the bank debt that was repaid during that year.

The net non-cash finance income comprises the net of the expected return and interest on pension scheme assets and liabilities of £2.2m (2013: £1.9m), partly offset by the amortisation of the discount on deferred consideration.

### Tax

The effective rate of tax on underlying PBT is 19.5% (2013: 22.5%). The 3.0% point reduction in the effective rate reflects the benefit of the reduction in the UK statutory rate of corporation tax to 21.5% for 2014, 1.75% points lower than for 2013, and the release of some provisions relating to tax uncertainties which have been resolved. Excluding the benefit from the release of provisions, the effective rate of tax on underlying PBT would have been 23.1% (2013: 24.4%).

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. No tax relief has been recognised on the exceptional charges and credits arising in the USA in either 2014 or 2013 due to the current low level of taxable profit in that jurisdiction. In addition, there is no tax effect relating to the non-cash charge for the impairment of goodwill.

### Acquisition of PVM

The total consideration for the acquisition of the equity of the PVM, which had no debt, and on the assumption that the business had nil net working capital at completion, is \$160.0m.

The initial consideration of \$112.0m (£71.1m at the agreed exchange rate of \$1.5747) was satisfied through the issue of 25.8m new ordinary shares in the Company.

Deferred consideration of up to \$48.0m is subject to the achievement of revenue targets in the three years after completion, which together with any required adjustment to reflect the actual amount of working capital and available cash acquired at completion (estimated to be \$10m), will be satisfied through the further issue of new Ordinary Shares in the Company, or cash, at the discretion of the Company. The payment of deferred consideration to an individual vendor is linked to their continued service with the business and the deferred consideration amount will therefore be amortised through the income statement over the three years following completion. This charge will be reported as an acquisition related item and not in underlying operating profit. The 2014 Income Statement includes a charge of \$1.3m (£0.9m) for the period since completion of the acquisition, and the full year charge for 2015 will be \$16m (£10.3m at the 2014 year end exchange rate). The charge is a capital item for the Company and does not attract corporation tax relief.

The Group's estimate of the fair value of the net assets acquired is \$17.9m, comprising fixed assets of \$1.6m, net working capital liabilities of \$11.1m and cash of \$27.4m.

In the period from 26 November 2014, the date of completion of the acquisition, to the end of the year, PVM's revenue was £7.5m, with underlying Operating profit, and PBT, of £1.5m, and underlying earnings of £1.1m, after a tax charge at an effective rate of 23.7% on underlying PBT, in line with the effective rate of tax applicable to PVM for the 12 months to 31 December 2014. The acquisition was therefore accretive to earnings per share, with earnings of 42.3p per share issued for the initial consideration, weighted for the period since acquisition.

PVM's unaudited management accounts for the 12 months to December 2014 show revenue of \$125.8m (£76.2m), underlying Operating profit of \$21.2m (£12.9m), underlying PBT of \$21.5m (£13.0m), and earnings of \$16.3m (£9.9m). On a pro forma basis, assuming PVM had been acquired on 1 January 2014 and using PVM's unaudited management accounts for 2014, the acquisition would have been accretive to underlying earnings per share, with underlying earnings of 38.4p per share issued for the initial consideration.

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## Exceptional and acquisition related items

The £46.7m charge relating to the cost improvement programme, the £3.1m credit (2013: £15.2m charge) relating to the major legal actions, and the £0.9m charge relating to the amortisation of acquisition deferred consideration, are discussed above.

The £1.8m charge relating to acquisition costs reflects the legal and professional costs incurred in relation to the acquisition of PVM.

The £6.8m charge relating to goodwill impairment reflects the write down in the balance sheet carrying value of the Group's business in Brazil. For the purposes of goodwill impairment testing, Brazil is regarded as a separate region of the Group. 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. Market conditions in Brazil have been challenging in the last two years, and revenue has fallen by nearly one quarter since 2012. The business continues to be profitable but the absolute level of operating profit has fallen below the level required to support the carrying value.

## Basic EPS

The average number of shares used for the basic EPS calculation of 220.4m reflects the 217.7m shares in issue at the beginning of the year, plus 2.6m reflecting the 25.8m shares issued on 26 November 2014 in satisfaction of the initial consideration payable for PVM, plus the 0.3m shares that are issuable when vested options are exercised, less the 0.2m shares held throughout 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 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 income statement or balance sheet translation exposure.

Average and year end exchange rates used in the preparation of the Financial Statements are shown below.

	Average		Year End	
	2014	2013	2014	2013
US dollar	\$1.65	\$1.56	\$1.56	\$1.66
Euro	€1.24	€1.18	€1.29	€1.20
Singapore dollar	S\$2.09	S\$1.95	S\$2.07	S\$2.09
Japanese yen	¥174	¥151	¥187	¥174

## Cash flow

	2014 £m	2013 £m
Underlying Operating profit	100.7	115.4
Share-based compensation and other non-cash items	0.9	1.0
Depreciation and amortisation	13.6	11.9
Accelerated depreciation – fire damaged assets	–	1.5
EBITDA	115.2	129.8
Capital expenditure (net of disposals)	(11.0)	(17.0)
Decrease in initial contract prepayment	8.7	16.6
Other working capital	(21.9)	(21.7)
Operating cash flow	91.0	107.7
Exceptional items – cost improvement programme 2014	(17.0)	–
Exceptional items – restructuring 2011/2012	(0.9)	(3.2)
Exceptional items – major legal actions net cash flow	3.1	(15.2)
Interest	(15.2)	(14.9)
Taxation	(15.9)	(27.5)
Dividends received from associates/ (paid) to minorities	0.8	0.7
Acquisitions/investments	(8.7)	(2.3)
Cash flow	37.2	45.3

The operating cash flow in 2014 of £91.0m represents a conversion of 90% (2013: £107.7m and 93%) of underlying operating profit into cash.

Capital expenditure of £11.0m includes the development of electronic platforms and 'straight through processing' technology, and investment in IT and communications infrastructure.

The initial contract prepayment balance has reduced further in 2014, as the payments in the year were lower than the amortisation charge.

The other working capital outflow in 2014 reflects an increase in trade receivables due to the higher revenue in December 2014 than in the same month in the previous year, reductions in bonus accruals 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, and the payment in December 2014 of £5.5m of payroll related creditors included in the acquisition balance sheet of PVM reflecting the withholdings from payments made to staff shortly before completion of the acquisition.

During 2014 the Group made £17.0m of cash payments relating to actions taken under the 2014 cost improvement programme, and £0.9m relating to the 2011/12 restructuring programme. Most of the remaining £8.0m of cash payments associated with the implementation of the cost improvement programme are expected to be made during 2015.

The major legal actions net cash inflow of £3.1m is in line with the credit in the income statement, and reflects the payments for legal costs made during the year, net of the \$27.0m (£16.0m) compensatory damages awarded by the FINRA arbitrators that were received in August 2014.

Interest payments in 2014 reflect the income statement charge for net cash finance expenses excluding the charge for the amortisation of debt issue costs.

Tax payments in 2014 of £15.9m were lower than the payments made in 2013 primarily reflecting lower tax payments in the UK due to the reduction in the UK tax charge, lower net payments in Asia due to some refunds received in 2014, and the return of tax deposits previously paid in Brazil.

The cash payments relating to acquisitions and investments in 2014 includes the £1.8m of costs incurred in relation to the acquisition of PVM, and £1.4m of costs incurred in relation to the issuance of the equity to satisfy the initial consideration for that acquisition, together with the £3.6m payment to secure the release of the brokers from Murphy & Durieu, the £1.2m purchase of our former partner's equity interest in our main business in Japan which was previously operated as a joint venture, and the final £0.7m payment of deferred consideration relating to the acquisition of Convenção in Brazil.

The movement in cash and debt is summarised below.

£m	Cash	Debt	Net
At 31 December 2013	282.8	(227.6)	55.2
Cash flow	37.2	–	37.2
Dividends	(36.7)	–	(36.7)
Debt repayments	(8.5)	8.5	–
Amortisation of debt issue costs	–	(0.6)	(0.6)
Cash acquired with subsidiaries	17.5	–	17.5
Effect of movement in exchange rates	5.5	–	5.5
At 31 December 2014	297.8	(219.7)	78.1

At 31 December 2014 the Group held cash, cash equivalents and other financial assets of £297.8m which exceeded the debt outstanding by £78.1m.

## Debt finance

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

£m	At 31 Dec 2014	At 31 Dec 2013
6.52% Sterling Notes August 2014	–	8.5
7.04% Sterling Notes July 2016	141.1	141.1
5.25% Sterling Notes June 2019	80.0	80.0
Unamortised debt issue costs	(1.4)	(2.0)
	219.7	227.6

The £8.5m Sterling Notes were repaid at their maturity in August 2014. In addition to the outstanding Notes, the Group has a committed £150m revolving credit facility that has remained undrawn through the period, which matures in April 2016.

## Pensions

The Group has one defined benefit pension Scheme in the UK following the merger during 2012 of the two schemes which were acquired with Tullett plc and Prebon Marshall Yamane. The Scheme is closed to new members and future accrual.

The triennial actuarial valuation of the Scheme as at 30 April 2013 was concluded in January 2014. The actuarial funding surplus of the Scheme at that date was £64.2m and under the agreed schedule of contributions the Company will continue not to make any payments into the Scheme.

The assets and liabilities of the Scheme are included in the Consolidated Balance Sheet in accordance with IAS19. The Scheme's invested assets returned 16% (net of fees) during the year, and the fair value of the Scheme's assets at the end of the year was £255.7m (2013: £226.1m). The value of the Scheme's liabilities at the end of 2014 calculated in accordance with IAS19 was £193.6m (2013: £175.6m). The valuation of the Scheme's liabilities at the end of 2014 reflects the demographic assumptions adopted for the most recent triennial actuarial valuation and a discount rate of 3.7% (2013: 4.4%). Under IAS19 the Scheme shows a surplus, before the related deferred tax liability, of £62.1m at 31 December 2014 (2013: £50.5m).

## Return on capital employed

The return on capital employed ('ROCE') in 2014, excluding PVM, was 20% (2013: 24%). 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 accounting pension surplus (net of deferred tax), adding back cumulative amortised and impaired goodwill and the post-tax reorganisation costs related to the integration of the Tullett and Prebon businesses.

The pro forma ROCE in 2014 for PVM calculated using the underlying operating profit per the unaudited management accounts for the full year 2014 and the value of the initial consideration is 20%.

## Regulatory capital

The Group's lead regulator is the Financial Conduct Authority. As part of the application for the change in control approval from the FCA for the acquisition of PVM the Group applied for and has received a new Investment Firm Consolidation Waiver. The new waiver took effect on 25 September 2014 and will expire on 24 September 2024.

The terms of the new waiver require the Group to eliminate the excess of its consolidated own funds requirements compared with its consolidated own funds ("excess goodwill") over the ten year period to 24 September 2024. The amount of the excess goodwill must not exceed the amount determined as at the date the waiver took effect and must be reduced in line with a schedule over the ten years, with the first reduction of 25% required to be achieved by March 2017. The Company expects to achieve this reduction within its current business plan. The waiver also sets out conditions with respect to the maintenance of financial ratios relating to leverage, debt service and debt maturity profile.

Consistent with the previous waiver, under the terms of the new waiver each investment firm within the Group must be either a limited activity or a limited licence firm and must comply with its individual regulatory capital resources requirements. The Group is subject to the 'financial holding company test', and Tullett Prebon plc, as the parent company, must continue to maintain capital resources in excess of 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 2014 was £696m (2013: £608m).

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

## Risk Management

This section sets out a summary of how risk is managed by the Group, covering the Group's Enterprise Risk Management Framework and its Principal Risks.

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.

## Enterprise Risk Management Framework

The Board has adopted an Enterprise Risk Management Framework ('ERMF'), the purpose of which is to enable the Group to understand the risks to which it is exposed, and to manage them in line with the Group's overall business objectives and within its stated risk appetite. The ERMF identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation of the framework, and comprises four mutually reinforcing components:

- A risk management philosophy which sets out the Group's underlying attitude to the management of risk and addresses the Group's risk appetite;
- A risk management culture which seeks to foster adoption of appropriate risk management principles and behaviours throughout the Group;
- A risk management governance structure based on three lines of defence that segregate risk management (first line of defence) from risk oversight (second line of defence) and risk assurance (third line of defence); and
- Risk management processes that enable identification, assessment, management and reporting of risk exposures.

### Risk management philosophy

Effective risk management is essential for the financial strength and resilience of the Group, and for the achievement of its business objectives. The Board has the responsibility to ensure that the Group implements an appropriate risk management culture throughout the Group, underpinned by a robust framework of risk governance and controls, complying with all relevant laws and regulations.

The Group has adopted core principles that set the context for the Group's risk management activities. Risk management should be value enhancing so that current and potential risks are managed to support achievement of the Group's business objectives and strategy. Risk management should address the expectations and requirements of the key stakeholders (shareholders and regulatory authorities). Risk oversight and assurance functions should be sufficiently independent of business decision taking and supported by adequate resources. The Board must clearly define its risk appetite, setting out the type and level of risk the Group is willing to accept in pursuit of its objectives. Risk management should be integrated into business processes of the Group, and both current and emerging risks should be managed as an integral aspect of the business management processes. Risk management should be proportionate and commensurate with the level and complexity of both the business model and the nature of associated risks. The cost of risk management should be proportionate to the value it creates for the Group, while ensuring that regulatory objectives are met. Risk management should be subject to continual review and enhancement to ensure that associated structures, systems and processes remain effective and reflect stakeholder expectations.



## Risk management culture

The Board recognises that embedding a sound risk management culture is fundamental to the effective operation of the Group's risk management framework, and sets the tone and manner in which the Group conducts its business activities through defined values and expected behaviours. The Board recognises that the Group must ensure that the risk management culture is implemented across all of its businesses and functions, such that all employees are aware of, and act in conformity with, the desired values and behaviours adopted by the Group in their day-to-day activities.

The Group achieves the implementation of its desired risk management culture through a combination of frameworks, policies and practices, including: the Group cultural framework which puts market integrity at the heart of the business; Risk Appetite Statements that clearly define the type and level of risk the Group is willing to accept in pursuit of its objectives; Risk Management Policies that set out risk management expectations, including through the establishment of risk limits for each risk and the allocation of responsibility for identification, assessment, mitigation and reporting of risks to specific individuals; performance management that links staff appraisals and remuneration to risk management attitudes and behaviours; and corporate communications that reinforce awareness and understanding of the Group's desired risk management culture and associated policies.

## Risk management governance structure

### The Board

The Board has overall responsibility for the management of risk within the Group. This includes determining the nature and extent of the principal risks it is willing to take in achieving its objectives, defining expectations for the Group's risk culture, ensuring that it has an appropriate and effective risk management framework, setting the Group's risk appetite and monitoring performance so that the Group remains within its risk appetite.

The Board has delegated risk governance responsibilities to certain committees. In 2015, the Board will form a new Risk Committee as a sub-committee of the Board, which will be responsible for the oversight of risk management across the Group. The committee structure will then include the Group Treasury and Risk Committee (first line of defence), the Risk Committee of the Board (second line of defence) and the Audit Committee (third line of defence).

### First line of defence – risk management within the business

The first line of defence comprises the management of the business units and support functions. The first line of defence has primary responsibility for ensuring that the business operates within risk appetite on a day-to-day basis.

In discharging this responsibility, business management are responsible for identifying, assessing and managing any risks arising from their activities, and for adhering to all relevant risk management policies adopted by the Group. This includes ensuring the effective operation of any controls required to manage risk within appetite, and for ensuring that the employees for whom they are responsible are

aware of, and competent to undertake, their role in the risk management process.

The Group Treasury and Risk Committee ('GTRC') is an executive committee that is responsible for overseeing the day to day management of risks, and ensuring that the Group's risk exposure remains within its risk appetite.

### Second line of defence – risk oversight

The second line of defence comprises the risk and compliance functions which are separate from operational management and are responsible for overseeing and challenging the first line of defence as it undertakes the identification, assessment and management of risks, and for assisting the Board (and its various committees) in discharging its overall risk management responsibilities.

In 2015, the Board will form a new Risk Committee as a sub-committee of the Board, which will be responsible for the oversight of risk management across the Group. The Risk Committee will comprise at least three members, with a majority of Non-executive Directors ('NEDs'), one of whom will also serve as a member of the Audit Committee. The Risk Committee will be chaired by a NED with appropriate risk management expertise, and will be attended by the Chief Executive and Chief Risk Officer.

The Risk Committee will be supported by regional risk committees which will have the same oversight responsibilities as the Risk Committee, but exercised at a regional level. The regional risk committees will also be chaired by a NED with risk management expertise.

The Group's risk function is responsible for assisting the Board in the development of the Group's risk appetite and framework; monitoring the implementation of the risk framework and regulatory requirements (including conduct and market integrity) and providing robust challenge to the first line in its risk management activities.

The compliance function is responsible for monitoring compliance with all applicable regulatory requirements, including those relating to conduct of business requirements, market abuse provisions and the prevention of financial crime.

### Third line of defence – independent assurance

Internal Audit provides independent assurance on the design and operational effectiveness of the Group's risk management framework and activity, including the performance of the various business units and support and oversight functions which constitute the first and second lines of defence. Internal Audit considers all relevant risk related information in constructing its audit plan, including risk exposure reports, the results of risk and control self-assessments, and specific risk events which have occurred (such as loss events or 'near-misses'). Internal Audit has a direct reporting line to the Audit Committee.

The Audit Committee is a sub-committee of the Board, which discharges a number of risk management responsibilities, including the review of the effectiveness of the Group's internal control and risk management procedures; the approval of the Group's annual internal audit plan, and review of the internal audit function; and the review of all internal audit reports and related management actions. The Audit Committee is comprised of at least three members, all of whom are NEDs.

# Strategic Report continued

## Risk management processes

The ERMF sets out the core risk management activities undertaken by the Group to ensure that it manages risk exposures within risk appetite, to ensure that the Group's desired risk culture is embedded throughout the Group, and that the Board understands the Group's risk profile and adopts a clearly defined risk appetite.

The business objectives and strategy adopted by the Board determine the nature and scale of the commercial activities undertaken by the Group, and the overall risk appetite of the Group. As such, the business objectives are the key determinant of the Group's risk profile.

The risk function periodically identifies the various risk exposure types of the Group, collectively referred to as the risk universe (previously referred to as the risk assessment framework). This exercise also covers any emerging risks, defined as newly developing and changing risks which could have a significant impact on the Group. The risk universe is approved by the Board at least once a year, or more frequently in the event of a significant change to the Group's business activities or external business environment.

Risk appetite represents the type and level of risk which the Group is willing to accept in pursuit of its objectives and is articulated by the Board through the Group's risk appetite statements, at least annually or more often if required. These can be expressed in either quantitative or qualitative terms. The Group implements these risk appetite statements through the adoption of 'risk limits' which provide exposure thresholds that the business must use to manage the Group's risk exposure on a day-to-day basis. Risk limits are approved by the GTRC on a semi-annual basis. In setting its risk appetite, the Group adheres to the overriding principle that the risk profile of the Group should be managed to as low as reasonably practicable.

The Group publishes risk management policies which describe the principal risk management and control requirements that must be implemented to manage the Group's risk exposure within appetite. The GTRC approves the risk management policies annually, or more often if needed.

The Group assesses risk exposure at least twice a year to ensure that it is operating within risk appetite. The assessment of risk exposure consists of the Risk and Controls Self-Assessment Process ('RCSA'); and stress testing and scenario analysis. The findings of the RCSA process and the stress and scenario analysis are taken together to determine total risk exposure, and then compared with the applicable risk appetite statement to assess whether the Group is operating within risk appetite.

The RCSA is the process by which each subsidiary assesses its current exposure to risk, including an assessment of the effectiveness of the control framework it has in place. RCSAs are performed by business and control functions with support from the Risk function. Any impact on the Group's capital, liquidity, reputation, regulatory standing or access to capital markets is considered.

The Group undertakes stress tests and scenario analyses to complement the RCSA process and enhance its understanding of its risk profile and control framework. The Group undertakes the following stress tests and scenario analysis alongside the RCSA process: macro-economic scenarios to investigate the impact on the Group of 'severe but plausible' external events which are beyond the control of the Group; and reverse stress tests to identify those risks which could render the Group's business model unviable in an extreme scenario, thereby identifying those areas of the Group's control framework which require particular scrutiny.

The ability of the Group to withstand severe risk events is, to a large extent, determined by the level of capital and liquidity resources held by the Group. The Group therefore regularly assesses the adequacy of its capital and liquidity resources to cover the Group's risk profile as established through the RCSA and stress test and scenario process. The assessment of financial resources is undertaken at a subsidiary level, to ensure that each subsidiary has access to adequate financial resources on a standalone basis.

The Group's risk management policies set out reporting requirements for each risk. Day to day monitoring and reporting of risk exposures are assigned to specific functions or individuals. Risk exposures are reported against the relevant risk appetite or risk limit and escalation procedures ensure that significant exposures and events are subject to senior management review and action. The Group's Risk Management policies also set out reporting requirements covering both events which have or might have resulted in a material financial or reputational loss to the Group. The GTRC reviews reporting requirements at least annually as part of its review of the risk management policies.

## Principal Risks

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 between 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 counter-value) 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 25 to the Consolidated Financial Statements).

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 amount on deposit for cash deposit exposure. Credit departments also monitor exposures across country groupings, credit rating, and types of counterparty.

## 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;
- events preventing access to premises, telecommunications failures or loss of power supply which interrupt business activities; and
- broker errors.

# Strategic Report 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 IDBs. 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 significant or fundamental changes to the commercial or competitive environment, whether due to client requirements or competitor activity.

The markets in which the Group competes are characterised by rapidly changing technology, evolving customer demand and uses of services, and the potential emergence of new industry standards and practices. Such changes may increase the risk that the Group faces additional costs or barriers to entry to markets that its competitors do not experience. New entrants or new methods of delivering broking services may gain first mover advantage that the Group may not be able to respond to in a timely manner.

The Group competes with other interdealer brokers for staff. The costs of employing front office broking staff is currently the largest cost faced by the Group. The effect of the competition for broking staff can result in an increase in staff costs, or if staff leave the Group, can result in the loss of capability, customer relationships and expertise.

Consolidation within the industry or integration with adjacent sectors may provide competing firms or platforms with advantages of scale, access to wider pools of liquidity, or service capability that may put the Group at a competitive disadvantage.

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 FCA, 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.

## 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 the United States.

In the event of a liquidity issue arising, the firm has recourse to existing global cash resources, after which it could draw down on a £150m committed revolving credit line as additional contingency funding. This facility remained undrawn throughout 2014.

Further details of the Group's borrowings and cash are provided in Notes 22, 25 and 31 to the Consolidated Financial Statements.

## 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 risks, and pension obligation risk.

### Interest rate risk

The Group is exposed to interest rate risk on its cash deposits and on borrowings under bank facilities. The Group's Sterling Notes carry interest at fixed rates. Cash deposits are typically held at maturities of less than three months.

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 25 to the Consolidated Financial Statements.

### 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 25 to the Consolidated Financial Statements.

### 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

### Governance

The Company continues its commitment to behave ethically and contribute to economic development while improving the quality of life of its workforce, as well as society at large.

The 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 was established in 2009 and comprises all members of the Company's Executive Committee. This Committee and its members in their executive roles continue to oversee and guide the CSR activities of the Company, reflecting the importance the Company places on this broad and visible area of responsibility.

### Business ethics

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.

The Company has a clear set of values namely Honesty, Integrity, Respect and Excellence. These together form the foundation of how the Company conducts its business, informing the principles under which the Company operates and the standards of behaviour that are required of all members of staff.



# Strategic Report continued

The Company's approach to ethical behaviour and corporate governance is documented in its policies and procedures, 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 FCA'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.

In formulating its policies, the Group has due regard to human rights considerations.

## Employees

Attracting and retaining the best brokers, management, professional and other support staff remains crucial to the Company's ongoing success and 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.

In 2014, the Company invested in a new intranet to further 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 and financial and regulatory announcements, our culture, organisational changes, launch of new products and key hires. Information is provided to employees regularly via the Company's intranet site, desktops, poster sites, print collateral and town hall meetings, as appropriate.

Staff welfare remains a serious matter for the Company, especially given the demanding nature of the broking environment. The great majority of Tullett Prebon employees work in an office environment and therefore there are no significant areas of risk to report. Overall 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.

## 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.

In the event that an employee becomes disabled, the Group's policy is to make reasonable adjustments, including arranging training, to enable the employee to continue working for the Group.

At 31 December 2014 the Company's Board comprised one woman and six men; the senior managers of the Company (excluding the Board) comprised two women and 49 men; and the Group employed 522 women and 2,090 men.

## Key performance indicators

Records on employment matters are maintained as required in each legal and regulatory jurisdiction. Key performance indicators are as follows:

- The Company employed 2,536 full time equivalent employees and Directors worldwide in 2014 (47% in Europe, 31% in the Americas and 22% in Asia Pacific) compared with 2,603 staff in 2013 (47% in Europe, 31% in the Americas and 22% in Asia Pacific). Total remuneration for all staff in 2014 excluding payments made under the cost improvement programme was £409m (2013: £483m); and
- The table below sets out the retention levels across the Group:

	2014
<b>EMEA</b>	
5 years' + service	24%
10 years' + service	36%
<b>Americas</b>	
5 years' + service	17%
10 years' + service	33%
<b>Asia Pacific</b>	
5 years' + service	30%
10 years' + service	20%

## Social and community issues

### 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 seven years since HMRC started to disclose 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 in the UK and the United States (the main jurisdictions in which it operates) for 2014 of £189m (2013: £235m), comprising corporation tax, premises taxes, employer's social security payments, income taxes and social security paid on behalf of employees and VAT/ sales taxes. In addition, the Company makes further tax payments to the tax authorities in other tax jurisdictions in which it operates.

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Tullett Prebon plc to publish additional information, in respect of the year ended 31 December 2014, by 31 December 2015. This information will be available by this date on Tullett Prebon's website, [www.tullettprebon.com](http://www.tullettprebon.com).

### 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.

### 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 as a result of office-based business activities and from business travel is the Company's main impact on the environment and statistics relating to these emissions are set out in the Directors' Report.

The Company also measures its annual carbon footprint. Details of which can be found in the Directors' Report.

# Board of Directors

## Rupert Robson (54)

### Chairman

Rupert Robson was appointed to the Board in January 2007 and as Chairman on 6 March 2013. He is Chairman of the Nominations Committee. 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 and was appointed as Chairman of Sanne Holdings Ltd with effect from 1 March 2015.

## John Phizackerley (53)

### Chief Executive

John Phizackerley was appointed to the Board and as Chief Executive in September 2014. From 1986 to 2009 he held various positions in Lehman Brothers including Head of Equity Research, Head of Equity Sales in Europe, Global Head of Pan-European Cash Equities, Co-Head of European Equities and Chief Administrative Officer, Europe and Middle East. He remained with the firm post the Nomura acquisition in 2009 and held a number of positions, including Chief Operating Officer of Nomura International and Chief Executive Officer of Nomura Bank International, becoming Chief Executive Officer of Nomura International plc in 2011. He is also Chairman of the Barts and the London NHS Trust External Advisory Board since 2013.

## Paul Mainwaring (51)

### 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 (64)

### 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 the Senior Independent Director on Brewin Dolphin Plc and a Non-executive Director of Transport for London. She was formerly the Chief Executive of Energy UK until 31 December 2014, 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.

## Roger Perkin (66)

### Independent Non-executive Director

Roger Perkin joined the Board on 1 July 2012. He is Chairman of the Audit Committee and 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 Nationwide Building Society and Electra Private Equity plc and Non-executive Director and member of the Audit Committee of Friends Life Group Limited. He 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 (58)

### Independent Non-executive Director

Stephen Pull was appointed as a Non-executive Director of Tullett Prebon plc in September 2011. He is Chairman of the Remuneration Committee and a member of the Audit 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.

## David Shalders (48)

### Independent Non-executive Director

David Shalders joined the Board on 27 February 2014 and is a member of the Remuneration Committee. David Shalders is Group Operations & Technology Director at Willis Group Holdings plc, responsible for information technology, operations, real estate and change management functions. David Shalders joined Willis from the Royal Bank of Scotland Group where he served for over a decade in senior operations and IT roles, most recently as Global Chief Operating Officer for Global Banking and Markets. He also led the division's regulatory response to Basel 3. Prior to that, David led the Group's integration with ABN Amro and held roles as Head of London and Asia Operations and Head of Derivative Operations for NatWest.

# 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 2014.

## Results and dividends

The results for the year are set out in the Consolidated Income Statement on page 55.

The Directors recommend a final dividend for the year of 11.25p per ordinary share. The final dividend, if approved, will be paid on 14 May 2015 to ordinary shareholders whose names are on the register at the close of business on 24 April 2015.

During 2014 Tullett Prebon plc paid a final dividend for 2013 of 11.25p per ordinary share and an interim dividend for 2014 of 5.6p per ordinary share.

## Directors

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

**Rupert Robson** (Non-executive Chairman)

**John Phizackerley** (Chief Executive – appointed 1 September 2014)

**Paul Mainwaring** (Finance Director)

**Angela Knight** (Senior Independent Non-executive Director)

**Roger Perkin** (independent Non-executive Director)

**Stephen Pull** (independent Non-executive Director)

**David Shalders** (independent Non-executive Director – appointed 27 February 2014)

**Terry Smith** (Chief Executive – retired on 31 August 2014)

Biographical details of the Directors are set out on page 24.

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.

## Share capital and control

Following the acquisition of PVM Oil Associates Limited on 26 November 2014 the share capital increased by 25,776,523 to 243,516,227. 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 26 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 28 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 Company's 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 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 £36,289,950 ordinary shares (subject to certain restrictions) and to purchase up to 21,773,970 ordinary shares. Details of the shares issued during the year and up to the date of this Annual Report are set out in Note 26 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 2014 AGM. The allotment and buy-back authorities will expire at the conclusion of the next AGM or, if earlier, on 1 July 2015, 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 summarised in the Corporate Governance Report.

The Company's £150m revolving credit facility gives the lenders the right not to renew loans and to cancel commitments in the event of a change of control. The facility has never been drawn. There are no other significant agreements that take effect, alter or terminate upon a change of control of the Company, nor any agreements with the Company and its employees or Directors for compensation for loss of office or employment that occurs because of a take-over bid.

# Directors' Report continued

## Substantial interests

As at the year end, and at 2 March 2015, 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 2014 %	2 March 2015 %
Schroders plc	12.73	13.02
Jupiter Asset Management	7.66	7.66
Oppenheimer Funds, Inc	4.94	5.01
Allianz Global Investors Europe GmbH	4.59	4.59
Majedie Asset Management	4.50	4.50
Invesco Limited	4.47	4.47
Aberdeen Asset Managers	4.42	4.42
Henderson Global Investors	4.30	4.30
Terry Smith	3.96	3.96

## Corporate Governance Report

A separate Corporate Governance Report is included within this Annual Report on pages 28 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 of The Disclosure and Transparency Rules with the exception of the information referred to in DTR 7.2.6 which is included in this Directors' Report.

## Corporate Social Responsibility

Information concerning the Company's policies on employee engagement and the employment of disabled staff is included in the Corporate Social Responsibility section of the Strategic Report, which is, where relevant, incorporated into this Directors' Report by reference.

## Greenhouse gas emissions

The estimated 2014 Group greenhouse gas emissions are set out below:

	Tonnes of CO <sub>2</sub> e
Combustion of fuel, vehicles, fugitive emissions (scope 1)	794
Purchased electricity (scope 2)	10,810
Total	11,604
Total emissions per employee	4.3

The emission statistics were calculated by Sustain Limited and cover all material sources of emissions for which the Group is responsible. The methodology used was that of the 'Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard' (revised edition, 2004). Responsibility for emissions sources was determined using the operational control approach. The estimate covers all Tullett Prebon operations that are consolidated in the financial statements. Data was collected for the Group's largest offices which employ approximately 80% of the Group's staff, and extrapolated to cover all the Group's offices, as well as for the Group's disaster recovery sites and any corporate vehicles. Collected data was converted to greenhouse gas estimates using the UK Government's GHG Conversion Factors for Company Reporting 2014.

## Political and charitable donations

It is the Company's policy not to make cash contributions to any political party. However, within the normal activities of the Group there may be occasions when an activity might fall within the broader definition of "political expenditure" contained within the Companies Act 2006. During 2014 no political or charitable donations were made by the Group (2013: £nil).

## 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 Strategic Report. Analysis of the Group's key risks and approach to risk management is also set out in the Strategic Report. Details of the Group's interest bearing loans and borrowings, long term provisions, other long term payables and financial instruments are set out in Notes 22 to 25 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.

## Accountability and audit

The Directors' statement regarding their responsibility for preparing the Annual Report is set out on page 49 and the independent auditor's report regarding their reporting responsibility is on pages 50 to 54.



## Auditor

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 2.00pm on 6 May 2015. 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 on the register of members of the Company as at 6.00pm on Friday 1 May 2015 (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.

Resolutions dealing with the authority to allot shares, disapplication of pre-emption rights, authority to buy back shares and to convene extraordinary general meetings on no less than fourteen days' notice will be put to the AGM as special business. The resolutions are set out in a Notice of Annual General Meeting together with explanatory notes which are set out in a separate circular to shareholders which accompanies this Annual Report.

By order of the Board

## Tiffany Brill

Company Secretary  
3 March 2015

# Corporate Governance Report

## Chairman's Statement

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Dear Shareholder

2014 has been a year of considerable change for the Company. We completed our largest acquisition in many years, PVM. We are delighted with its progress to date. More broadly, though, we initiated an in-depth strategic review with outside consultants and we will be working through the outcome of that exercise in the coming weeks and months.

The amount of change has been significant at Board level too. Terry Smith, our previous Chief Executive, retired at the end of August 2014 and John Phizackerley succeeded him as Chief Executive from the beginning of September. Phiz has made an excellent start and he is leading the strategic review mentioned above. With the continuing rapid and substantial change experienced in a number of the facets of our business, for example technological, regulatory and client-base, it is already proving hugely helpful to look at our business from the ground up.

As a Board and through the Nominations Committee, we spend considerable time on considering the right balance of skills, experience and diversity on the Board. The range of expertise and backgrounds that we have encompasses, in no particular order, markets, conduct and compliance, technological, international, accounting, management and commercial.

David Shalders joined the Board on 27 February 2014 and has contributed significantly throughout the last 12 months. His background in technology and regulation has been valuable to our thinking.

Three important areas in which we have already made recent changes are risk management, conduct and compliance. The process of change and upgrading of these areas continues. In order to embed and ensure the success of our efforts, we have decided to create a new Risk Committee of the board. We are currently engaged in recruiting a new Non-executive Director of the Company who will also be Chairman of this Risk Committee as well as acting as Non-executive Chairman of the Company's UK regulated entities and their risk committees.

To ensure the success of all these developments requires that the Company has a culture of openness, honesty and transparency. This culture must, and does, come from the top, from the Board, and is rooted in the highest standards of corporate governance.

The Directors, whose names and details are set out on page 24 and 25, are responsible for the corporate governance of the Group. They are committed to ensuring that from the top downwards the highest standards of corporate governance are maintained. They support the principles of good corporate governance and code of best practice laid down in the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012 (the 'Code'), which is publicly available at [www.frc.org.uk](http://www.frc.org.uk). Throughout the year ended 31 December 2014 the Board believes it has complied with the principles and provisions recommended by the Code.

More detail covering all aspects of our corporate governance is set out in the following pages with a view to giving a rounded and comprehensive picture of how the Board sets the tone and the framework necessary to achieve the Company's strategic objectives whilst at the same time managing the accompanying risks.

**Rupert Robson**

Chairman

3 March 2015

## Directors

### Composition of the Board

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

There were several Board changes during 2014. David Shalders was appointed as an independent Non-executive Director on 27 February 2014, Terry Smith retired as Chief Executive with effect from 31 August 2014 and John Phizackerley was appointed as Chief Executive on 1 September 2014.

The Chairman, Rupert Robson, 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 24.

The Directors' biographies on page 24 demonstrate the Board's depth and breadth of experience and skill. Five of the Directors (including four of the Non-executive Directors) have extensive previous experience at senior levels in the financial services sector. Two of the Directors are chartered accountants (one of who was an audit partner in a major firm of accountants). The Finance Director was previously Finance Director of a number of other companies.

There is a clearly defined and documented division of responsibilities between the Chairman and the Chief Executive that is reviewed annually. 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. The service agreements and the letters of appointment will be available for inspection during normal business hours on any weekday (other than public holidays) at the Company's registered office, and at the AGM from fifteen minutes prior to the meeting until its conclusion.

### Independence of Directors

The Board has determined that all 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. Presentations are made to the Board by members of the Company's Executive Committee and arrangements are made for Non-executive Directors to meet members of the management teams.

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 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 effectiveness of the Board and its Committees and the performance of individual Directors were undertaken in 2014. The effectiveness of the Board was reviewed internally by way of an on-line questionnaire using Evalu8. The outcomes of the questionnaire were discussed at a Board meeting and follow up actions proposed. The review of the Board's effectiveness concluded that the Board was operating effectively. The effectiveness of the Board's Committees was also undertaken using Evalu8 and similarly concluded that the Board's Committees

# Corporate Governance Report continued

were operating effectively. Last year an independent facilitator, Lygon Group was used and it is the Company's intention to have a further external review in 2016.

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 January 2015 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.

## Election or re-election at the AGM

At the 2012 AGM, amendments to the Company's Articles with regard to re-election of Directors were approved in order to align them with the recommendations set out in the Code. Consequently, the Articles 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.

John Phizackerley was appointed since the last AGM and accordingly is subject to election at the forthcoming AGM. The Board believes that John Phizackerley brings extensive expertise in major financial institutions to the Company, which will enable him to make a valuable contribution to the Company, given the significant changes which the IDB industry continues to undergo and the Board recommends his election.

The Chairman has confirmed in the Chairman's Statement, and 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 24.

## Board Process

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](http://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 terms of reference of the Audit Committee were amended in January 2014 to take account of additional responsibilities introduced by the UK Government's new reporting requirements. The responsibilities of the Nominations and Audit Committees together with an overview of their work during the year are described below. A separate report for the Remuneration Committee is set out on pages 35 to 48.

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 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.

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 table below sets out the Board and Committee attendance record during the year.

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.

## Board and Committee attendance record

	Board*	Audit Committee	Remuneration Committee	Nominations Committee
<b>Executive Directors</b>				
John Phizackerley (appointed 1 September 2014)	3/3	–	–	–
Terry Smith (retired 31 August 2014)	5/5	–	–	–
Paul Mainwaring <sup>(1)</sup>	7/8	–	–	–
<b>Non-executive Directors</b>				
Rupert Robson	8/8	–	–	3/3
Angela Knight	8/8	4/4	6/6	3/3
Roger Perkin	8/8	4/4	5/6	3/3
Stephen Pull	8/8	4/4	6/6	3/3
David Shalders	7/7	–	5/5	–

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

(1) Paul Mainwaring missed the Board meeting in November 2014 as he was required to give evidence at the New Jersey Superior Court.

## Nominations Committee

The Nominations Committee is chaired by Rupert Robson. The other members throughout the year were Angela Knight, Roger Perkin and Stephen Pull.

All members of the Committee, other than the Chairman, are independent Non-executive Directors.

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

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 and accordingly it does not set diversity targets.

## Work of the Nominations Committee

As reported in last year's Annual Report, the Nominations Committee dealt with the appointment of Non-executive Director David Shalders. The appointment was made with the explicit intention of raising the Board's general level of awareness in the areas of technology and regulation. Consideration was given to the question of diversity, including gender, and the search duly considered female candidates too.

During the year the Nominations Committee undertook a process to recruit a new Chief Executive to succeed Terry Smith and the services of an external search consultant were retained to assist it. At the conclusion of the process, the Nominations Committee recommended to the Board the appointment of John Phizackerley as the new Chief Executive. In recommending this appointment to the Board, the Committee noted his distinguished track record in the investment banking industry including his roles at Lehman Brothers and Nomura Bank and his wide international experience. The Committee also judged that he displayed the characteristics of a strong and capable Chief Executive.

The external search consultancy retained by the Board in respect of John Phizackerley's appointment was Spencer Stuart. The Company does not have any other connection with Spencer Stuart.

The Nominations Committee has initiated a search for a new Non-executive Director with specific experience in risk management. The individual will be the Chairman of a new Risk Committee of the Board. It is anticipated that a recommendation will be made to the Board in the first half of 2015.

The Nominations Committee implemented formal succession plans in the event that the Chief Executive or Financial Officer was absent on short notice. The Executive Directors were asked to propose similar short term succession plans for each of the members of the Executive Committee. The Committee also considered longer term succession within the Group at a senior level and has discussed this topic with the Chief Executive.



# Corporate Governance Report continued

## Relations with Shareholders

The Board recognises the importance of communication with shareholders. The Company's website, [www.tullettprebon.com](http://www.tullettprebon.com), provides information for shareholders 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.

During 2014 the Company recorded a webcast of its 2014 interim results presentation, which is also now available for download on the Company's website. The Chairman had contact with all of the largest shareholders and intends to maintain regular contact in future. During the year the Chairman of the Remuneration Committee additionally met with many of the Company's largest shareholders as part of the consultation on Executive Director remuneration.

The Senior Independent Non-executive Director and the other Non-executive Directors are available to meet with shareholders, should such meetings be requested.

For the payment of the recommended final dividend for 2014 and future dividends, the Company has put in place a facility for payments to be made via CREST.

### 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.

## Audit Committee Chairman's Statement

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to introduce this report which sets out how the Committee has discharged its responsibilities during the year. The Committee's primary focus is to ensure the integrity of the financial reporting by reviewing the controls in place and those areas where judgement is required. The other key areas in the Terms of Reference are set out below.

Outside of the formal Committee meetings, I maintain regular dialogue with internal and external auditors. Additionally I visited the Group in both New York and Singapore where I met both with local management and auditors in order better to understand local issues and the respective audit arrangements.

As requested by the Board, the Committee has considered the processes and controls in place to help ensure that the Annual Report presents a fair, balanced and understandable view of the business. As a result of this work the Committee concluded that the processes and controls were appropriate and was able to provide positive assurance to the Board.

### Roger Perkin

Chairman  
Audit Committee  
3 March 2015

### Composition

Roger Perkin chaired the Audit Committee throughout the year. The other members of the Committee throughout the year were Angela Knight and Stephen Pull. All members of the Committee are independent Non-executive Directors. The Audit Committee Chairman has recent and relevant financial experience.

The Chairman, the Executive Directors, the Company's external and internal auditors, and other senior risk management and finance personnel 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 2014 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 and risk management procedures;
- approval of the annual internal audit plan, review of the effectiveness of the internal audit function, and consideration of internal audit reports;

- review of the arrangements by which staff may, in confidence, raise concerns about improprieties in financial reporting and other matters; and
- provide advice to the Board on whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Terms of Reference of the Audit Committee are available on the Company's website ([www.tullettprebon.com](http://www.tullettprebon.com)).

## Work of the Audit Committee since the date of the last Annual Report

The Audit Committee was engaged in a number of workstreams during 2014 as described below.

### Audit tenders

Deloitte LLP ('Deloitte') has been the Company's auditor since its listing in December 2006.

In 2013 the Board put the external audit contract out for tender and concluded that Deloitte should be re-appointed and that a new lead audit partner would be appointed to the Company's audit by Deloitte in 2014 in accordance with normal rotation practices. The Audit Committee will monitor developments in best practice with regard to audit tender arrangements.

At the same time that the external audit was put out for tender, the Audit Committee also reviewed the Company's internal audit arrangements. The Audit Committee made a recommendation to the Board that KPMG should provide the resources to lead and manage the Company's internal audit activities, and KPMG assumed responsibility for the Group's Internal Audit with effect from 1 July 2014.

### External auditor effectiveness and independence

In considering the 2014 Annual Report, the Audit Committee reviewed the objectivity and independence of the external auditor. The Audit Committee considered the professional and regulatory guidance on auditor independence and Deloitte's policies and procedures for managing 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 2014 (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. To this end, the Company has defined those activities which cannot be provided by the external auditor in order to maintain independence. The Audit Committee reviewed this policy during the year to ensure that it continues to follow best practice.

During the year the Audit Committee considered the effectiveness of the external audit process including their expertise, efficiency, global service delivery and cost effectiveness. The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of

independent audit and the booking of any audit adjustments arising and the timely provision of draft public documents for review by the auditor and the Audit Committee.

The Audit Committee also monitored performance during the audit of the 2014 financial statements which included receiving feedback from senior management. The conclusion from this exercise was that the 2014 external audit had been effective.

### Review of the Financial Statements

The Audit Committee reviewed the integrity of the Consolidated Financial Statements included in the half-year and preliminary announcements of results and the 2014 Annual Report, prior to their approval by the Board.

When conducting the review, the Committee considered the continuing appropriateness of the accounting policies, important financial reporting judgements and the adequacy and appropriateness of disclosures. The Audit Committee also reviewed the content of the Annual Report and advised the Board that, in its view, the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Audit Committee considered the following judgements in connection with the 2014 Consolidated Financial Statements and were satisfied that the judgements were appropriate:

- **Acquisition of PVM Oil Associates Limited ('PVM')**  
On 26 November 2014, the Group completed the acquisition of PVM. In accordance with relevant accounting standards, management (with the assistance of independent valuation specialists) conducted a review of the acquired assets and liabilities to establish the nature and value of any separately identifiable intangible assets. Additionally, the exercise estimated the total fair value of assets and liabilities acquired, so as to establish the amount of goodwill to be recognised. Finally it was necessary to understand the nature of earn out and related contractual obligations so as to establish the correct accounting for the income stream.

The Committee received reports on the above issues from management, satisfied itself that all material facts had been taken into account, and concluded that the presentation of the PVM related balances is appropriate.

- **Impairment of goodwill and other intangibles**  
The key elements involved in the review of goodwill for impairment are described in Note 13; and the procedures adopted by the external auditor in their report.

The Committee considered whether the facts taken into account were complete and consistent with the Group's business planning process, and challenged the auditor as to the extent to which they had examined potential stress outcomes to the base case used, particularly in areas where there is limited headroom.

Based on the above the Committee is satisfied with the process undertaken and the resultant financial statement impact.

# Corporate Governance Report continued

- **Taxation**

Notwithstanding the Group's low appetite for complex tax structuring, the dynamic nature of its global operations necessarily gives rise to uncertainties where judgements need to be made as to likely outcomes. Management regularly presents the status of open tax issues to the Committee, and, it is satisfied that an appropriately considered and prudent approach is taken to tax provisioning.

- **Revenue**

The recognition of revenue by the Group requires little judgement but is reliant to a significant degree on strong internal controls (see below).

- **Going concern**

The assumptions relating to the going concern review were considered, including the medium term projections, stress tests and mitigation plans. On the basis of the review the Audit Committee advised the Board that it was appropriate for the Annual Report and Financial Statements to be prepared on the going concern basis.

## **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 Enterprise Risk Management Framework and principal risks are described in the Risk Management section of the Strategic Report. During 2014 the Audit Committee twice reviewed and approved the Risk Assessment Framework.

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 FRC's "Internal Control : Guidance for Directors".

The Audit Committee conducted a formal review of the effectiveness of the Group's internal control systems for 2014, considering reports from management, external audit and the work of the Group risk control and internal audit functions.

## **Effectiveness of Internal Audit**

The Audit Committee is responsible for monitoring and reviewing the effectiveness of Internal Audit. The internal audit plan is approved by the Audit Committee and kept under review during the year, in order to reflect the changing business needs and to ensure new and emerging risks are considered. During 2014 the Audit Committee reviewed the work and reports of Internal Audit, together with implementation of internal audit recommendations and monitored progress against the internal audit plan for the first half of 2014 to ensure that the audit plan had been completed effectively.

The Audit Committee reviewed and approved the internal audit plan for the new internal audit year, running from 1 July 2014 to 30 June 2015, prepared by the new head of internal audit, and reviewed the work and reports of internal audit since 1 July 2014 .

## **Confidential reporting**

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 Committee took into account whether the policies were in line with guidance published by the FCA.

# Report on Directors' Remuneration

## Remuneration Committee Chairman's Statement

Dear Shareholder

The external environment has continued to be very challenging although the impact has been substantially mitigated by the cost reduction programme undertaken during the course of the year. As a consequence underlying operating margins have been protected. The ratio of broker compensation to revenue has fallen again from 58.3% to 56.1%.

In 2013 and early 2014 we conducted a very extensive consultation exercise with shareholders prior to the approval of the Remuneration Policy at the AGM in 2014. This year, operating within the terms of the Remuneration Policy, we have continued to take full account of shareholders' views.

As part of the recruitment process of our new Chief Executive we took the opportunity to reassess base salary, which was reduced from £650,000 pa to £550,000 pa.

In prior years the discretionary bonus pool was calculated based on operating profits before taking account of any reorganisation costs. Although at the time we felt there was a good business rationale for this, a small number of shareholders commented that if such costs were incurred in future it might be more appropriate to calculate the bonus pool after restructuring costs. For 2014, the Remuneration Committee determined that the operating profit used to calculate the bonus pool for the Executive Directors, (the "Bonus Pool Operating Profit"), would be based on the reported operating profit, after exceptional items, excluding the operating profit earned in 2014 from PVM which was acquired towards the end of November, and adding back the charge relating to the impairment of goodwill attributed to the business in Brazil. This latter adjustment is consistent with the approach taken in previous years when the Committee has exercised its discretion to exclude goodwill impairment charges. The Bonus Pool Operating Profit for 2014 of £53.8m compares with the Bonus Pool Operating Profit for 2013 of £100.2m.

Although Terry Smith, our former Chief Executive, did not retire until 31 August 2014 he received no discretionary bonus for 2014. The departure arrangements for Terry Smith are discussed on page 44. The Committee has therefore decided that in this unusual circumstance the aggregate bonus pool should fall below the usual range of 2.5 - 3.0% of Bonus Pool Operating Profit and has awarded a bonus pool of £1.032m equivalent to 1.92% of Bonus Pool Operating Profit.

During 2015 we intend to make additional changes to the way in which we implement our Remuneration Policy. In future our Executive Directors will be set individual bonus targets within the current approved range of operating profits. Our Chief Executive will be entitled to receive a bonus of 1.825 – 2.175% of Bonus Pool Operating Profit and our Finance Director will be entitled to a bonus of 0.675-0.825% of Bonus Pool Operating Profit. Within these ranges bonuses will be awarded according to individual performances measured against individual targets and objectives. The Committee believes that this change will enhance individual accountability and further align our Remuneration Policy with the Company's strategy.

We are currently considering an arrangement to introduce an element of share based remuneration for senior staff in 2015 in order to align better the interests of senior staff and shareholders.

### Stephen Pull

Chairman  
Remuneration Committee  
3 March 2015

### Decisions for 2014

- Contract negotiations for new Chief Executive;
- Departure arrangements for Terry Smith;
- Aggregate bonus pool award below range set out in our Remuneration Policy; and
- Agreed a new distribution of the bonus pool for 2015 with specific objectives for each Executive Director.

# Report on Directors' Remuneration continued

## Governance

### The role of the Remuneration Committee

The Remuneration Committee is chaired by Stephen Pull. The other members of the Remuneration Committee throughout the year were Angela Knight, Roger Perkin and David Shalders who was appointed on 27 February 2014. 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.

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

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 2014 the Remuneration Committee also undertook the regular tasks of approving the remuneration of Senior Management and addressing the Company's obligations under the Remuneration Code which apply to the Company and its FCA regulated subsidiaries (which remain in the lowest category for the purposes of the Remuneration Code – classified as Proportionality Level Three) including reviewing the remuneration of all Remuneration Code staff.

As required by the Remuneration Code, an annual central and independent review of compliance with policies and procedures for remuneration adopted by the Company was undertaken. This work, conducted by KPMG the Company's internal auditor, provided the Remuneration Committee with an independent assessment of compliance with the Remuneration Code and supported the Remuneration Committee's conclusion that the Company continues to comply with the Remuneration Code. The Remuneration Policy Statement, including the list of Remuneration Code staff, has been reviewed, and the disclosures required to be made under the Remuneration Code have been approved. These disclosures are available on the Company's website, [www.tullettprebon.com](http://www.tullettprebon.com).

The Report on Directors' Remuneration has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UKLA Listing Rules and the UK Corporate Governance Code. 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 regulations.

The Remuneration Committee Chairman's statement, the Directors' Remuneration Policy and certain parts of the Annual Report on Remuneration (indicated in that report) are unaudited.

### 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;

'Remuneration Code' means the Remuneration Code of the FCA; and

'2013 Regulations' means the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.



## Directors' Remuneration Policy

The remuneration policy was subject to a shareholders' binding vote at the 2014 AGM and it is not proposed that the current policy is revised at the 2015 AGM. The remuneration policy approved at the 2014 AGM can also be found on the Company's website [www.tullettprebon.com](http://www.tullettprebon.com), pages 35 and 36 of the Annual Report and Accounts 2013.

### Background

In reviewing and approving the general principles of the Company's remuneration policy which apply throughout the Group, the Remuneration Committee took account of the corporate objective to maximise returns to shareholders over the medium to long term with an acceptable level of risk. The Remuneration Committee was mindful that the Group's strategy to achieve that objective is to continue to develop its business, operating as an intermediary in the world's major wholesale OTC and exchange traded financial and commodity markets, with the scale and breadth to deliver superior performance and returns, underpinned by strong financial management disciplines and without actively taking credit and market risk.

The Remuneration Committee took into account general practices in the parts of the financial services sector in which the Company operates, and in particular those of the Company's competitors which include BGC Partners Inc, GFI Group Inc, ICAP plc and Compagnie Financière Tradition. These practices are characterised by high levels of variable remuneration. The Remuneration Committee 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 policy is 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 considered the relationship between incentives and risk when approving remuneration policy which will apply throughout the Group.

Details of the Company's key risks and risk management are set out in the Strategic Report of this Annual Report on pages 4 to 23. The majority of transactions are brokered on a Name Passing basis where the business is not a counterparty to a 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 market or counterparty risks. The business does not have valuation issues in measuring its profits.

The Remuneration Committee concluded that the Company's remuneration policy reflects the low risk profile of the Company, is consistent with and promotes sound and effective risk management, and does not encourage risk taking.

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

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

### Policy table

The policy which has been applied in respect of Executive Director and Non-executive Director remuneration is summarised in the table below. The policy set out in this table is that which is currently in practice and which was subject to a binding vote of shareholders at the 2014 AGM. For the purposes of the 2013 Regulations, the policy applies from the 2014 AGM.

# Report on Directors' Remuneration continued

How remuneration supports the Company's short and long term strategic objectives	Operation	Maximum payable	Performance framework	Recovery/withholding
<b>Executive Directors</b>				
<b>Fixed remuneration</b>				
To provide a level of fixed remuneration reflecting the scope of individual responsibilities to attract and retain high calibre individuals	Paid monthly in arrears. Reviewed periodically to ensure not significantly out of line with the market.	Fixed remuneration will not be reviewed until 2017.	None	None
<b>Benefits</b>				
To provide basic benefits but otherwise to avoid provision of benefits	<p>Medical cover and participation in any schemes for all UK employees such as the group life insurance scheme.</p> <p>Relocation or the temporary provision of accommodation may be offered where the Company requires a Director to relocate.</p> <p>The Remuneration Committee may determine that Executive Directors should receive other reasonable benefits if appropriate, taking into account typical market practice.</p>	No new benefits will be introduced during the term of this Remuneration Policy, unless such benefits are made available to all UK employees.	None	None
<b>Pension</b>				
To make basic pension provision	Membership of a defined contribution pension scheme.	6% of fixed remuneration up to a cap set at £105,600.	None	None
<b>Annual discretionary bonus</b>				
<p>Aim is to motivate and retain Executive Directors, consistent with the risk appetite determined by the Board and thereby to achieve superior returns for shareholders. It provides a direct link between the achievement of annual business performance targets and reward</p> <p>The shareholding requirements align Directors' interests with shareholders</p>	<p>Allocation of pool takes account of individual contribution and relative responsibilities. No payment is made if the Remuneration Committee is not satisfied with personal performance. No contractual entitlement to a bonus if the Executive Director is not in employment or is under notice on the payment date.</p> <p>Directors must invest 50% of post-tax annual bonuses in the Company's shares for three years ('the investment requirement'). This investment requirement can be met, in part or in full, by ordinary shares already held, excluding any shares already being counted towards investment requirements in relation to previous bonus payments.</p>	The maximum aggregate Executive Directors' bonus is 3% of Group reported operating profit, rising to 5% in the event that one or more new Executive Directors are appointed. Operating profit may not exceed 150% of the operating profit used to calculate the previous year's bonus. In exceptional circumstances payments may be made outside this range. Adjustments may be made in relation to significant acquisitions.	<p>Pool is 2.5-3% of Group reported operating profit, provided operating profit exceeds a threshold calculated as the weighted average cost of capital times the average capital employed. In exceptional circumstances payments may be made outside this range. Adjustments may be made in relation to significant acquisitions.</p> <p>The pool may be extended to a maximum of 5% of reported operating profit to accommodate one or more new Executive Directors. In such circumstances, the existing Executive Directors will not be entitled to participate in the additional pool.</p>	Clawback of the element of bonus subject to investment requirement in the event of material misstatement of results for the period to which the bonus related which caused the bonus to be paid at too high a level or if an Executive Director's conduct is found to amount to gross misconduct and/or fraud, wilful dishonesty or accounting malfeasance.

How remuneration supports the Company's short and long term strategic objectives	Operation	Maximum payable	Performance framework	Recovery/withholding
<b>Minimum shareholding</b>				
Aligns Directors' interests with shareholders by focusing on longer term shareholder returns	Directors must hold a minimum number of the Company's ordinary shares equivalent to 300% of basic salary in respect of the Chief Executive and 150% of basic salary for all other Executive Directors. Shares acquired to meet the investment requirement attaching to annual bonuses can be used to meet this requirement.	None	None	None
<b>LTIS</b>				
Aligns Directors' interests with shareholders by focusing on longer term shareholder returns	Annual awards equivalent to the higher of aggregate basic salary and 25% of the prior year aggregate variable remuneration (or basic salary for a new Executive Director) of Executive Directors in office at the date of the award. Awards are satisfied in cash when all relevant performance conditions have been measured.	Maximum is as described in the 'Operation' column.	<p>Performance conditions are measured over a period of at least three years.</p> <p>Performance conditions are 50% based on TSR relative to FTSE 250 companies excluding investment trusts, 25% based on average cash flow before dividends and debt repayments and 25% based on ROE relative to IDB competitors.</p> <p>For each element of the award, vesting starts at 25% at threshold performance rising on a straightline basis to 100% for maximum performance.</p>	The level of vesting of an award may be reduced, including to nil, in the event of a material misstatement of results that caused the LTIS award to be granted at too high a level or if an Executive Director's conduct is found to amount to gross misconduct and/or fraud, wilful dishonesty or accounting malfeasance.
<b>Non-executive Directors</b>				
<b>Fees</b>				
To attract high calibre, experienced Non-executive Directors	Paid monthly in arrears. Periodically benchmarked against other UK listed companies of comparable size and activities. Additional fees for additional responsibilities of the Senior Independent Non-executive Director, for chairing each of the Audit and Remuneration Committees or other services performed such as acting as a trustee of a Company pension scheme.	Aggregate annual fees limited to £700,000 in the Articles of Association.	None	None

# Report on Directors' Remuneration continued

## Notes to the policy table

### Performance measures

The annual discretionary bonus payable to Executive Directors is calculated as a percentage of reported operating profit. The operation of the Executive Director bonus scheme was changed in 2013 following the Remuneration Committee's review of Executive Director remuneration and shareholder consultation. Operating profit is a key performance indicator, is a clear and simple metric and was chosen as it links remuneration directly with business performance. The percentage range of profit allocated to the bonus scheme was chosen to provide an acceptable level of variable remuneration for the Executive Directors while at the same time delivering value to shareholders.

The introduction of the new LTIS in 2013 also followed the review of Executive Director remuneration referred to above.

Performance measures used for the LTIS were chosen by the Remuneration Committee, with advice having been provided by PwC and following consultation with significant shareholders. The relative TSR measure had been used as a metric for the LTIP for several years and despite its many well recognised limitations, shareholders were keen for it to be retained as a substantial component of the metrics for the LTIS. Half of LTIS awards are therefore subject to the relative TSR performance measure. However, the Remuneration Committee was also concerned to incorporate new metrics to target and reward good operating performance measured by reference to the Company's cash flow generation, and return on equity compared with the Company's IDB competitors. Both metrics are regarded by the Board as key performance indicators. One quarter of LTIS awards are accordingly subject to these performance conditions respectively. The targets were set, having regard to recent performance and at a level which would be seen to be achievable but at the same time could be expected to be challenging.

### Policy on Directors' remuneration compared with employees generally

As a general rule, the same principles are applied to Directors' fixed remuneration, pension contributions and benefits as are applied to employees throughout the organisation. A competitive level of fixed remuneration is paid to all staff taking into account their responsibilities and experience and minimal pension provision and benefits are provided, the Board considering that employees are best placed to determine priorities for funds set aside for remuneration.

There are a number of different bonus schemes in operation throughout the Group for Brokers, management and other employees. Brokers' bonus schemes are described below; all other bonuses are generally discretionary.

During 2013, the Remuneration Committee introduced a cap on Executive Directors' bonuses in response to requests from shareholders. However, the Remuneration Committee does not believe that the formal capping of bonuses for Senior Management and Brokers is consistent with the delivery of enhanced returns to shareholders and accordingly no caps have been introduced on Senior Management's or Brokers' bonuses.

Executive Directors' variable remuneration is also subject to a requirement that at least 50% net of tax of bonus payments must be invested in the Company's shares to be held for a minimum period of at least three years.

Clawback arrangements apply to this element of variable remuneration for the duration of the investment requirement. The Remuneration Committee has concluded that given the Company's low risk profile and the fact that this is not consistent with market practice in the Company's key competitor organisations, neither deferral nor clawback arrangements are applied to variable remuneration paid to other staff.

The LTIS has been put in place for the benefit of the Executive Directors only.

### 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.

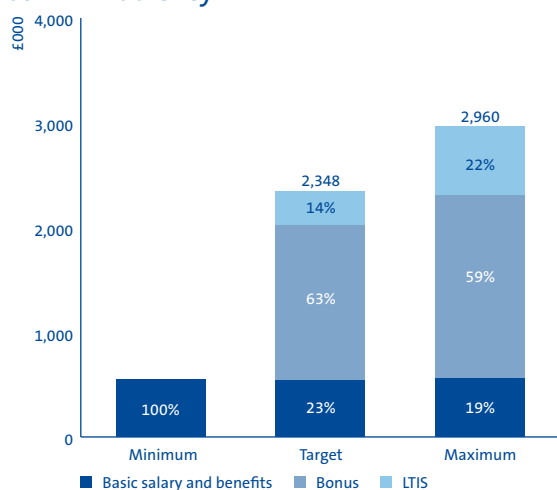
### Remuneration policies for Control Functions

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. Heads of Control Functions are designated as Remuneration Code staff and accordingly their remuneration is reviewed by the Remuneration Committee.

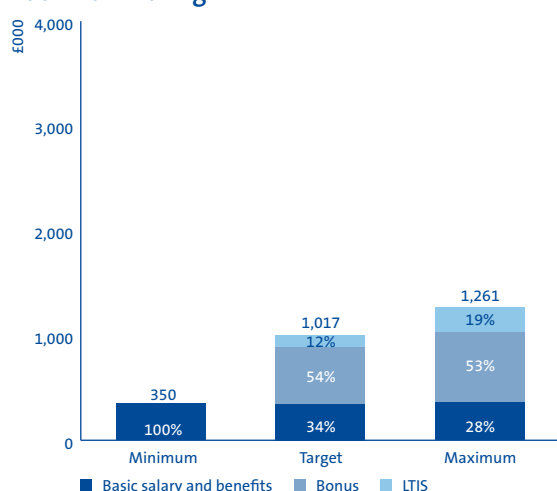
## Illustrations of the application of remuneration policy (updated for 2015)

The total remuneration for each of the Executive Directors for a minimum, target and maximum performance for 2015 is presented in the charts below:

### John Phizackerley



### Paul Mainwaring



As the variable remuneration calculation is based on a percentage of reported operating profit, the Board has prepared the above illustrations using Bonus Pool Operating Profit in 2014 capped at 150% to avoid including a profit forecast.

## Outside directorships

The Board recognises that external non-executive appointments and certain other business appointments are beneficial both to Executive Directors and the Company.

Executive Directors are entitled to retain any remuneration in connection with such appointments.

## Executive Directors' service agreements and loss of office entitlements

The Executive Directors' contracts may be terminated (by either party) on the expiry of 12 months' written notice (save in circumstances justifying summary termination), or by making a payment in lieu of notice at the Company's election. The Company will consider the scope for requiring the Executive Director to mitigate his loss when taking account of all the circumstances surrounding the termination of employment. The Executive Director would also be entitled to accrued but untaken holiday.

The contracts do not provide for termination payments in excess of salary and contractual benefits. Post-termination restrictive covenants also apply to each Executive Director.

In addition to the contractual rights to a payment on loss of office, any employee including the Executive Directors may have additional statutory and/or common law rights to certain additional payments, for example in a redundancy situation.

When determining payments for loss of office, the Company will take account of all relevant circumstances on a case by case basis including (but not limited to): the contractual notice provisions and outstanding holiday; the best interests of the Company; whether the Executive Director has presided over an orderly handover; the contribution of the Executive Director to the success of the Company during their tenure; and the need to compromise any claims that the Executive Director may have or to pay the Executive Director's legal costs on a settlement agreement.

The LTIS rules provide for an award to lapse where an Executive Director ceases to hold office or employment with a Group company other than through death, although the Remuneration Committee may exercise its discretion to allow an award to vest to the extent that the performance conditions have been met other than in circumstances involving gross misconduct, fraud, willful dishonesty or accounting malfeasance, and, unless the Remuneration Committee determines otherwise, pro-rating for time.

## Non-executive Directors' appointment letters

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, at the request of the Board or subject to 12 months' notice.

## Recruitment of Directors

The Remuneration Committee's approach to setting remuneration for new Executive Directors is to ensure that the Company pays market rates, with reference to internal pay levels, the external market, location of the executive and remuneration received from the previous employer.

Salary will be provided in line with market rates, and the Remuneration Committee reserves discretion to offer appropriate pension and benefit arrangements, which may include the continuation of benefits received in a previous role. On-going variable pay awards for a newly appointed Executive Director will be as described in the Policy table, subject to the



# Report on Directors' Remuneration continued

same maximum opportunities. It is not currently intended that future service contracts for Executive Directors would contain terms differing materially from those summarised in this report, including with respect to notice provisions.

The Remuneration Committee may consider offering additional cash or share-based payments to buyout existing awards forfeited by a new Executive Director when it considers these to be in the best interests of the Company and its shareholders. Any such buyout payments would mirror so far as possible the remuneration lost when leaving the former employer. The Remuneration Committee may avail itself of the current Listing Rule exemption to make such buyout awards where doing so is necessary to facilitate, in exceptional circumstances, the recruitment of the relevant individual.

Relocation payments may also be set, within limits to be determined by the Remuneration Committee, where considered appropriate and in the Company's best interests to do so.

In cases of appointing a new Executive Director by way of internal promotion, the Group will honour any contractual commitments made prior to their promotion to Executive Director.

The fee payable to a new Non-executive Director will be in line with the fee structure for Non-executive Directors in place at the date of appointment.

## Annual Report on Remuneration

The Annual Statement made by the Chairman on page 35 and this annual report on remuneration is subject to a shareholders' advisory vote at the forthcoming AGM. Information in this report is audited except where stated.

Members of the Remuneration Committee during the year were Stephen Pull, Chairman, David Shalders (appointed 27 February 2014), Roger Perkin and Angela Knight.

The single total remuneration for each of the Directors who held office during the year ended 31 December 2014 was as follows:

	Salaries and fees		Benefits		Bonus <sup>(1)</sup>		Pension		Total	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Executive Directors										
John Phizackerley <sup>(2)</sup>	183	–	–	–	537	–	–	–	720	–
Terry Smith <sup>(3)</sup>	494	650	1	2	–	2,204	–	–	495	2,856
Paul Mainwaring	350	294	1	1	495	551	–	–	846	846
Non-executive Directors										
Rupert Robson <sup>(4)</sup>	175	153	–	–	–	–	–	–	175	153
Angela Knight	59	58	–	–	–	–	–	–	59	58
Roger Perkin	62	55	–	–	–	–	–	–	62	55
Stephen Pull <sup>(5)</sup>	62	55	–	–	–	–	–	–	62	55
David Shalders <sup>(6)</sup>	45	–	–	–	–	–	–	–	45	–
Keith Hamill <sup>(7)</sup>	–	32	–	–	–	–	–	–	–	32
David Clark <sup>(8)</sup>	–	20	–	–	–	–	–	–	–	20
	1,430	1,317	2	3	1,032	2,755	–	–	2,464	4,075

Notes:

(1) 50% of the bonus is subject to investment in the Company's ordinary shares as detailed in the policy table.

(2) Appointed 1 September 2014.

(3) Former Chief Executive retired 31 August 2014. Includes £60,233 LTIS award assessed to termination date and subject to pro-rating.

(4) In addition he received £1,000 as a pension trustee.

(5) In addition he received £4,000 as a pension trustee (2013: £3,000).

(6) Appointed 27 February 2014.

(7) Retired 6 March 2013.

(8) Retired 9 May 2013.

(9) No LTIP awards vested in either 2014 or 2013 as the performance conditions were not satisfied.

## Fixed remuneration

The fixed remuneration of the Chief Executive, John Phizackerley was £550,000 (pro rata). The fixed remuneration of the former Chief Executive, Terry Smith, was £650,000 (pro rata) and had not been changed since 2005. The fixed remuneration of the Finance Director, Paul Mainwaring was £350,000 and has not changed since October 2013.

## Annual bonus

The Remuneration Committee determined that the bonus pool for 2014 should amount to £1.032m, which represented 1.92% of Bonus Pool Operating Profit. In prior years the discretionary bonus pool was calculated based on operating profits before taking account of any reorganisation costs. Although at the time we felt there was a good business rationale for this, a small number of shareholders commented that if such costs were incurred in future it might be more appropriate to calculate the bonus pool after restructuring costs. Consequently our Remuneration Policy calculates the bonus pool after restructuring costs.

In 2014 we incurred restructuring costs of £46.7m which materially reduced the bonus pool.

The Remuneration Policy requires that for any bonus to be awarded operating profit must exceed a threshold calculated as the weighted average cost of capital times the average capital employed. The Committee determined that the Bonus Pool Operating Profit had exceeded this threshold. The Bonus Pool Operating Profit used to determine the aggregate bonus pool in 2014 does not exceed 150% of the operating profit used to calculate the bonus in 2013.

The allocation to each of the Executive Directors took into consideration their personal contribution and relative responsibilities. 50% of the 2014 bonus net of tax has to be invested in the Company's ordinary shares to be held for three years and will be subject to clawback as described in the Directors' Remuneration Policy during this time. The reinvestment requirement does not have any service or other non performance conditions attaching to it.

Taking into account the bonus provisions of his employment contract and operating within the terms of the Directors' Remuneration Policy, John Phizackerley has been awarded a bonus of £536,667 which includes an exceptional payment of £178,000 to recognise his contribution to the Company and the fact that the reported operating profit, which is used to calculate the level of his bonus, is lower than was anticipated at the time of the negotiations relating to his employment contract primarily as a consequence of higher restructuring costs emerging between the 9 May 2014 Interim Management Statement and the 29 July 2014 Interim Results announcement.

Paul Mainwaring has been awarded a bonus of £495,000 (2013: £551,000) reflecting a particularly strong individual performance during 2014, which was a year of substantial change including the retirement of Terry Smith and the joining of John Phizackerley as Chief Executive.

## Awards under the Long Term Incentive Scheme ('LTIS')

Awards under the LTIS made in 2014, amounted to £400,000 for John Phizackerley and £200,000 for Paul Mainwaring. The awards have a normal vesting date of 30 June 2017 and are subject to malus as described in the Directors' Remuneration Policy and the following performance conditions:

- The vesting of half of the awards is subject to relative TSR performance over the three years to 31 December 2016, 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 one quarter of the awards is subject to average cash flow before debt repayments and dividends performance over the three years to 31 December 2016 ('Cash flow'), with minimum vesting of 25% if Cash flow equals or exceeds £40m and maximum vesting of 100% if Cash flow equals or exceeds £150m; and
- The vesting of one quarter of the awards is subject to return on equity performance compared with the Company's IDB competitors over the three years to 31 December 2016 (or equivalent financial year in respect of competitors), with minimum vesting of 25% if the Company's ROE equals the average ROE of competitors and maximum vesting of 100% if the Company's ROE is three times the average or better. The companies comprising the comparator group are BGC Partners Inc, GFI Group Inc, ICAP plc and Compagnie Financière Tradition.

Basis <sup>(1)</sup>	Nature of Award	Face Value	Threshold Vesting	End of Performance Period
John Phizackerley	Cash	£400,000	25%	31.12.16
Paul Mainwaring	Cash	£200,000	25%	31.12.16

(1) Our Remuneration Policy is to make Annual Awards equivalent to the higher of aggregate basic salary and 25% of the prior year aggregate variable remuneration (or basic salary for a new Executive Director) or of Executive Directors in office at the date of the award. In 2014 the aggregate award was reduced because John Phizackerley joined during the course of 2014.

# Report on Directors' Remuneration continued

## Awards under the Long Term Incentive Plan ('LTIP')

The LTIP awards made in 2012 lapsed on 31 December 2014 as the performance conditions attached to these awards were not achieved. There are no other outstanding unvested awards under the LTIP.

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 2014	Granted	Exercised	Lapsed	Shares under option at 31 Dec 2014	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 June 2012	571,719	–	–	571,719 <sup>(1)</sup>	0	£1 in total	21 June 2015	20 June 2022
Paul Mainwaring	21 June 2012	142,930	–	–	142,930	0	£1 in total	21 June 2015	20 June 2022

Notes:

(1) Lapsed on termination as performance conditions not met.

(2) The performance conditions attached to these awards were; 50% of award based on Total Shareholder Return and 50% based on Absolute Shareholder Return.

## Shareholding requirements

Half of the 2014 bonus awarded to each of the Executive Directors was subject to a condition that the net of tax amount to be paid at the end of March 2015 would be invested in the Company's shares, to be held for a minimum of three years.

This investment requirement can be met, in part or in full, by ordinary shares already held, excluding any shares already being counted towards investment requirements in relation to previous bonus payments.

In 2013 a new overarching shareholding requirement was also introduced for the Executive Directors, details of which are set out in the Directors' Remuneration Policy above.

Paul Mainwaring currently complies with the Company's overarching minimum shareholding requirements and complies with investment requirements in respect of previously paid bonuses. John Phizackerley will purchase the required number of shares when his bonus is paid following the announcement of results on 3 March 2015.

## Non-executive Directors' 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. The fees for the Chairman increased from £175,000 to £200,000 per annum with effect from 1 March 2015. The Non-executive Directors' fees were increased from £54,000 to £60,000 per annum with effect from 1 March 2015. Both increases reflect the fact that the fees have not changed since 2011 and the required workload has increased significantly. In addition, a fee of £5,000 per annum is paid to the Senior Independent Non-executive Director and the Chairmen of the Audit and Remuneration Committees each receive an annual fee of £7,500 in respect of the additional responsibility of chairing a committee. Non-executive Directors acting as trustees of the Company's occupational pension scheme are entitled to an attendance fee of £1,000 per meeting.

## Termination payments for Terry Smith

Terry Smith retired as a Director, with effect from 31 August 2014 (the 'Termination Date'). Details of his compensation package on leaving office, which are in line with the Company's contractual obligations, are given below.

Accrued entitlements: Mr Smith was paid in respect of accrued salary and contractual benefits up to and including the Termination Date. He was also paid in respect of outstanding accrued holiday entitlement. Mr Smith did not receive any accrued bonus payment in respect of the 2014 annual bonus scheme.

PILON: Pursuant to clause 1.3 of his service contract, Mr Smith was paid the sum of £652,000 in lieu of salary and contractual benefits he would have received during his notice period (less deductions for income tax and national insurance contributions). The PILON payment does not include any payment in lieu of bonus.

LTIP: The Option granted under the LTIP to Mr Smith on 22 June 2009 over 302,148 shares (which is currently exercisable) will remain exercisable during the normal exercise period, ending on 21 June 2019.

In respect of the Option granted under the LTIP on 21 June 2012 over 571,719 shares, the Remuneration Committee determined, pursuant to the rules of the LTIP, that this Option would vest subject to the applicable performance conditions assessed to the Termination Date and subject to pro-rating for time. The performance conditions were assessed and none of the shares vested.

LTIS: Mr Smith was granted an Award under the LTIS on 20 December 2013 with a maximum cash value of £800,000. The Remuneration Committee determined, pursuant to rules of the LTIS, that the Award would vest on the Termination Date subject to the applicable performance conditions assessed to the Termination Date and subject to pro-rating for time. The value of the Award was determined to be £60,233, as follows:

Award	Value of Award	Vesting	Time Apportioned
2013	£800,000	£218,880	£60,233

50% of award based on relative TSR, 0% vested

25% of award based on ROE, 80.83% vested

25% of award based on cashflow, 28.61% vested

27.35% of total award vested

Legal fees: The Company made a payment to Mr Smith's legal advisers of £5,750 plus VAT, as a contribution towards legal advice in connection with Mr Smith's termination of office.

Save as set out above, no remuneration payment or loss of office payment was made to Mr Smith.

Consultancy arrangement: Mr Smith agreed to maintain his involvement with the Company as a consultant until 31 August 2016, advising the Chairman and Board on matters relating to the management and strategic development of the Company. He will receive a fee, via a personal services company, of £250,000 per annum for providing the consultancy services.

## Recruitment of Chief Executive

As part of the recruitment process for the new Chief Executive, work was undertaken to ensure that John Phizackerley's contract is consistent with the approved Remuneration Policy.

## Directors' interests

The interests (all beneficial) as at 31 December 2014 or the date of retirement from the Board of those persons who were Directors (and their connected persons) during the year in the ordinary share capital of the Company, were as follows:

Director	Shares	LTIP awards <sup>(1)</sup>		
		Unvested	Vested but unexercised	Exercised during the year
Rupert Robson	7,000	–	–	–
John Phizackerley <sup>(2)</sup>	–	–	–	–
Terry Smith <sup>(3)</sup>	9,645,510	–	302,148	–
Paul Mainwaring	279,741	–	–	–
Angela Knight	–	–	–	–
Roger Perkin	–	–	–	–
Stephen Pull	7,000	–	–	–
David Shalders <sup>(4)</sup>	–	–	–	–

Notes:

(1) All LTIP awards are subject to performance conditions.

(2) Appointed 1 September 2014.

(3) Retired 31 August 2014. The option granted to Mr Smith on 22 June 2009 will remain exercisable during the normal exercise period, ending on 21 June 2019. The Remuneration Committee determined, pursuant to the rules of the LTIP that the Option granted on 21 June 2012 would vest subject to the applicable performance conditions assessed to the Termination Date and subject to pro-rating for time. The performance conditions were assessed and none of the shares vested and therefore the option lapsed.

(4) Appointed 27 February 2014.

(5) 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.

# Report on Directors' Remuneration continued

The following information is not subject to audit.

## Voting at the 2014 AGM

At the AGM held on 9 May 2014 the following votes were cast in respect of the Report on Directors' Remuneration:

Vote on Implementation of Remuneration Policy as below

For		Against		Votes withheld
Number	%	Number	%	Number
120,018,218	64.46	66,180,702	35.54	2,026,218

Vote on Remuneration Policy as below

For		Against		Votes withheld
Number	%	Number	%	Number
165,631,487	88.14	22,283,766	11.86	309,885

Notes:

(1) Votes 'For' and 'Against' are expressed as a percentage of votes cast.

A 'Vote withheld' is not a vote in law.

(2) Votes 'For' includes those giving the Chairman discretion.

## Shareholder voting at the 2014 AGM

At our AGM in 2014 although we received a high level of support for our Remuneration Policy, 35.5% of votes were cast against the implementation of our Remuneration Report.

Before our AGM some shareholders and their agents had expressed concern about the increase in base salary for our Finance Director that was implemented in 2013. This was a decision that was taken only after very careful consideration and after extensive consultation with shareholders. As a result we committed that his base pay would not be reviewed again until the expiry of the Remuneration Policy put in place at the 2014 AGM at the earliest. The action we have taken this year with respect to the base salary of our Chief Executive is a demonstration of the serious consideration we give to shareholder views on this matter.

## 2015 AGM

Copies of the Executive Directors' service agreements and the Non-executive Directors' letters of appointment are available for inspection at the registered office of the Company during normal business hours and will be available for shareholders to view at the 2015 AGM.

## Advice provided to the Remuneration Committee

PwC was appointed and is retained by the Committee as its principal and only material external adviser as a continuation of their earlier work on our Remuneration Policy. Their appointment is based on their expertise and knowledge of the Company. PwC advised on some aspects of our remuneration policy and practice. Fees payable to PwC during the year totaled £16,835 and the Committee are satisfied that these fees are appropriate for the work undertaken. PwC has advised the Company on remuneration issues for several years and the Remuneration Committee is satisfied that the other services provided by PricewaterhouseCoopers LLP to the Company, which include tax advice and other associated services, do not affect their objectivity or independence.

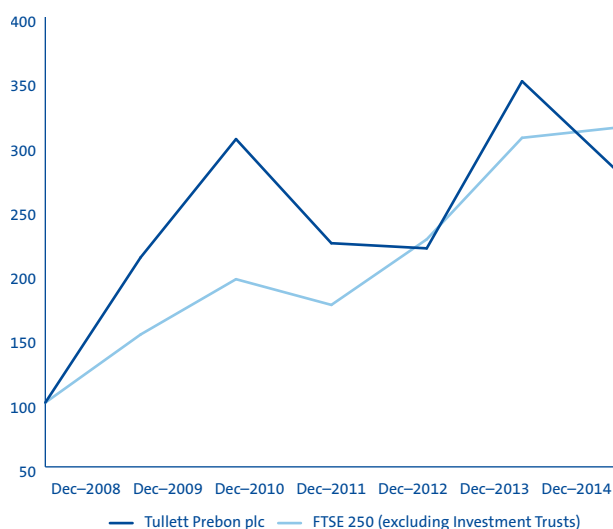
Herbert Smith Freehills LLP was appointed by the Company to provide advice on law and regulation in relation to employee incentive matters. Herbert Smith Freehills LLP also provides general legal advice to the Company.

## Outside directorships

Neither John Phizackerley nor Paul Mainwaring has any outside directorships from which they received any remuneration in 2014.

## Performance graph

A graph depicting the Company's total shareholder return in comparison to other companies in the FTSE 250 index (excluding investment trusts) in the six years to 31 December 2014 is shown below:



The Board believes that the above index is most relevant as it comprises listed companies of similar size.



## Chief Executive remuneration history

Year ended	Name	Total Remuneration £'000	Annual Bonus % of max payout	LTIP % of max vesting
31 December 2014	John Phizackerley <sup>(1)</sup>	720	n/a	n/a
	Terry Smith <sup>(2)</sup>	433	n/a	n/a
31 December 2013	Terry Smith	2,856	51%	–
31 December 2012	Terry Smith	3,153	n/a	–
31 December 2011	Terry Smith	4,929	n/a	45%
31 December 2010	Terry Smith	4,344	n/a	–
31 December 2009	Terry Smith	4,652	n/a	–

Notes:

- (1) For the 4 month period from 1 September 2014.  
 (2) For the 8 month period from 1 January 2014 – 31 August 2014.  
 (3) Variable remuneration was uncapped in the years 2009-2012.

## Change in Chief Executive remuneration

	% change Salary	% change Benefits	% change in bonus payment
Chief Executive <sup>(1)</sup>	–	–	–
Senior Management	2%	–	-10%

This table shows the change of the Chief Executive's fixed and variable remuneration compared to Senior Management.

Notes:

- (1) Neither John Phizackerley or the former Chief Executive have received a pay increase.  
 (2) Terry Smith did not receive a bonus for 2014. John Phizackerley received a prorated bonus from 1 September 2014.

A large proportion of the Group's remuneration is payable to Brokers, who earn a significant proportion of their income as contractual bonus based on a formula linked to revenue. The Remuneration Committee considered that comparison of the Chief Executive's remuneration with that of Senior Management would accordingly be more meaningful than comparison with all employees.

## Relative importance of spend on remuneration

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividend payments:

£m	2014	2013	% change
Employee remuneration <sup>(1)</sup>	490.4	531.1	-8%
Shareholder dividends paid <sup>(2)</sup>	36.7	36.7	–

Notes:

- (1) Employee remuneration includes employer's social security costs and pension contributions.  
 (2) Shareholder dividends comprises the dividends paid.

# Report on Directors' Remuneration continued

## Implementation of Remuneration Policy in 2015

Following publication of the Annual Report in 2014 a statement was made on 29 April 2014 in respect of the Remuneration Policy for shareholder approval at the 2014 AGM. The policy states that with respect to the maximum payable annual discretionary bonus "The maximum aggregate Executive Directors' bonus is 3% of Group reported operating profit, rising to 5% in the event that one or more new Executive Directors are appointed. Operating profit may not exceed 150% of the operating profit used to calculate the previous year's bonus. In exceptional circumstances payments may be made outside this range. Adjustments may be made in relation to significant acquisitions."

The statement confirmed that this discretion will be used sparingly if ever. However, exceptional or genuinely unforeseen circumstances may arise in future and in those circumstances it may be in shareholders' interests for the Company to put in place remuneration arrangements that are outside the terms of the Policy. It is emphasized that this discretion will only be used in very narrow circumstances – that is, in exceptional or genuinely unforeseen circumstances. The Committee considers that these circumstances will arise highly infrequently, if at all, in the lifetime of the Policy. The Committee will regard reliance on this discretion as a matter of utmost seriousness and, in relation to the stated obligation to consult in advance with major shareholders, will not proceed unless there was clear consensus in favour amongst those consulted. In any event the operating profit used to determine the aggregate bonus pool will not exceed 150% of the operating profit used to calculate the previous year's bonus.

During 2015 we intend to make additional changes to the way in which we implement our Remuneration Policy. These changes are within the terms of our existing approved policy. In future our Executive Directors will be set individual bonus targets within the current approved range of operating profits. Our Chief Executive will be entitled to receive a bonus of 1.825 – 2.175% of reported operating profits and our Finance Director will be entitled to a bonus of 0.675- 0.825% of reported operating profits. The total bonus pool range of 2.5-3.0% is therefore unchanged. Within these ranges bonuses will be awarded according to individual performances measured against individual objectives. Individual performance targets will be disclosed retrospectively and will include delivery against strategic objectives, leadership, people development and culture. For commercial reasons it is not in the Company's interests to disclose specific targets at this stage. The Committee believes that this change will enhance individual accountability and further align our Remuneration Policy with the Company's strategy.

Base salaries for our Chief Executive and Finance Director will remain unchanged in 2015.

In 2015 the Remuneration Committee expects to make a further LTIS award on the terms and with performance conditions as outlined in the Policy.

The policies set out in the Policy Table in the Remuneration Policy section of the Report on Directors' Remuneration will apply in 2015.

Approved by the Board and signed on its behalf by

**Stephen Pull**

Chairman

Remuneration Committee

3 March 2015

# 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;
- the Strategic 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; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

## John Phizackerley

Chief Executive  
3 March 2015

# Independent Auditor's Report to the Members of Tullett Prebon plc

## Opinion on Financial Statements of Tullett Prebon plc

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's and the Parent Company's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Financial Statements 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, the related Notes 1 to 38, the Parent Company Balance Sheet and related Notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 26 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risks	How the scope of our audit responded to the risk
<b>Acquisition of PVM Oil Associates Limited</b>	
<p>As detailed on page 93, the Group completed the acquisition of PVM Oil Associates Limited and its subsidiaries ('PVM') on 26 November 2014. The acquisition has resulted in a number of areas of significant management judgement or accounting complexity, which include:</p> <ul style="list-style-type: none"> <li>the identification of £9.5m of separately identifiable acquired intangible assets; and</li> <li>the estimation of the fair value of assets and liabilities acquired and subsequent recognition of £51.7m of goodwill.</li> </ul>	<p>We have audited management's accounting for the acquisition, specifically focusing on the identification and fair valuation of the net assets acquired.</p> <p>Management appointed valuation specialists to assist with the identification and valuation of acquired intangible assets. We used our own internal valuation specialists to provide expert challenge to management's assessment. This included particular focus on the completeness and valuation of separately identifiable intangible assets.</p>
<b>Revenue recognition</b>	
<p><b>Matched Principal revenue</b></p> <p>As detailed in the summary of significant accounting policies on page 61, Matched Principal brokerage revenue is the net proceeds from a commitment to simultaneously buy and sell financial instruments with counterparties, which is recognised on trade date. It accounts for approximately 20% of Group revenue.</p> <p>Given the high volume of transactions, robust internal controls over trade recording and settlement are important to ensure the completeness and accuracy of revenues. Most Matched Principal transactions settle within a standard market settlement period, which is typically within two to three business days. The risk of misstatement of revenues increases where trades fail to settle within the standard market settlement period.</p>	<p>We tested controls relating to trade recording, settlement and the recognition of revenue associated with Matched Principal transactions.</p> <p>We selected a sample of trades which settled within standard settlement periods and confirmed each to cash receipts. For all open trades at year end which did not settle within the standard settlement period or where settlement failed, we confirmed trades to post year end confirmations to confirm the validity of the year end settlement debtors and creditors and accuracy of the associated revenue.</p>
<p><b>Name Passing revenue</b></p> <p>As detailed in the summary of significant accounting policies on page 61, Name Passing revenue is earned for the service of matching of buyers and sellers of financial instruments. The counterparties to a transaction settle directly with each other and are invoiced for the service provided by the Group. It accounts for approximately 75% of Group revenue.</p> <p>As invoices for services provided are not issued until the end of the month, the cash collection period is typically longer than for Matched Principal revenue. As a result, the risk of misstatement of revenue increases where the invoice becomes past due and where post year end trade adjustments or credit notes arise.</p>	<p>We tested controls relating to Name Passing invoicing and cash collection.</p> <p>We confirmed a sample of trades to cash received throughout the year and a further sample of Name Passing transactions, which were outstanding at year end, to cash received post year end. We tested the aged debtor analysis through re-performance and, focusing on higher risk aged items, we confirmed that revenue recognised on the transaction was supportable by obtaining evidence to corroborate the validity of the underlying trade and reviewing communications with counterparties. We tested a selection of post year end trade adjustments and credit notes.</p>



# Independent Auditor's Report to the Members of Tullett Prebon plc continued

Risks	How the scope of our audit responded to the risk
<b>Impairment of goodwill and other intangibles</b>	
<p>As detailed in the summary of significant accounting policies on pages 63 and 64, Note 13 on page 76 and Note 14 on page 77, goodwill and other intangible assets are reviewed for impairment at least annually. Determining whether the goodwill of £327.1m, other intangible assets of £20.1m and other intangible assets arising on consolidation of £9.5m are impaired requires an estimation of the recoverable amount of the Group's cash-generating units ('CGUs'), using the higher of the value in use or fair value less costs to sell.</p> <p>The value in use takes into account expected future cash flows, the selection of suitable discount rates and forecast future growth rates and is therefore inherently subjective. The value in use of all CGUs is sensitive to changes in underlying assumptions.</p> <p>The value in use method was used to assess the recoverable amount of each CGU. The fair value less costs to sell method was also used to assess the Brazil CGU, where an impairment of £6.8m was recorded in the year.</p>	<p>We performed detailed analysis and challenge of management's assumptions, in particular the cash flow projections and discount rates used by management in their impairment tests of the CGUs.</p> <p>We paid particular attention to the North American business, which has £57.5m of goodwill allocated, and the impairment of the carrying value of the Brazil business. These CGUs are more sensitive to changes in key assumptions as the headroom is lower in the North America CGU and such changes may impact the size of the impairment charge for the Brazil CGU.</p> <p>We challenged cash flow forecasts and growth rates by evaluating recent performance, trend analysis and comparing growth rates to those achieved historically and to external market data where available. Our internal valuations specialists independently derived discount rates which we compared to the rates used by management. We also benchmarked discount and growth rates to available external peer group data and considered the sensitivity of management's impairment tests to changes in assumptions.</p> <p>We have challenged management's assumptions in estimating the fair value less costs to sell, and hence the recoverable amount, of the Brazil CGU and we have independently considered the appropriateness of the impairment charge recorded.</p>
<b>Taxation</b>	
<p>As detailed in the summary of significant accounting policies on pages 66 and 67, the Group has taken account of tax issues that are subject to ongoing discussions with the relevant tax authorities in determining its current tax liability of £12.3m and deferred tax liability of £24.1m. An assessment of the likely outcome is required in determining the carrying value of tax liabilities.</p>	<p>Using our tax specialists, we assessed relevant developments in respect of each of the Group's outstanding tax issues, including those arising from the acquisition of PVM.</p> <p>We have reviewed correspondence with the relevant tax authorities, challenged the judgements made by management and independently considered the likely outcomes and technical tax treatments to assess the reasonableness of the provisions made.</p>

The description of risks above should be read in conjunction with the financial reporting judgements considered by the Audit Committee discussed on pages 33 and 34.

The only new risk in 2014 relates to the acquisition of PVM. In 2014, we have focused the risk relating to revenue recognition on Matched Principal and Name Passing revenues. These comprise the majority of the Group's revenue and therefore have a higher risk of misstatement and the greatest effect on our audit strategy.

Our audit procedures relating to these matters were designed in the context of our audit of the Financial Statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the Financial Statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £4.3m, which is based on 5% of underlying profit before tax of £86.6m and is below 1% of equity. Prior year materiality was £8.4m, which was based on 10% of reported profit before tax and was below 3% of equity. The percentage of profit has been reduced to align more closely with the basis of materiality used by auditors of comparable listed companies.

Underlying profit before tax has been determined by excluding exceptional and acquisition related items, which are detailed on page 71. These items have been excluded from our determination of materiality as they do not reflect the ongoing trading performance of the business.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2013: £0.2m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

## An overview of the scope of our audit

Our Group audit scope focused primarily on the audit of 23 subsidiaries in 11 locations (2013: 22 subsidiaries in 11 locations) which were deemed to be significant components. All of these were subject to a full audit. The only change to our audit scope is due to the acquisition of PVM and the inclusion of the main UK based trading entity of PVM as a new significant component.

These 23 subsidiaries represent the principal business units within each of the three operating segments and account for 93% (2013: 94%) of the Group's net assets, 96% (2013: 97%) of the Group's revenue and 93% (2013: 95%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit of each component was performed at a materiality appropriate to the relative scale of the business concerned. The materiality of each component ranged from £2.3m to £2.9m, which is lower than Group materiality.

The Senior Statutory Auditor is directly responsible for the audit of all UK significant components and has responsibility for overseeing all aspects of the audit work of the component auditors in other locations. In discharging this responsibility, he visited the US twice and Singapore once during the audit to meet local management and oversee the audits of the components based in the Americas and Asia. The Group audit team maintains a dialogue with component auditors throughout all phases of the audit and receives written clearance memorandums from every significant component auditor setting out the results of their audit procedures. In addition the Group audit team performed analytical procedures over the aggregated financial information of the remaining components not subject to audit.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

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

### Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Report on Directors' Remuneration to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

# Independent Auditor's Report to the Members of Tullett Prebon plc continued

## Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

## 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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Robert Topley F.C.A.

(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London

United Kingdom

3 March 2015

# Consolidated Income Statement

for the year ended 31 December 2014

	Notes	Underlying £m	Exceptional and acquisition related items £m	Total £m
<b>2014</b>				
Revenue	4	703.5	–	703.5
Administrative expenses	6	(607.9)	(69.1)	(677.0)
Other operating income	5	5.1	16.0	21.1
<b>Operating profit</b>		<b>100.7</b>	<b>(53.1)</b>	<b>47.6</b>
Finance income	8	3.6	–	3.6
Finance costs	9	(17.7)	–	(17.7)
<b>Profit before tax</b>		<b>86.6</b>	<b>(53.1)</b>	<b>33.5</b>
Taxation	10	(16.9)	6.5	(10.4)
<b>Profit of consolidated companies</b>		<b>69.7</b>	<b>(46.6)</b>	<b>23.1</b>
Share of results of associates		1.9	–	1.9
<b>Profit for the year</b>	6	<b>71.6</b>	<b>(46.6)</b>	<b>25.0</b>
<b>Attributable to:</b>				
Equity holders of the parent		71.2	(46.6)	24.6
Minority interests		0.4	–	0.4
		71.6	(46.6)	25.0
<b>Earnings per share</b>				
– Basic	11	32.3p		11.2p
– Diluted	11	32.3p		11.2p
<b>2013</b>				
Revenue	4	803.7	–	803.7
Administrative expenses	6	(699.3)	(15.2)	(714.5)
Other operating income	5	11.0	–	11.0
<b>Operating profit</b>		<b>115.4</b>	<b>(15.2)</b>	<b>100.2</b>
Finance income	8	3.7	–	3.7
Finance costs	9	(19.5)	–	(19.5)
<b>Profit before tax</b>		<b>99.6</b>	<b>(15.2)</b>	<b>84.4</b>
Taxation	10	(22.4)	2.4	(20.0)
<b>Profit of consolidated companies</b>		<b>77.2</b>	<b>(12.8)</b>	<b>64.4</b>
Share of results of associates		1.4	–	1.4
<b>Profit for the year</b>	6	<b>78.6</b>	<b>(12.8)</b>	<b>65.8</b>
<b>Attributable to:</b>				
Equity holders of the parent		78.4	(12.8)	65.6
Minority interests		0.2	–	0.2
		78.6	(12.8)	65.8
<b>Earnings per share</b>				
– Basic	11	36.0p		30.1p
– Diluted	11	36.0p		30.1p

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Profit for the year</b>		<b>25.0</b>	<b>65.8</b>
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of the defined benefit pension scheme	34	10.0	7.2
Taxation charge relating to items not reclassified	10	(3.5)	(2.5)
		6.5	4.7
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Revaluation of investments		(0.5)	(0.5)
Effect of changes in exchange rates on translation of foreign operations		7.7	(7.8)
Taxation (charge)/credit relating to items that may be reclassified	10	(0.2)	0.2
		7.0	(8.1)
<b>Other comprehensive income for the year</b>		<b>13.5</b>	<b>(3.4)</b>
<b>Total comprehensive income for the year</b>		<b>38.5</b>	<b>62.4</b>
<b>Attributable to:</b>			
Equity holders of the parent		37.8	62.5
Minority interests		0.7	(0.1)
		38.5	62.4



# Consolidated Balance Sheet

as at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Intangible assets arising on consolidation	13	336.6	275.6
Other intangible assets	14	20.1	21.8
Property, plant and equipment	15	29.4	28.8
Interest in associates	16	5.0	4.0
Investments	17	5.2	5.7
Deferred tax assets	19	2.3	2.9
Defined benefit pension scheme	34	62.1	50.5
		<b>460.7</b>	<b>389.3</b>
<b>Current assets</b>			
Trade and other receivables	20	3,261.9	5,820.2
Financial assets	18	10.7	31.2
Cash and cash equivalents	31	287.1	251.6
		<b>3,559.7</b>	<b>6,103.0</b>
<b>Total assets</b>		<b>4,020.4</b>	<b>6,492.3</b>
<b>Current liabilities</b>			
Trade and other payables	21	(3,269.2)	(5,812.7)
Interest bearing loans and borrowings	22	–	(8.5)
Current tax liabilities		(12.3)	(19.3)
Short term provisions	23	(6.6)	(1.8)
		<b>(3,288.1)</b>	<b>(5,842.3)</b>
<b>Net current assets</b>		<b>271.6</b>	<b>260.7</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	22	(219.7)	(219.1)
Deferred tax liabilities	19	(24.1)	(17.9)
Long term provisions	23	(9.7)	(4.3)
Other long term payables	24	(15.3)	(10.3)
		<b>(268.8)</b>	<b>(251.6)</b>
<b>Total liabilities</b>		<b>(3,556.9)</b>	<b>(6,093.9)</b>
<b>Net assets</b>		<b>463.5</b>	<b>398.4</b>
<b>Equity</b>			
Share capital	26	60.9	54.4
Share premium	27(a)	17.1	17.1
Merger reserve	27(a)	178.5	121.5
Other reserves	27(b)	(1,173.4)	(1,180.1)
Retained earnings	27(c)	1,378.8	1,383.4
<b>Equity attributable to equity holders of the parent</b>	27(c)	<b>461.9</b>	<b>396.3</b>
Minority interests	27(c)	1.6	2.1
<b>Total equity</b>		<b>463.5</b>	<b>398.4</b>

The Consolidated Financial Statements of Tullett Prebon plc (registered number 5807599) were approved by the Board of Directors and authorised for issue on 3 March 2015 and are signed on its behalf by

**John Phizackerley**  
Chief Executive

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Equity attributable to equity holders of the parent										Total equity £m
	Share capital £m	Share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Re-valuation reserve £m	Hedging and translation £m	Own shares £m	Retained earnings £m	Total £m	Minority interests £m	
<b>2014</b>											
Balance at 1 January 2014	54.4	17.1	121.5	(1,182.3)	1.9	0.4	(0.1)	1,383.4	396.3	2.1	398.4
Profit for the year	–	–	–	–	–	–	–	24.6	24.6	0.4	25.0
Other comprehensive income for the year	–	–	–	–	(0.5)	7.2	–	6.5	13.2	0.3	13.5
Total comprehensive income for the year	–	–	–	–	(0.5)	7.2	–	31.1	37.8	0.7	38.5
Dividends paid	–	–	–	–	–	–	–	(36.7)	(36.7)	(0.2)	(36.9)
Issue of ordinary shares	6.5	–	58.4	–	–	–	–	–	64.9	–	64.9
Share issue costs	–	–	(1.4)	–	–	–	–	–	(1.4)	–	(1.4)
Decrease in minority interests	–	–	–	–	–	–	–	(0.2)	(0.2)	(1.0)	(1.2)
Credit arising on share-based payment awards	–	–	–	–	–	–	–	1.2	1.2	–	1.2
Balance at 31 December 2014	60.9	17.1	178.5	(1,182.3)	1.4	7.6	(0.1)	1,378.8	461.9	1.6	463.5
<b>2013</b>											
Balance at 1 January 2013	54.4	17.1	121.5	(1,182.3)	2.4	7.7	(0.1)	1,348.8	369.5	2.5	372.0
Profit for the year	–	–	–	–	–	–	–	65.6	65.6	0.2	65.8
Other comprehensive income for the year	–	–	–	–	(0.5)	(7.3)	–	4.7	(3.1)	(0.3)	(3.4)
Total comprehensive income for the year	–	–	–	–	(0.5)	(7.3)	–	70.3	62.5	(0.1)	62.4
Dividends paid	–	–	–	–	–	–	–	(36.7)	(36.7)	(0.3)	(37.0)
Credit arising on share-based payment awards	–	–	–	–	–	–	–	1.0	1.0	–	1.0
Balance at 31 December 2013	54.4	17.1	121.5	(1,182.3)	1.9	0.4	(0.1)	1,383.4	396.3	2.1	398.4

# Consolidated Cash Flow Statement

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Net cash from operating activities</b>	30	52.8	62.1
<b>Investing activities</b>			
Sale/(purchase) of financial assets		20.6	(1.9)
Interest received		1.5	1.9
Dividends from associates		1.0	1.0
Expenditure on intangible fixed assets		(5.3)	(6.7)
Purchase of property, plant and equipment		(5.7)	(10.4)
Investment in subsidiaries		(5.5)	(2.3)
Cash acquired with the acquisition of PVM		17.5	–
<b>Net cash arising from investment activities</b>		24.1	(18.4)
<b>Financing activities</b>			
Dividends paid	12	(36.7)	(36.7)
Dividends paid to minority interests		(0.2)	(0.3)
Equity issue costs		(1.4)	–
Repayment of debt		(8.5)	(30.0)
Debt issue and bank facility arrangement costs		–	(1.7)
<b>Net cash used in financing activities</b>		(46.8)	(68.7)
<b>Net increase/(decrease) in cash and cash equivalents</b>		30.1	(25.0)
<b>Cash and cash equivalents at the beginning of the year</b>		251.6	281.5
Effect of foreign exchange rate changes		5.4	(4.9)
<b>Cash and cash equivalents at the end of the year</b>	31	287.1	251.6

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

## 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 109. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 25 to 27 and in the Strategic Report on pages 4 to 23.

## 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 26 of the Directors' 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.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are 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 inputs are unobservable inputs for the asset or liability.

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. Under IFRS 10 'Consolidated Financial Statements', which has been adopted in 2014 (see below) control is achieved where the Company exercises power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its power to affect the returns from the entity. Previously, control was defined as the power to govern the financial and operating policies of an entity 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 new and revised Standards and Interpretations have been adopted in the current year although their adoption has not had any significant impact on the Financial Statements:

- The Group has adopted a package of four standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosures of Interests in Other Entities', and IAS 28 (as revised in 2011) 'Investments in Associates and Joint Ventures'. Subsequent to the issue of these standards, amendments to IFRS 10, 11 and 12 were issued to clarify certain transitional guidance on first time application of the standards;
- Amendments to IAS 32 'Financial Instruments: Presentation' regarding offsetting financial assets and financial liabilities;
- Amendments to IAS 36 'Impairment of assets' regarding recoverable amount disclosures for non-financial assets; and
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' regarding the novation of derivatives and continuation of hedge accounting.

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:

- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual Improvements to IFRSs 2011-2013 Cycle.

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';
- IFRS 15 'Revenue from Contracts with Customers';
- Amendments to IAS 1 'Presentation of financial statements' regarding disclosures;
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Amendments to IAS 16 and IAS 38 clarification of acceptable methods of depreciation and amortisation; and
- Amendments to IFRS 11 regarding the accounting for acquisition of interests in Joint Operations.

The adoption of IFRS 9 will impact both the measurement and disclosures of financial instruments but it is not practicable to provide a complete estimate of its effect until a detailed review has been completed prior to implementation. The Directors do not expect the adoption of the other Standards and Interpretations will have a material impact on the Financial Statements of the Group in future periods.

## 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. Revenue for the service of matching buyers and sellers of financial instruments 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 proceeds from a commitment to simultaneously buy and sell financial instruments with counterparties, is recognised on trade date;
- (iii) Executing Broker brokerage, where the Group executes transactions on certain regulated exchanges, and then 'gives-up' the trade to the relevant client, or its clearing member. Revenue for the service of matching buyers and sellers of financial instruments is stated net of sales taxes, rebates and discounts and is recognised in full on trade date; and
- (iv) 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

Acquisitions 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.



# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 3. Summary of significant accounting policies continued

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 venture arrangements

A joint venture arrangement 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 the equity method of accounting. Investments in joint ventures 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 joint venture, less any impairment in the value of individual investments. Losses of the joint venture in excess of the Group's interest in those joint ventures are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments under the terms of the joint venture.

### (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 |

#### Acquisition intangibles:

- |                        |                                   |
|------------------------|-----------------------------------|
| Brand/Trade marks      | – up to 5 years                   |
| Customer relationships | – 2 to 10 years                   |
| Other intangibles      | – over the period of the contract |

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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 3. Summary of significant accounting policies continued

### (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

From time to time, the Group uses 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 is 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 3. Summary of significant accounting policies continued

### 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.

### (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 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 3. Summary of significant accounting policies continued

### (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 relation to the following matters:

#### Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which these assets have 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 remeasurement occurs.

#### Retirement benefit asset

The Group's retirement benefit asset is the net of its defined benefit scheme's assets and the related defined benefit obligation. The defined benefit obligation represents the scheme's future liabilities, which are estimated using actuarial and other financial assumptions, discounted to a current value using a discount rate set by reference to market yields on high quality corporate bonds. The value of the defined benefit obligation is sensitive to changes in the actuarial, financial and discount rate assumptions, changes to which would be reflected in other comprehensive income in the period the change occurs.

## 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

	2014 £m	2013 £m
<b>Revenue</b>		
Europe and the Middle East	405.6	468.7
Americas	201.6	233.9
Asia Pacific	96.3	101.1
	<b>703.5</b>	<b>803.7</b>
<b>Operating profit</b>		
Europe and the Middle East	80.1	97.9
Americas	10.5	10.4
Asia Pacific	10.1	7.1
	<b>100.7</b>	<b>115.4</b>
<b>Underlying operating profit</b>		
Net credit/(charge) relating to major legal actions <sup>(1)</sup>	3.1	(15.2)
Charge relating to cost improvement programme <sup>(2)</sup>	(46.7)	–
Acquisition costs <sup>(2)</sup>	(1.8)	–
Acquisition related share-based payment charge <sup>(2)</sup>	(0.9)	–
Goodwill impairment <sup>(2)</sup>	(6.8)	–
	<b>47.6</b>	<b>100.2</b>
<b>Reported operating profit</b>		
Finance income	3.6	3.7
Finance costs	(17.7)	(19.5)
	<b>33.5</b>	<b>84.4</b>
<b>Profit before tax</b>		
Taxation	(10.4)	(20.0)
	<b>23.1</b>	<b>64.4</b>
<b>Profit of consolidated companies</b>		
Share of results of associates	1.9	1.4
	<b>25.0</b>	<b>65.8</b>

Notes:

(1) The credit relating to major legal actions in 2014 is the net of amounts included in other income and in administrative expenses.

(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 £345.0m (2013: £402.6m) and the total revenue from other countries was £358.5m (2013: £401.1m).

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 4. Segmental analysis continued

### Other segmental information

	2014 £m	2013 £m
<b>Capital additions</b>		
Europe and the Middle East – UK	5.9	13.2
Europe and the Middle East – Other	0.6	0.7
Americas	3.7	2.7
Asia Pacific	0.8	0.5
	11.0	17.1

	2014 £m	2013 £m
<b>Depreciation and amortisation</b>		
Europe and the Middle East – UK	8.3	5.8
Europe and the Middle East – Other	0.6	0.7
Americas	3.8	4.0
Asia Pacific	0.9	1.4
	13.6	11.9

	2014 £m	2013 £m
<b>Goodwill impairment</b>		
Brazil (Note 13)	6.8	–
	6.8	–

	2014 £m	2013 £m
<b>Share-based compensation</b>		
Europe and the Middle East – UK	1.3	1.0
Europe and the Middle East – Other	–	–
Americas	(0.1)	–
Asia Pacific	–	–
	1.2	1.0

	2014 £m	2013 £m
<b>Segment assets</b>		
Europe and the Middle East – UK	1,741.7	1,728.4
Europe and the Middle East – Other	24.2	29.2
Americas	2,184.4	4,676.7
Asia Pacific	70.1	58.0
	4,020.4	6,492.3

	2014 £m	2013 £m
<b>Segment liabilities</b>		
Europe and the Middle East – UK	1,408.8	1,465.0
Europe and the Middle East – Other	19.8	23.2
Americas	2,089.8	4,575.3
Asia Pacific	38.5	30.4
	3,556.9	6,093.9

Segment assets and liabilities exclude all inter-segment balances.

### Analysis by product group

	2014 £m	2013 £m
<b>Revenue</b>		
Treasury Products	190.5	211.4
Interest Rate Derivatives	140.6	174.2
Fixed Income	186.5	225.5
Equities	39.5	43.2
Energy	100.0	102.4
Information Sales and Risk Management Services	46.4	47.0
	703.5	803.7

## 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 for the year

The profit for the year has been arrived at after charging:

	2014 £m	2013 £m
Depreciation of property, plant and equipment (Note 15)	6.5	5.5
Amortisation of intangible assets (Note 14)	7.1	6.4
Staff costs (Note 7)	491.6	532.1
Auditor's remuneration for audit services (see below)	2.2	1.9
Exceptional and acquisition related items:		
– Net credit/(charge) relating to major legal actions	3.1	(15.2)
– Charge relating to cost improvement programme	(46.7)	–
– Acquisition costs	(1.8)	–
– Acquisition related share-based payment charge	(0.9)	–
– Goodwill impairment	(6.8)	–
– Taxation credit on exceptional and acquisition related items	6.5	2.4

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 6. Profit for the year continued

The analysis of auditor's remuneration is as follows:

	2014 £000	2013 £000
Audit of the Group's annual accounts	433	393
Audit of the Company's subsidiaries and associates pursuant to legislation <sup>(1)</sup>	1,735	1,515
<b>Total audit fees</b>	<b>2,168</b>	<b>1,908</b>
Audit-related assurance services	289	80
Taxation compliance services	115	128
Other taxation advisory services	11	4
Other assurance services	–	13
Corporate finance services	283	300
Other services	95	244
<b>Total non-audit fees</b>	<b>793</b>	<b>769</b>
Audit fees payable to the Company's auditor and its associates in respect of associated pension schemes	13	13

Note:

(1) Includes £252,000 relating to the pre-acquisition audits of PVM Oil Associates Limited and its subsidiaries.

## 7. Staff costs

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

	2014 No.	2013 No.
Europe and the Middle East	1,179	1,216
Americas	796	814
Asia Pacific	561	573
	<b>2,536</b>	<b>2,603</b>

The aggregate employment costs of staff and Directors were:

	2014 £m	2013 £m
Wages, salaries, bonuses and incentive payments	447.3	483.0
Social security costs	36.2	41.1
Defined contribution pension costs (Note 34(b))	6.9	7.0
Share-based compensation expense	1.2	1.0
	<b>491.6</b>	<b>532.1</b>

## 8. Finance income

	2014 £m	2013 £m
Interest receivable and similar income	1.4	1.8
Deemed interest arising on the defined benefit pension scheme surplus	2.2	1.9
	<b>3.6</b>	<b>3.7</b>



## 9. Finance costs

	2014 £m	2013 £m
Interest and fees payable on bank facilities	1.5	1.7
Interest payable on Sterling Notes August 2014	0.4	0.6
Interest payable on Sterling Notes July 2016	9.9	9.9
Interest payable on Sterling Notes June 2019	4.2	4.2
Other interest payable	0.5	0.3
Amortisation of debt issue and bank facility costs	1.1	2.3
Total borrowing costs	17.6	19.0
Amortisation of discount on deferred consideration	0.1	0.5
	17.7	19.5

## 10. Taxation

	2014 £m	2013 £m
<b>Current tax</b>		
UK corporation tax	8.9	16.8
Overseas tax	4.4	4.4
Prior year UK corporation tax	(0.9)	(0.8)
Prior year overseas tax	(3.5)	(1.2)
	8.9	19.2
<b>Deferred tax (Note 19)</b>		
Current year	0.8	1.3
Prior year	0.7	(0.5)
	1.5	0.8
Tax charge for the year	10.4	20.0

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 10. Taxation continued

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

	2014 £m	2013 £m
Profit before tax	33.5	84.4
Tax based on the UK corporation tax rate of 21.5% (2013: 23.25%)	7.2	19.6
Tax effect of non-deductible goodwill impairment	1.5	–
Tax effect of expenses that are not deductible	4.4	4.9
Tax effect of non-taxable income	(0.2)	(0.6)
Unrecognised timing differences	1.8	(0.9)
Prior year adjustments	(3.7)	(2.5)
Other	(0.6)	(0.5)
Tax charge for the year	10.4	20.0

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

	Recognised in other comprehensive income £m	Recognised in equity £m	Total £m
<b>2014</b>			
Current tax charge relating to:			
– Exchange movement on net investment loans	0.2	–	0.2
Deferred tax charge relating to:			
– Increase in the defined benefit pension scheme surplus	3.5	–	3.5
Tax charge on items taken directly to other comprehensive income and equity	3.7	–	3.7
<b>2013</b>			
Current tax credit relating to:			
– Exchange movement on net investment loans	(0.2)	–	(0.2)
Deferred tax charge relating to:			
– Increase in the defined benefit pension scheme surplus	2.5	–	2.5
Tax charge on items taken directly to other comprehensive income and equity	2.3	–	2.3

## 11. Earnings per share

	2014	2013
Basic – underlying	32.3p	36.0p
Diluted – underlying	32.3p	36.0p
Basic earnings per share	11.2p	30.1p
Diluted earnings per share	11.2p	30.1p

The calculation of basic and diluted earnings per share is based on the following number of shares:

	2014 No.(m)	2013 No.(m)
Basic weighted average shares	220.4	217.8
Contingently issuable shares	0.2	–
Issuable on exercise of options	–	0.2
Diluted weighted average shares	220.6	218.0

The earnings used in the calculation of underlying, basic and diluted earnings per share, are set out below:

	2014 £m	2013 £m
Earnings for the year	25.0	65.8
Minority interests	(0.4)	(0.2)
<b>Earnings</b>	<b>24.6</b>	<b>65.6</b>
Net (credit)/charge relating to major legal actions	(3.1)	15.2
Charge relating to cost improvement programme	46.7	–
Acquisition costs	1.8	–
Acquisition related share-based payment charge	0.9	–
Goodwill impairment	6.8	–
Tax on above items	(6.5)	(2.4)
<b>Underlying earnings</b>	<b>71.2</b>	<b>78.4</b>

## 12. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2014 of 5.6p per share	12.2	–
Final dividend for the year ended 31 December 2013 of 11.25p per share	24.5	–
Interim dividend for the year ended 31 December 2013 of 5.6p per share	–	12.2
Final dividend for the year ended 31 December 2012 of 11.25p per share	–	24.5
	<b>36.7</b>	<b>36.7</b>

In respect of the current year, the Directors propose that the final dividend of 11.25p per share amounting to £27.4m will be paid on 14 May 2015 to all shareholders on the Register of Members on 24 April 2015. 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 13. Intangible assets arising on consolidation

	Goodwill £m	Other £m	Total £m
At 1 January 2014	275.6	–	275.6
Recognised on acquisitions	55.8	9.5	65.3
Impairment	(6.8)	–	(6.8)
Effect of movements in exchange rates	2.5	–	2.5
At 31 December 2014	327.1	9.5	336.6
At 1 January 2013	278.5	–	278.5
Effect of movements in exchange rates	(2.9)	–	(2.9)
At 31 December 2013	275.6	–	275.6

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

	2014 £m	2013 £m
<b>CGU</b>		
Europe and the Middle East	195.1	195.1
North America	57.5	50.4
Brazil	3.3	10.8
Asia Pacific	19.3	19.3
PVM Oil Associates	51.9	–
	327.1	275.6

Determining whether goodwill is impaired requires an estimation of the recoverable amount of each CGU. The recoverable amount of each CGU is the higher of its value in use ('VIU') or its net realisable value ('NRV').

The key assumptions for the VIU 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 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.

As at 31 December 2014 VIU has been used to estimate recoverable amounts for all CGUs and for all CGU's except Brazil, the estimate of the recoverable amount was higher than the carrying value. The calculations 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. The VIU calculations used growth rates of 2% for Europe and the Middle East, 2.5% for North America, and 3% for Asia. Resultant cash flows for Europe and the Middle East, and Asia have been discounted at a pre-tax discount rate of 10.5% (2013: 11.5%), and for North America have been discounted at 12.5% (2013: 13.5%) reflecting the higher level of uncertainty in the forecasts of that CGU's future cash flows.

The estimated recoverable amount for the Brazil CGU using VIU was calculated to be lower than that CGU's carrying value. Market conditions in Brazil have been challenging in the last two years and revenue has fallen by nearly one quarter since 2012. The business continues to be profitable but the absolute level of operating profit has fallen below the level required to support the CGU's carrying value. The recoverable amount based on its NRV was calculated to be higher than its VIU although still lower than its carrying value, and £6.8m has been recognised as an impairment of the goodwill attributed to that CGU.

## 14. Other intangible assets

	Purchased software £m	Developed software £m	Total £m
<b>Cost</b>			
At 1 January 2014	11.6	36.4	48.0
Additions	0.7	4.6	5.3
Amounts derecognised	(5.2)	–	(5.2)
Effect of movements in exchange rates	0.3	0.8	1.1
At 31 December 2014	7.4	41.8	49.2
<b>Accumulated amortisation</b>			
At 1 January 2014	(9.6)	(16.6)	(26.2)
Charge for the year	(1.0)	(6.1)	(7.1)
Amounts derecognised	5.2	–	5.2
Effect of movements in exchange rates	(0.1)	(0.9)	(1.0)
At 31 December 2014	(5.5)	(23.6)	(29.1)
<b>Carrying amount</b>			
At 31 December 2014	1.9	18.2	20.1
<b>Cost</b>			
At 1 January 2013	10.7	31.6	42.3
Additions	1.3	5.4	6.7
Amounts derecognised	(0.1)	(0.3)	(0.4)
Effect of movements in exchange rates	(0.3)	(0.3)	(0.6)
At 31 December 2013	11.6	36.4	48.0
<b>Accumulated amortisation</b>			
At 1 January 2013	(8.8)	(11.9)	(20.7)
Charge for the year	(1.1)	(5.3)	(6.4)
Amounts derecognised	–	0.3	0.3
Effect of movements in exchange rates	0.3	0.3	0.6
At 31 December 2013	(9.6)	(16.6)	(26.2)
<b>Carrying amount</b>			
At 31 December 2013	2.0	19.8	21.8

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 15. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Furniture, fixtures, equipment and motor vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2014	29.5	51.6	81.1
Additions	1.3	4.4	5.7
Acquired with acquisitions	–	1.0	1.0
Disposals	(5.9)	(3.9)	(9.8)
Effect of movements in exchange rates	0.5	0.8	1.3
At 31 December 2014	25.4	53.9	79.3
<b>Accumulated depreciation</b>			
At 1 January 2014	(17.3)	(35.0)	(52.3)
Charge for the year	(1.5)	(5.0)	(6.5)
Disposals	5.9	3.9	9.8
Effect of movements in exchange rates	(0.3)	(0.6)	(0.9)
At 31 December 2014	(13.2)	(36.7)	(49.9)
<b>Carrying amount</b>			
At 31 December 2014	12.2	17.2	29.4
<b>Cost</b>			
At 1 January 2013	29.7	47.0	76.7
Additions	0.1	10.3	10.4
Disposals	–	(4.0)	(4.0)
Effect of movements in exchange rates	(0.3)	(1.7)	(2.0)
At 31 December 2013	29.5	51.6	81.1
<b>Accumulated depreciation</b>			
At 1 January 2013	(16.1)	(34.9)	(51.0)
Charge for the year	(1.6)	(3.9)	(5.5)
Disposals	–	2.5	2.5
Effect of movements in exchange rates	0.4	1.3	1.7
At 31 December 2013	(17.3)	(35.0)	(52.3)
<b>Carrying amount</b>			
At 31 December 2013	12.2	16.6	28.8

No assets are held under finance leases.



## 16. Interest in associates

	2014 £m	2013 £m
Carrying amount of investment in associates	5.0	4.0
Aggregated amounts relating to associates:		
Total assets	22.3	16.4
Total liabilities	(8.1)	(5.3)
Net assets	14.2	11.1
Revenue	22.0	16.7
Profit for the year	5.4	3.8
Other comprehensive income attributable to the owners	–	–
Group's share of profit for the year	1.9	1.4
Group's share of other comprehensive income	–	–
Dividends received from associates during the year	1.0	1.0

Interests in associates are measured using the equity method. A list of investments in associates, including the name, country of incorporation and proportion of ownership interest, is given in Note 37.

## 17. Investments

	2014 £m	2013 £m
Available-for-sale assets carried at fair value		
– unlisted	4.2	4.6
– listed	1.0	1.1
	5.2	5.7

The fair values of unlisted available-for-sale assets are based on derived valuations as disclosed in Note 25(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 (Level 1 valuation).

## 18. Financial assets

	2014 £m	2013 £m
Short term government securities	8.3	9.1
Term deposits	2.4	22.1
	10.7	31.2

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

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 19. Deferred tax

	2014 £m	2013 £m
Deferred tax assets	2.3	2.9
Deferred tax liabilities	(24.1)	(17.9)
	(21.8)	(15.0)

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

	2014 £m	2013 £m
At 1 January	(15.0)	(11.4)
Charge to income for the year	(1.5)	(0.8)
Charge to other comprehensive income for the year	(3.5)	(2.5)
Recognised with acquisitions	(1.7)	–
Effect of movements in exchange rates	(0.1)	(0.3)
At 31 December	(21.8)	(15.0)

Deferred tax balances and movements thereon are analysed as:

	At 1 January £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 £m
<b>2014</b>						
Share-based payment awards	0.3	(0.1)	–	–	–	0.2
Defined benefit pension scheme	(17.7)	(0.5)	(3.5)	–	–	(21.7)
Tax losses	–	–	–	0.4	–	0.4
Other timing differences	2.4	(0.9)	–	(2.1)	(0.1)	(0.7)
	(15.0)	(1.5)	(3.5)	(1.7)	(0.1)	(21.8)
<b>2013</b>						
Share-based payment awards	0.3	–	–	–	–	0.3
Defined benefit pension scheme	(14.5)	(0.7)	(2.5)	–	–	(17.7)
Tax losses	0.2	(0.2)	–	–	–	–
Other timing differences	2.6	0.1	–	–	(0.3)	2.4
	(11.4)	(0.8)	(2.5)	–	(0.3)	(15.0)

At the balance sheet date, the Group has a net unrecognised deferred tax asset of £21.3m (2013: £16.9m) including unrecognised deferred tax in respect of tax losses of £14.3m (2013: £16.3m) which is available for offset against future profits.

A deferred tax asset of £0.4m in respect of tax losses has been recognised in 2014 (2013: £nil) as it is considered probable that there will be future taxable profits available.

No deferred tax has been recognised on temporary differences associated with unremitted earnings of subsidiaries, other than £0.1m recognised by PVM, as the Group is able to control the timing of distributions and overseas dividends are largely exempt from UK tax. As at the balance sheet date, the Group had unrecognised deferred tax liabilities of £0.9m (2013: £0.7m) in respect of withholding tax on unremitted earnings.

## 20. Trade and other receivables

	2014 £m	2013 £m
Trade receivables	87.8	70.2
Settlement balances	3,134.1	5,682.5
Financial assets	3,221.9	5,752.7
Other debtors	10.3	10.8
Prepayments and accrued income	27.9	55.1
Corporation tax	1.3	1.2
Owed by associates and related parties	0.5	0.4
	<b>3,261.9</b>	<b>5,820.2</b>

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:

	2014 £m	2013 £m
Less than 30 days (not yet due)	59.4	50.5
Between 30 and 60 days	13.9	10.7
Between 60 and 90 days	6.9	4.0
Greater than 90 days	7.6	5.0
Total past due	28.4	19.7
Trade receivables	<b>87.8</b>	<b>70.2</b>

Trade receivables are shown net of a provision of £1.8m (2013: £1.0m) against certain trade receivables due after 90 days.

The table below shows the ageing of settlement balances:

	2014 £m	2013 £m
Amounts not yet due	3,082.5	5,544.1
Less than 30 days	45.2	130.5
Between 30 and 60 days	4.6	5.4
Between 60 and 90 days	1.6	2.4
Greater than 90 days	0.2	0.1
Total past due	51.6	138.4
Settlement balances	<b>3,134.1</b>	<b>5,682.5</b>

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 21 'Trade and other payables'.

# Notes to the Consolidated Financial Statements continued

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## 21. Trade and other payables

	2014 £m	2013 £m
Settlement balances	3,132.3	5,681.8
Trade payables	5.4	7.6
Financial liabilities	3,137.7	5,689.4
Tax and social security	18.2	18.2
Other creditors	3.1	2.7
Accruals and deferred income	110.2	102.4
	3,269.2	5,812.7

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

## 22. Interest bearing loans and borrowings

	Less than one year £m	Greater than one year £m	Total £m
<b>2014</b>			
Sterling Notes July 2016	–	140.6	140.6
Sterling Notes June 2019	–	79.1	79.1
	–	219.7	219.7
<b>2013</b>			
Sterling Notes August 2014	8.5	–	8.5
Sterling Notes July 2016	–	140.2	140.2
Sterling Notes June 2019	–	78.9	78.9
	8.5	219.1	227.6

All amounts are denominated in Sterling and are stated after unamortised transaction costs. An analysis of borrowings by maturity has been disclosed in Note 25(d).

### Sterling Notes: Due July 2016

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

At 31 December 2014 their fair value was £149.0m (2013: £149.8m).

### Sterling Notes: Due June 2019

In 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 2014 their fair value was £82.4m (2013: £82.3m).

### Sterling Notes: Repaid August 2014

£8,470,000, 8.25% Step-up Coupon Subordinated Notes were repaid in August 2014. At 31 December 2013 their fair value was £8.5m.

### Bank credit facility

During 2013 the Group repaid all of its amortising term loan. The interest rate on the bank loan was 3.6% and debt issue costs of £1.3m relating to the bank loan were amortised.

The Group has a £150m committed revolving credit facility which matures in April 2016. This facility was not drawn during the year. Facility fees of £1.5m are payable annually.

## 23. Provisions

	Property £m	Restructuring £m	Legal and other £m	Total £m
<b>2014</b>				
At 1 January 2014	2.4	1.7	2.0	6.1
Charge to income statement	3.8	21.4	0.1	25.3
Utilisation of provision	(0.4)	(14.6)	(1.0)	(16.0)
Recognised on acquisitions	–	–	0.3	0.3
Effect of movements in exchange rates	0.1	0.4	0.1	0.6
At 31 December 2014	5.9	8.9	1.5	16.3

<b>2013</b>				
At 1 January 2013	3.8	4.9	2.6	11.3
Released to income statement	(0.4)	–	(0.3)	(0.7)
Utilisation of provision	(1.0)	(3.2)	(0.2)	(4.4)
Effect of movements in exchange rates	–	–	(0.1)	(0.1)
At 31 December 2013	2.4	1.7	2.0	6.1

	2014 £m	2013 £m
Included in current liabilities	6.6	1.8
Included in non-current liabilities	9.7	4.3
	16.3	6.1

Property provisions outstanding as at 31 December 2014 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 twelve years (2013: one to thirteen 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 five years.

Restructuring provisions outstanding as at 31 December 2014 relate to termination and other employee related costs, the majority of which are expected to be discharged during 2015.

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 is uncertain and provisions are subject to regular review. It is expected that the obligations will be discharged over the next three years.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 24. Other long term payables

	2014 £m	2013 £m
Accruals and deferred income	9.0	10.0
Deferred consideration (Note 29)	6.3	0.3
	15.3	10.3

Accruals and deferred income includes deferred leasehold rental accruals that build up during rent free periods which are subsequently utilised over the rental payment period of the lease.

## 25. Financial instruments

The following analysis should be read in conjunction with the information on risk management, capital employed and regulatory capital included in the Strategic Report 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 22, 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 26 and 27.

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
<b>2014</b>			
Investments	5.2	–	5.2
Financial assets	8.3	2.4	10.7
Cash and cash equivalents	–	287.1	287.1
Trade receivables	–	87.8	87.8
Settlement balances	–	3,134.1	3,134.1
	13.5	3,511.4	3,524.9
<b>2013</b>			
Investments	5.7	–	5.7
Financial assets	9.1	22.1	31.2
Cash and cash equivalents	–	251.6	251.6
Trade receivables	–	70.2	70.2
Settlement balances	–	5,682.5	5,682.5
	14.8	6,026.4	6,041.2



## Financial liabilities

Financial liabilities are all held at amortised cost.

	2014 £m	2013 £m
Sterling Notes August 2014	–	8.5
Sterling Notes July 2016	140.6	140.2
Sterling Notes June 2019	79.1	78.9
Trade payables	5.4	7.6
Settlement balances	3,132.3	5,681.8
	<b>3,357.4</b>	<b>5,917.0</b>

### (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	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
AAA to AA+	6.3	4.8	0.2	0.2	33.7	1.2
AA to A-	281.1	270.1	57.8	50.6	2,174.3	4,477.0
BBB+ to BBB-	9.8	7.5	12.1	7.5	671.5	709.2
BB+ to B-	–	–	1.8	0.5	24.5	417.9
Unrated	0.6	0.4	17.7	12.4	230.1	77.2
Total	297.8	282.8	89.6	71.2	3,134.1	5,682.5
Provision for doubtful debts	–	–	(1.8)	(1.0)	–	–
	<b>297.8</b>	<b>282.8</b>	<b>87.8</b>	<b>70.2</b>	<b>3,134.1</b>	<b>5,682.5</b>

In addition to the above, £1.5m (2013: £1.7m) of investments are rated AA to AA+, £1.0m are rated BBB- to BBB+ (2013: £1.1m) and £2.7m (2013: £2.9m) 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 continued

for the year ended 31 December 2014

## 25. 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
<b>2014</b>					
Settlement balances	3,132.3	–	–	–	3,132.3
Trade payables	5.4	–	–	–	5.4
Sterling Notes July 2016	–	9.9	151.1	–	161.0
Sterling Notes June 2019	–	4.2	96.8	–	101.0
	3,137.7	14.1	247.9	–	3,399.7
<b>2013</b>					
Settlement balances	5,678.3	3.5	–	–	5,681.8
Trade payables	7.6	–	–	–	7.6
Sterling Notes August 2014	–	9.0	–	–	9.0
Sterling Notes July 2016	–	9.9	161.0	–	170.9
Sterling Notes June 2019	–	4.2	16.8	84.2	105.2
	5,685.9	26.6	177.8	84.2	5,974.5

### (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:

	2014		2013	
	USD £m	EUR £m	USD £m	EUR £m
Change in profit for the year	(0.8)	(0.6)	(1.3)	(0.9)

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 and money market instruments. The Sterling Notes are fixed rate financial instruments.

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:

	2014		2013	
	+100pts £m	-100pts £m	+100pts £m	-100pts £m
Income/(expense) arising on:				
– floating rate assets	2.7	(1.3)	2.8	(1.5)
– floating rate liabilities	–	–	(0.1)	0.1
Net income/(expense) for the year	2.7	(1.3)	2.7	(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
<b>2014</b>				
<b>Investments</b>				
– unlisted	–	–	4.2	4.2
– listed	1.0	–	–	1.0
<b>Financial assets</b>				
– short term government securities	8.3	–	–	8.3
	9.3	–	4.2	13.5
<b>2013</b>				
<b>Investments</b>				
– unlisted	–	–	4.6	4.6
– listed	1.1	–	–	1.1
<b>Financial assets</b>				
– short term government securities	9.1	–	–	9.1
	10.2	–	4.6	14.8

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

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 25. Financial instruments continued

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

Reconciliation of Level 3 fair value measurements of financial assets:

	2014 £m	2013 £m
Balance as at 1 January	4.6	4.5
Unrealised (loss)/gain in other comprehensive income	(0.4)	0.1
Balance as at 31 December	4.2	4.6

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

The revaluation loss of £0.4m relating to the revaluation of unlisted available-for-sale investments held at the balance sheet date is included within the 'Revaluation reserve'.

## 26. Share capital

	2014 No.	2013 No.
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 25p	243,516,227	217,739,704

	2014 £m	2013 £m
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 25p	60.9	54.4

25,776,523 ordinary shares were issued on 26 November 2014 with a fair value of £64.9m in connection with the acquisition of PVM Oil Associates Limited (Note 29).

## 27. Reconciliation of shareholders' funds

### (a) Share capital, Share premium account, Merger reserve

	Share capital £m	Share premium account £m	Merger reserve £m	Total £m
<b>2014</b>				
As at 1 January 2014	54.4	17.1	121.5	193.0
Issue of ordinary shares	6.5	–	58.4	64.9
Share issue costs	–	–	(1.4)	(1.4)
As at 31 December 2014	60.9	17.1	178.5	256.5
<b>2013</b>				
As at 1 January and 31 December 2013	54.4	17.1	121.5	193.0

### Merger reserve

On 26 November 2014 the Group issued 25,776,523 ordinary shares with a fair value of £64.9m to acquire the issued share capital of PVM Oil Associates Limited. The £58.4m difference between the nominal value of the shares issued and their fair value has been credited to the merger reserve. The costs associated with this share issue have been charged against the reserve. As at 31 December 2013 the merger 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 capital.

**(b) Other reserves**

	Reverse acquisition reserve £m	Revaluation reserve £m	Hedging and translation £m	Own shares £m	Other reserves £m
<b>2014</b>					
As at 1 January 2014	(1,182.3)	1.9	0.4	(0.1)	(1,180.1)
Revaluation of investments	–	(0.5)	–	–	(0.5)
Exchange differences on translation of foreign operations	–	–	7.4	–	7.4
Taxation charge on components of other comprehensive income	–	–	(0.2)	–	(0.2)
Total comprehensive income	–	(0.5)	7.2	–	6.7
As at 31 December 2014	(1,182.3)	1.4	7.6	(0.1)	(1,173.4)
<b>2013</b>					
As at 1 January 2013	(1,182.3)	2.4	7.7	(0.1)	(1,172.3)
Revaluation of investments	–	(0.5)	–	–	(0.5)
Exchange differences on translation of foreign operations	–	–	(7.5)	–	(7.5)
Taxation credit on components of other comprehensive income	–	–	0.2	–	0.2
Total comprehensive income	–	(0.5)	(7.3)	–	(7.8)
As at 31 December 2013	(1,182.3)	1.9	0.4	(0.1)	(1,180.1)

**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 are 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 initial equity share capital of Tullett Prebon plc and the share capital and share premium of Collins Stewart Tullett plc at the time of the acquisition. This resulted in the consolidated net assets before and after the acquisition remaining unchanged.

**Revaluation reserve**

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

**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 2014, the Tullett Prebon plc Employee Benefit Trust 2007 held 202,029 ordinary shares (2013: 202,029 ordinary shares) with a fair value of £0.6m (2013: £0.8m).

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 27. Reconciliation of shareholders' funds continued

### (c) Total equity

	Equity attributable to equity holders of the parent				Minority interests £m	Total equity £m
	Total from Note 27(a) £m	Total from Note 27(b) £m	Retained earnings £m	Total £m		
<b>2014</b>						
As at 1 January 2014	193.0	(1,180.1)	1,383.4	396.3	2.1	398.4
Profit for the year	–	–	24.6	24.6	0.4	25.0
Revaluation of investments	–	(0.5)	–	(0.5)	–	(0.5)
Exchange differences on translation of foreign operations	–	7.4	–	7.4	0.3	7.7
Remeasurement of the net defined benefit pension scheme asset	–	–	10.0	10.0	–	10.0
Taxation charge on components of other comprehensive income	–	(0.2)	(3.5)	(3.7)	–	(3.7)
Total comprehensive income	–	6.7	31.1	37.8	0.7	38.5
Dividends paid	–	–	(36.7)	(36.7)	(0.2)	(36.9)
Issue of ordinary shares	64.9	–	–	64.9	–	64.9
Share issue costs	(1.4)	–	–	(1.4)	–	(1.4)
Decrease in minority interests	–	–	(0.2)	(0.2)	(1.0)	(1.2)
Credit arising on share-based payment awards	–	–	1.2	1.2	–	1.2
As at 31 December 2014	256.5	(1,173.4)	1,378.8	461.9	1.6	463.5
<b>2013</b>						
As at 1 January 2013	193.0	(1,172.3)	1,348.8	369.5	2.5	372.0
Profit for the year	–	–	65.6	65.6	0.2	65.8
Revaluation of investments	–	(0.5)	–	(0.5)	–	(0.5)
Exchange differences on translation of foreign operations	–	(7.5)	–	(7.5)	(0.3)	(7.8)
Remeasurement of the net defined benefit pension scheme asset	–	–	7.2	7.2	–	7.2
Taxation credit/(charge) on components of other comprehensive income	–	0.2	(2.5)	(2.3)	–	(2.3)
Total comprehensive income	–	(7.8)	70.3	62.5	(0.1)	62.4
Dividends paid	–	–	(36.7)	(36.7)	(0.3)	(37.0)
Credit arising on share-based payment awards	–	–	1.0	1.0	–	1.0
As at 31 December 2013	193.0	(1,180.1)	1,383.4	396.3	2.1	398.4



## 28. Share-based payments

### Share option awards

As at 31 December 2014 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 2014 and their estimated fair values when granted are set out below:

	Awards outstanding 2014	Estimated fair value at grant date
<b>Awards</b>		
Long term incentive award (2009)	302,148	199p

The following table shows the number of share awards outstanding during 2014 and 2013:

	Share options No.
<b>2014</b>	
Outstanding at start of the year	1,061,558
Exercised during the year	–
Lapsed during the year	(759,410)
Outstanding at end of year	302,148
Exercisable at end of year	302,148
<b>2013</b>	
Outstanding at start of the year	1,746,891
Exercised during the year	(127,832)
Lapsed during the year	(557,501)
Outstanding at end of year	1,061,558
Exercisable at end of year	302,148

The weighted average exercise price for all awards is £nil (2013: £nil).

As at 31 December 2014 the weighted average contractual life of outstanding share-based awards was 4.5 years (2013: 7.5 years).

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 28. Share-based payments continued

During the year no share options were exercised (2013: 127,832). Share options under the long term incentive awards granted in 2011 and 2012 lapsed during the year.

The estimated fair value of each option granted under the long term incentive awards granted in 2009 was 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 model inputs for share option awards that existed as at 31 December 2014 are set out below:

	Long term incentive award <sup>(1)</sup> (2009)
Share price at date of grant (p)	284
Exercise price (p)	nil
Expected volatility	58%
Expected life (years)	3
Risk-free rate	2.2%
Expected dividend yield	4.5%
Expected volatility of comparator group	49%
Correlation with comparator group	27%
Retail Price Index	n/a
Proportion meeting service criteria	100%

Note:

(1) Was subject to total shareholder return and return on capital conditions.

	2014 £m	2013 £m
Charge arising from share-based option awards	0.3	1.0
Charge arising from acquisition related share-based payments (Note 29(a))	0.9	–
	1.2	1.0

## 29. Acquisitions

### (a) Subsidiaries acquired during the year

#### PVM Oil Associates Limited

On 26 November 2014 the Group issued 25.8m shares with a fair value of £64.9m to acquire 100% of the share capital of PVM Oil Associates Limited ('PVM'). Further deferred consideration with an estimated fair value of £5.8m, payable in shares or cash at the Group's discretion, is payable in 2017. Intangible assets arising on the consolidation of PVM amounted to £61.2m of which £51.7m relates to goodwill. Acquisition costs of £1.8m have been included in administrative expenses and £1.4m of equity issue costs have been charged against the merger reserve in equity.

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

	Fair value £m
<b>Net assets acquired</b>	
Property plant and equipment	1.0
Trade and other receivables	16.2
Cash and cash equivalents	17.5
Trade and other payables	(22.0)
Current tax	(1.1)
Provisions	(0.4)
Deferred tax	(1.7)
	9.5
<b>Intangible assets arising on consolidation</b>	
– other intangible assets	9.5
– goodwill	51.7
Fair value of total consideration	70.7
<b>Satisfied by:</b>	
– issue of ordinary shares	64.9
– deferred consideration	5.8
	70.7

Intangible assets arising on consolidation relate to the PVM brand, £1.5m, the value of customer relationships, £8.0m with the balance of £51.7m recognised as goodwill, representing the value of the established workforce and the business's reputation.

	£m
Goodwill arising on acquisition	51.7
Effect of movements in exchange rates	0.2
Goodwill at 31 December 2014	51.9

The revenue, underlying operating profit and underlying earnings for the period since the date of the acquisition were £7.5m, £1.5m and £1.1m respectively. Had PVM been acquired on 1 January 2014 revenue would have been £68.7m higher, underlying operating profit £11.4m higher and underlying earnings £8.8m higher.

As part of the acquisition of PVM, certain former shareholders are eligible to receive additional payments after three years' service provided they remain as employees and PVM achieves revenue performance targets over that period. The Group has the sole right to issue equity or cash to satisfy these additional payments, which although deferred consideration in substance, are conditional on future employment, and the fair value of the payments as at the date of acquisition, which was estimated to be US\$48.0m (£30.6m), is being recognised as a share-based expense, through the income statement and equity, over the three year service term. The share-based expense recognised in future periods will be adjusted to reflect actual service and revenue performance.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 29. Acquisitions continued

### Murphy & Durieu

On 31 December 2014 one of the Group's US subsidiaries hired a team of brokers which formed Murphy & Durieu L.P.'s primary fixed income interdealer brokering business. Consideration of US\$5.6m (£3.6m) was paid in cash. Deferred consideration with a fair value of US\$0.8m (£0.5m) is payable over a five year period subject to earnings targets. The fair value of the identifiable assets and liabilities acquired were negligible, resulting in the recognition of goodwill of US\$6.4m (£4.1m), attributable to the highly skilled workforce and the business's reputation. Given the nature of the acquisition it is impracticable to show the revenue and earnings for the full year as if acquired from the beginning of the year.

### (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 profit or loss.

	2014 £m	2013 £m
At 1 January	1.7	5.8
Acquisitions during the year	6.3	–
Unwind of discount	0.1	0.5
Cash paid	(0.7)	(2.3)
Credit taken to the income statement	(1.0)	(1.8)
Effect of movements in exchange rates	–	(0.5)
At 31 December	6.4	1.7
Amounts falling due within one year	0.1	1.4
Amounts falling due after one year	6.3	0.3
At 31 December	6.4	1.7

### (c) Purchase of minority interest

On 19 February 2014 Yamane Tullett Prebon (Japan) Limited ('YTP') became a wholly owned subsidiary when the Group acquired the 50% of equity not previously held. Prior to the purchase the Group was entitled to 60% of YTP's trading results and controlled the entity. Consideration of £1.2m was paid in cash. The change in minority interest is reflected within equity (Note 27(c)). YTP was subsequently renamed Tullett Prebon (Japan) Limited.

### 30. Reconciliation of operating result to net cash from operating activities

	2014 £m	2013 £m
<b>Operating profit</b>	47.6	100.2
Adjustments for:		
– Share-based compensation expense	1.2	1.0
– Pension scheme’s administration costs	0.6	–
– Depreciation of property, plant and equipment	6.5	5.5
– Amortisation of intangible assets	7.1	6.4
– Goodwill impairment	6.8	–
– Loss on disposal of property, plant and equipment	–	1.5
– Loss on derecognition of intangible assets	–	0.1
Increase/(decrease) in provisions for liabilities and charges	9.7	(5.1)
(Decrease)/increase in non-current liabilities	(1.6)	2.8
<b>Operating cash flows before movement in working capital</b>	77.9	112.4
Decrease in trade and other receivables	25.9	13.2
(Increase)/decrease in net settlement balances	(1.1)	0.4
Decrease in trade and other payables	(17.3)	(19.6)
<b>Cash generated from operations</b>	85.4	106.4
Income taxes paid	(15.9)	(27.5)
Interest paid	(16.7)	(16.8)
<b>Net cash from operating activities</b>	52.8	62.1

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 31. Analysis of net funds

	At 1 January £m	Cash flow £m	Non-cash items £m	Exchange rate movements £m	At 31 December £m
<b>2014</b>					
Cash	212.6	5.5	–	5.2	223.3
Cash equivalents	37.4	24.5	–	0.2	62.1
Client settlement money	1.6	0.1	–	–	1.7
Cash and cash equivalents	251.6	30.1	–	5.4	287.1
Financial assets	31.2	(20.6)	–	0.1	10.7
Total funds	282.8	9.5	–	5.5	297.8
Notes due within one year	(8.5)	8.5	–	–	–
Notes due after one year	(219.1)	–	(0.6)	–	(219.7)
	(227.6)	8.5	(0.6)	–	(219.7)
<b>Total net funds</b>	<b>55.2</b>	<b>18.0</b>	<b>(0.6)</b>	<b>5.5</b>	<b>78.1</b>
<b>2013</b>					
Cash	201.9	14.8	–	(4.1)	212.6
Cash equivalents	78.0	(39.8)	–	(0.8)	37.4
Client settlement money	1.6	–	–	–	1.6
Cash and cash equivalents	281.5	(25.0)	–	(4.9)	251.6
Financial assets	30.3	1.9	–	(1.0)	31.2
Total funds	311.8	(23.1)	–	(5.9)	282.8
Bank loans due within one year	(10.0)	10.0	–	–	–
Bank loans due after one year	(18.7)	20.0	(1.3)	–	–
Notes due after one year	–	–	(8.5)	–	(8.5)
Finance leases	(227.1)	–	8.0	–	(219.1)
	(255.8)	30.0	(1.8)	–	(227.6)
<b>Total net funds</b>	<b>56.0</b>	<b>6.9</b>	<b>(1.8)</b>	<b>(5.9)</b>	<b>55.2</b>

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 2014 cash and cash equivalents amounted to £287.1m (2013: £251.6m). 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.



## 32. 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.

## 33. Operating lease commitments

	2014 £m	2013 £m
Minimum operating lease payments recognised in the income statement	16.7	14.7

At 31 December 2014 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014		2013	
	Buildings £m	Other £m	Buildings £m	Other £m
Within one year	14.1	1.1	12.6	1.2
Within two to five years	41.3	0.5	36.3	0.6
Over five years	44.5	–	53.3	–
	99.9	1.6	102.2	1.8

## 34. Retirement benefits

### (a) Defined benefit schemes

The Group operates one defined benefit pension scheme in the UK, the defined benefit section of the Tullett Prebon Pension Scheme ('the Scheme'). In addition, there are a small number of schemes operated in other countries which collectively are not significant in the context of the Group.

The Scheme is a final salary, funded pension scheme that is closed to new members and future accrual. For members still in service there is a continuing link between benefits and pensionable pay. The Principal Employer is Tullett Prebon Group Limited.

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

The latest funding actuarial valuations of the Scheme was carried out as at 30 April 2013 by independent qualified actuaries.

The amounts included in the balance sheet arising from the Group's obligations in respect of the Scheme are as follows:

	2014 £m	2013 £m
Fair value of Scheme assets	255.7	226.1
Present value of Scheme liabilities	(193.6)	(175.6)
Defined benefit pension Scheme surplus	62.1	50.5
Deferred tax liability (Note 19)	(21.7)	(17.7)

# Notes to the Consolidated Financial Statements continued

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## 34. Retirement benefits continued

### (a) Defined benefit schemes continued

The main financial assumptions used by the independent qualified actuaries of the Scheme to calculate the liabilities under IAS 19 were:

	2014 %	2013 %
<b>Key assumptions</b>		
Discount rate	3.70	4.40
Expected rate of salary increases	4.55	4.95
Rate of increase in LPI pensions in payment <sup>(1)</sup>	2.20	2.60
Inflation assumption	2.20	2.70

Note:

(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%.

The mortality assumptions are based on standard mortality tables and allow for future mortality improvements and are the same as those adopted for the 2013 funding valuation. Assumptions for the Scheme are that a member who retires in 15 years' time at age 60 will live on average for a further 31.2 years (2013: 31.1 years) after retirement if they are male and for a further 32.6 years (2013: 32.5 years) after retirement if they are female. Current pensioners are assumed to have a generally shorter life expectancy based on their current age.

The valuation of the Scheme liabilities is sensitive to changes in the assumptions used. The effect of changes in the discount rate, inflation and mortality assumptions, assuming an independent change in one assumption with all others held constant, on the liabilities is shown below:

		Scheme assets £m	Scheme liabilities £m	Surplus/(deficit) £m
As at 31 December 2014		255.7	(193.6)	62.1
Following a 0.25% decrease in the discount rate	Change	0%	(4.6%)	(14.3%)
	New value	255.7	(202.5)	53.2
Following a 0.25% increase in the inflation assumption	Change	0%	(2.3%)	(7.1%)
	New value	255.7	(198.0)	57.7
Life expectancy increases by 3 years	Change	0%	(6.6%)	(20.6%)
	New value	255.7	(206.4)	49.3

Note:

The above analysis does not reflect any inter-relationship between the assumptions.

Changes to the risks inherent in the Scheme would result in changes to the Scheme's carrying value. The most significant risks are: investment performance – the liabilities are calculated using a discount rate set by reference to bond yields. If assets underperform this yield, this would result in the carrying value of the Scheme reducing; changes in bond yields – a decrease in corporate bond yields will increase the value placed on the Scheme's liabilities; inflation risk – some of the Scheme's liabilities are linked to inflation, and higher inflation would lead to higher liabilities (mitigated by a cap on the level of inflationary increases which protects against extreme inflationary increases); and life expectancy – the majority of the Scheme's obligations are for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The amounts recognised in the income statement in respect of the Scheme were as follows:

	2014 £m	2013 £m
Deemed interest arising on the defined benefit pension scheme surplus	2.2	1.9

Deemed interest arising on the defined benefit pension scheme surplus has been included within finance income (Note 8). Scheme expenses for the year of £0.6m (2013: £0.6m) have been included in administrative expenses.

The amounts recognised in other comprehensive income in respect of the Scheme were as follows:

	2014 £m	2013 £m
Return on Scheme assets (excluding deemed interest income) – Trustee administered funds	25.2	24.6
Return on Scheme assets (excluding deemed interest income) – revaluation of insurance policies	0.4	(6.8)
Actuarial (losses)/gains arising on the revaluation of insurance policies	(0.4)	6.8
Actuarial losses arising from changes in financial assumptions	(16.8)	(4.5)
Actuarial losses arising from changes in demographic assumptions	–	(6.6)
Actuarial gains/(losses) arising from experience adjustments	1.6	(6.3)
Remeasurement of the defined benefit pension scheme	10.0	7.2

Movements in the present value of the Scheme liabilities were as follows:

	2014 £m	2013 £m
At 1 January	(175.6)	(162.9)
Deemed interest cost	(7.6)	(7.1)
Actuarial (losses)/gains on the revaluation of insurance policies	(0.4)	6.8
Actuarial losses arising from changes in financial assumptions	(16.8)	(4.5)
Actuarial losses arising from changes in demographic assumptions	–	(6.6)
Actuarial gains/(losses) arising from experience adjustments	1.6	(6.3)
Benefits paid/transfers out	5.2	5.0
At 31 December	(193.6)	(175.6)

Movements in the fair value of the Scheme assets were as follows:

	2014 £m	2013 £m
At 1 January	226.1	204.3
Deemed interest income	9.8	9.0
Return on Scheme assets (excluding deemed interest income) – Trustee administered funds	25.2	24.6
Return on Scheme assets (excluding deemed interest income) – revaluation of insurance policies	0.4	(6.8)
Employer contributions	–	0.6
Benefits paid/transfers out	(5.2)	(5.0)
Administrative expense	(0.6)	(0.6)
At 31 December	255.7	226.1

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 34. Retirement benefits continued

### (a) Defined benefit schemes continued

The major categories and fair values of the Scheme assets as at 31 December were as follows:

	2014 £m	2013 £m
Cash and cash equivalents	6.4	3.8
Equity instruments		
– Consumer products	197.4	178.5
– Industrials	20.0	18.4
– Business services	26.6	20.5
	244.0	217.4
Insurance policies	4.5	4.2
Other receivables	0.8	0.7
At 31 December	255.7	226.1

All equity instruments have quoted prices in active markets. The Scheme does not hedge against foreign currency exposures or interest rate risk.

The Scheme duration is an indicator of the weighted average time until benefit payments are made. For the Scheme as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit liability between current employees (duration of 25 years), deferred members (duration of 23 years) and current pensioners (duration of 13 years).

The estimated amounts of contributions expected to be paid into the Schemes during 2015 is £nil.

### (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 £6.9m (2013: £7.0m), of which £2.0m (2013: £2.2m) related to overseas schemes.

As at 31 December 2014, there was £0.6m outstanding in respect of the current reporting period that had not been paid over to the schemes (2013: £0.6m).

### 35. Client money

Client money held was £1.7m (2013: £1.6m). This represents balances held by the Group received as a result of corporate actions relating to securities transactions.

### 36. 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 amounts owed to and from related parties and associates at 31 December 2014 are set out below:

	Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	2014 £m	2013 £m
Associates	0.5	0.4	–	–
Related parties	–	–	–	–

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 are 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 35 to 48.

	2014 £m	2013 £m
Short term benefits	2.5	4.1
Share-based payment expense	0.4	1.0
Social security costs	0.3	0.6
	3.2	5.7

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

## 37. Principal subsidiaries and undertakings

At 31 December 2014, the following companies were the Group's principal trading subsidiary undertakings, principal intermediate holding companies and associates.

	Country of incorporation and operation	Principal activities	Issued ordinary shares, all voting
<b>Subsidiary undertakings</b>			
Tullett Prebon (Australia) Pty. Limited	Australia	Broking	100%
Marshalls (Bahrain) WLL <sup>(1)</sup>	Bahrain	Broking	70%
Tullett Liberty (Bahrain) Company W.L.L.	Bahrain	Broking	85%
PVM Oil Associates Limited	Bermuda. Operating in England	Broking	100%
Tullett Prebon Holdings do Brasil Ltda.	Brazil	Holding company	100%
Tullett Prebon Brasil 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%
PVM Oil Futures Limited	England	Broking	100%
Tullett Prebon Information Limited	Guernsey. Operating in England	Information sales	100%
Tullett Prebon (Hong Kong) Limited	Hong Kong	Broking	100%
PT. Inti Tullett Prebon Indonesia	Indonesia	Broking	57.52%
Tullett Prebon FXO (Japan) Limited (formerly Tullett Prebon (Japan) Limited)	Japan	Broking	100%
Tullett Prebon (Japan) Limited (formerly Yamane Tullett Prebon (Japan) Limited)	Japan	Broking	100%
Tullett Prebon Money Brokerage (Korea) Limited	Korea	Broking	100%
Tullett Prebon México SA de CV	Mexico	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%
PVM Oil Associates Pte Ltd	Singapore	Broking	100%
PVM Oil Futures Pte Ltd	Singapore	Broking	100%
Tullett Prebon South Africa (Pty) Limited	South Africa	Broking	100%
Cosmorex A.G.	Switzerland	Broking	100%
Tullett Prebon (Dubai) Limited	UAE	Broking	100%



	Country of incorporation and operation	Principal activities	Issued ordinary shares, all voting
<b>Subsidiary undertakings</b>			
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%
tpSEF Inc.	USA	Broking	100%
PVM Oil Associates Inc.	USA	Broking	100%
PVM Oil Futures Inc.	USA	Broking	100%
Tullett Prebon Information Inc.	USA	Information sales	100%

Note:

(1) The Group's interest in the trading results is 90%.

All the above subsidiary undertakings are owned indirectly, with the exception of Tullett Prebon Group Holdings plc and PVM Oil Associates Limited, which are owned directly. They all have a 31 December year end with the exception of Tullett Prebon (Japan) Limited (formerly Yamane Tullett Prebon (Japan) Limited), which has a 31 March year end.

As at 31 December 2014, £1.6m (2013: £2.1m) is due to minority interests relating to those subsidiaries that are not wholly owned. Movement in minority interests is set out in Note 27(c). No individual minority interest is material to the Group. There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities relating to these subsidiaries.

	Country of incorporation and operation	Principal activities	Issued ordinary shares, all voting
<b>Associates</b>			
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.

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.

### 38. Events after the balance sheet date

The action taken by the Company and certain of its subsidiaries against BGC in the New Jersey Superior Court, alleging claims for racketeering, unfair competition, misappropriation of confidential information and trade secrets, and tortious interference, was concluded in January 2015.

The Company entered into an agreement with BGC on 13 January 2015 under which BGC will pay \$100m (£66m) to the Company to settle the litigation in the New Jersey Superior Court. The settlement agreement also settles all other outstanding litigation between the parties, which will now be dismissed.

The first \$25m of the \$100m settlement was paid to the Company in January 2015, and the balance of \$75m will be paid to the Company before the end of March 2015. The income will be taxed in the UK at the standard rate of corporation tax applicable in 2015.

# Company Balance Sheet

as at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Fixed assets</b>			
Investment in subsidiary undertakings	4	1,040.8	957.6
<b>Current assets</b>			
Cash and cash equivalents		30.9	14.8
Prepayments and accrued income		0.7	1.3
		31.6	16.1
Creditors: amounts falling due within one year	5	(5.4)	(12.3)
<b>Net current assets</b>		26.2	3.8
<b>Total assets less current liabilities</b>		1,067.0	961.4
Creditors: amounts falling due after one year	5	(84.9)	(78.9)
<b>Net assets</b>		982.1	882.5
<b>Capital and reserves</b>			
Called-up share capital	6	60.9	54.4
Share premium	7	17.1	17.1
Merger reserve	7	57.0	–
Own shares	7	(0.1)	(0.1)
Profit and loss account	7	847.2	811.1
<b>Shareholders' funds</b>		982.1	882.5

The Financial Statements of Tullett Prebon plc (registered number 5807599) were approved by the Board of Directors and authorised for issue on 3 March 2015 and are signed on its behalf by

**John Phizackerley**

Chief Executive

# Notes to the Financial Statements

for the year ended 31 December 2014

## 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 26 of the Directors' 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.

### (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'.

# Notes to the Financial Statements continued

for the year ended 31 December 2014

## 2. Significant accounting policies continued

### (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 2014 of £71.6m (2013: profit £59.4m).

The auditor's remuneration for audit services to the Company was £0.4m (2013: £0.4m).

## 4. Investments in subsidiary undertakings

	2014 £m	2013 £m
<b>Cost</b>		
At 1 January	957.6	905.7
Capital contribution arising on share-based awards	1.2	1.0
Increase in investment in subsidiary undertaking	11.3	50.9
Acquisition of subsidiary	70.7	–
At 31 December	1,040.8	957.6

### PVM Oil Associates Limited

On 26 November 2014 the Company issued 25.8m shares with a fair value of £64.9m to acquire 100% of the share capital of PVM Oil Associates Limited ('PVM'). Further deferred consideration with an estimated fair value of £5.8m, payable in shares or cash at the Company's discretion, is payable in 2017. Acquisition costs of £1.8m have been included in administrative expenses and £1.4m of equity issue costs have been charged against merger reserve.

## 5. Creditors

	2014 £m	2013 £m
<b>Amounts falling due within one year</b>		
Accruals and deferred income	2.6	1.2
Amounts due to Group undertakings	2.8	11.1
	5.4	12.3
<b>Amounts falling due after one year</b>		
Sterling Notes June 2019	79.1	78.9
Deferred consideration	5.8	–
	84.9	78.9

### Sterling Notes: Due June 2019

In 2012 the Company issued 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 2014, the carrying value of Sterling Notes due 2019, together with unamortised transaction costs, amounted to £79.1m and their fair value was £82.4m (2013: £82.3m).

## 6. Called-up share capital

	2014 No.	2013 No.
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 25p	243,516,227	217,739,704

	2014 £m	2013 £m
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 25p	60.9	54.4

25,776,523 ordinary shares were issued on 26 November 2014 with a fair value of £64.9m in connection with the acquisition of PVM Oil Associates Limited.

# Notes to the Financial Statements continued

for the year ended 31 December 2014

## 7. Reconciliation of shareholders' funds

	Called-up share capital £m	Share premium account £m	Merger reserve £m	Own shares £m	Profit and loss account £m	Total shareholders' funds £m
<b>2014</b>						
Balance at 1 January 2014	54.4	17.1	–	(0.1)	811.1	882.5
Profit for the year	–	–	–	–	71.6	71.6
Dividends paid	–	–	–	–	(36.7)	(36.7)
Credit arising on share-based awards	–	–	–	–	1.2	1.2
Issue of ordinary shares	6.5	–	58.4	–	–	64.9
Share issue costs	–	–	(1.4)	–	–	(1.4)
Balance at 31 December 2014	60.9	17.1	57.0	(0.1)	847.2	982.1
<b>2013</b>						
Balance at 1 January 2013	54.4	17.1	–	(0.1)	787.4	858.8
Profit for the year	–	–	–	–	59.4	59.4
Dividends paid	–	–	–	–	(36.7)	(36.7)
Credit arising on share-based awards	–	–	–	–	1.0	1.0
Balance at 31 December 2013	54.4	17.1	–	(0.1)	811.1	882.5

At 31 December 2014 the Company's distributable reserves amounted to £847.2m (2013: £811.1m).

### Merger reserve

On 26 November 2014 the Company issued 25,776,523 ordinary shares with a fair value of £64.9m to acquire the issued share capital of PVM Oil Associates Limited. The £58.4m difference between the nominal value of the shares issued and their fair value has been credited to the merger reserve. The costs associated with this share issue have been charged against the reserve.

### Own shares

As at 31 December 2014, the Tullett Prebon plc Employee Benefit Trust 2007 held 202,029 ordinary shares (2013: 202,029 ordinary shares) with a fair value of £0.6m (2013: £0.8m).

## 8. Events after the balance sheet date

The action taken by the Company and certain of its subsidiaries against BGC in the New Jersey Superior Court, alleging claims for racketeering, unfair competition, misappropriation of confidential information and trade secrets, and tortious interference, was concluded in January 2015.

The Company entered into an agreement with BGC on 13 January 2015 under which BGC will pay \$100m (£66m) to the Company to settle the litigation in the New Jersey Superior Court. The settlement agreement also settles all other outstanding litigation between the parties, which will now be dismissed.

The first \$25m of the \$100m settlement was paid to the Company in January 2015, and the balance of \$75m will be paid to the Company before the end of March 2015. The income will be taxed in the UK at the standard rate of corporation tax applicable in 2015.



**Tullett Prebon plc**  
Tower 42 Level 37  
25 Old Broad Street  
London EC2N 1HQ  
United Kingdom  
[www.tullettprebon.com](http://www.tullettprebon.com)

# Shareholder Information

## Financial calendar for 2015

**23 April**

Ex-dividend Date

**24 April**

Dividend Record Date

**6 May (2.00pm)**

Annual General Meeting

**14 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 Asset Services 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](http://www.tullettprebon.com)) which allows access to share price information, Directors' biographies, copies of Company reports, selected press releases and other useful investor information.

### Registered office

Tullett Prebon plc  
Tower 42, Level 37  
25 Old Broad Street  
London EC2N 1HQ  
United Kingdom  
Tel: +44 (0)20 7200 7000  
Website: [www.tullettprebon.com](http://www.tullettprebon.com)

### Registrar

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: 0871 664 0300\*  
From overseas: +44 (0)20 8639 3399

\* Calls cost 10p per minute plus network extras.

To access and maintain your shareholding online: [www.capitashareportal.com](http://www.capitashareportal.com)

### Auditor

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Hill House  
1 Little New Street  
London EC4A 3TR  
United Kingdom  
[www.deloitte.com](http://www.deloitte.com)

Tullett Prebon plc is a company incorporated and registered in England and Wales with number 5807599



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