

# TULLETT PREBON PLC

## PRELIMINARY RESULTS – for the year ended 31 December 2009

Tullett Prebon plc today announced its preliminary results for the year ended 31 December 2009.

### Financial Highlights

- Revenue £947.7m (2008: £943.6m)
- Operating profit<sup>1</sup> £170.8m (2008: £175.1m)
- Operating margin<sup>1</sup> 18.0% (2008: 18.6%)
- Adjusted Profit before tax<sup>2</sup> £157.0m (2008: £155.4m)
- Adjusted EPS<sup>3</sup> 49.2p (2008: 47.1p)

#### Notes

1. Operating profit and operating margin for 2008 are stated before exceptional items
2. Adjusted Profit before Tax is stated before non cash gains and losses in net finance income / (expense) and for 2008 is before exceptional items. A reconciliation of Adjusted Profit before Tax to the Reported Profit before Tax of £156.5m (2008: £137.0m) is shown in the Financial Review
3. Adjusted EPS is stated before non cash gains and losses in net finance income / (expense) net of tax, prior year tax items, and for 2008 is before exceptional items

### Commenting on the results, Keith Hamill, Chairman of Tullett Prebon plc, said:

“The robust performance of the business during 2009 has been achieved despite circumstances and events which have not always been helpful. It reflects the value of the service that the business provides to participants in the world’s over-the-counter (“OTC”) financial markets, the continuing underlying need for those markets and the benefits of actions taken by management.

Revenue of £947.7m is slightly higher than reported for 2008. The operating margin for 2009 is 18.0%, reflecting the active management of our front office costs, the benefit of the actions taken at the end of 2008 to reduce fixed support costs, the investments made in increasing the scale and breadth of the business, and strong management control.

After lower financing costs, adjusted profit before tax of £157.0m compared with £155.4m in 2008. With a reduction in the effective tax rate to 33.8%, adjusted basic earnings per share were up 4% to 49.2p.

The business has low capital requirements and excellent cash flow characteristics. Operating cash flow for the year was £137.9m and at the end of the year net funds amounted to £9.0m (2008: net debt of £17.4m). Since the return of £301.5m of capital to shareholders in early 2007 the business has reported net cash flow before dividends and debt repayments of £250m and over the same period has paid £76m of dividends to shareholders.

The Board recognises that dividends are an important element of shareholder return and is recommending a final dividend of 10.0p per share, making the total dividend for the year 15.0p, an increase of 18% on the 12.75p per share paid for 2008. The final dividend will be payable on 20 May 2010 to shareholders on the register on 30 April 2010.”

**Terry Smith, Chief Executive, added:**

“Although the world’s financial markets have remained unsettled, overall activity in the markets slowed in the second half of 2009 in comparison to the particularly volatile markets experienced in the autumn of 2008 and into the first half of last year and, as expected, activity currently remains at this more normal level.

The underlying revenue run rate in the first two months of the year is 5% lower than a year ago at constant exchange rates. We expect this run rate against prior year to improve, particularly in the second half. In addition, the net effect of the broker defections in North America has been to reduce revenue by 6%. The benefit from the actions that we have taken to mitigate the impact of the broker defections will increase during the year as the rebuilding programme continues and the new brokers hired build up to their full run rate of revenue.

The eventual outcome of the regulatory debate about how to strengthen the financial system remains uncertain, but we are confident that our role as an intermediary in the OTC markets will continue to be vital and that our business will continue to add significant value to our customers. We have a well diversified and robust business, and we are well positioned to respond to and to benefit from, changes in the way in which the OTC markets and our customers operate and are regulated.”

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Further information on the Company and its activities is available on the Company’s website: [www.tullettprebon.com](http://www.tullettprebon.com)

## **Overview**

The strong financial results for 2009 reflect the robustness of the business and the value of the service that it provides to participants in the world's over-the-counter ("OTC") financial markets, as well as the benefits of the investments made in increasing the scale and breadth of the business and the actions taken to control costs.

Activity in many of the markets in which we operate was lower during 2009 than 2008, particularly in the second half when activity in 2008 was boosted by the upheaval in financial markets following the collapse of Lehman Brothers.

Revenue of £947.7m is slightly higher than reported for 2008, with lower underlying revenue due to reduced levels of market activity offset by more favourable translation exchange rates for our North American and Asian operations. Operating profit of £170.8m is £4.3m lower than for 2008, reflecting a reduction in operating margin. Given that there is some operational leverage in the business, operating margins are adversely affected by lower levels of underlying revenue, but at 18.0% for 2009 are only a little lower than the 18.6% for 2008. This reflects the active management of our front office costs, the benefit of the actions taken at the end of 2008 to reduce fixed support costs, and strong management control.

There has been significant structural change in the banking industry and adjustments to the business models of many of our customers following the unprecedented events in the world's financial markets during 2008, including a reduction in risk appetite and financial sector leverage. This has resulted in a move of capital away from more complex structured products towards the more traditional 'flow' products, towards cash products rather than derivatives, and towards first derivatives rather than complex secondary and tertiary derivatives. Volumes in emerging markets products, volatility products and equity related products have been particularly affected. The majority of our business, however, is in the more traditional 'flow' products of foreign exchange and interest rate swaps – although volumes were also generally lower in these areas than in 2008 – and in government bonds and corporate bonds – where the level of activity during the year was supported by high levels of issuance.

The wholesale OTC markets are critical to the effective functioning of the world's financial system. Tullett Prebon, as the world's second largest inter-dealer broker ("IDB"), has a vital role in facilitating trading in these markets by finding and creating liquidity through price and volume discovery, and by providing clients with anonymity in their trading activities.

Politicians and regulators continue to debate the various proposals put forward in both the US and Europe to improve the efficiency and robustness of OTC derivatives markets – our own views on these matters are articulated below. We believe that the effective and efficient operation of OTC markets will continue to rely on intermediaries to provide liquidity and appropriate infrastructure to facilitate trading and risk management, and our expertise and depth of liquidity pools make us well positioned to continue to provide valuable support to our clients and to take advantage of opportunities that these proposals create.

Our strategy is to continue to focus on providing services as an intermediary in wholesale OTC markets, and to continue to build a business with the scale and breadth to deliver superior performance and returns, whilst maintaining strong financial management disciplines.

The business is well diversified across both products and geographies and our performance in 2009 has benefited from the investments made in the last two years in increasing the scale and breadth of the business. In particular, our business in Europe has benefited from the investments made in Credit through both broker hires and the launch of an electronic broking platform, and in Energy through the acquisitions of Primex and Aspen. Some of the emerging markets offer significant opportunities as their wholesale financial markets continue to develop and in October 2009 we announced that we had reached agreement to acquire Convencao, one of the leading and most well respected interdealer brokers in Brazil, marking our entry to the on-shore Latin American market. The acquisition is conditional on approval from the Brazilian authorities, including the Central Bank of Brazil, and is expected to complete in the second quarter of 2010.

We have continued to develop our electronic capabilities and market share. Our focus is on the 'hybrid' model under which electronic platforms build upon and support the business' excellent voice broking franchise and high level technology to create a set of tools that enable our brokers to provide a full broking service to meet client demand. We have a growing suite of efficient and stable electronic platforms which are competitive with similar platforms provided by our peers.

In addition, we are developing our post trade risk management services. In response to client demand we have extended the coverage of TP Match, our FRA matching platform, to all major currencies in multiple tenors, enabling clients in all three regions to reduce their interest rate risk. The recently announced acquisition of OTC Valuations will complement our Information Sales business and will allow us to meet the increasing demand for independent valuation services. Revenues from our established Information Sales activities together with 'hybrid' revenues from products that have established electronic execution capability now represent approximately one-sixth of the group's total revenue.

Between August and December 2009, 77 brokers on certain desks in our North American business resigned following a raid on the business by BGC. Although these brokers did generate substantial revenue, actions are being taken to strengthen the management and organisation of our North American business, including replacing staff. We have hired new senior management to lead our credit and mortgage backed securities activities and are making progress in recruiting brokers in these and other affected areas. Legal action is being taken against BGC and former employees in the US and also in London, and against former employees in Hong Kong who have unlawfully terminated their employment with us in order to join BGC, following raids earlier in the year on our London and Hong Kong businesses.

Our key financial and performance indicators for 2009 compared with those for 2008 are summarised in the table below.

	2009	2008	Change	
			Reported	Constant Exchange Rates
Revenue	£947.7m	£943.6m	+ 0%	-9%
Operating profit	£170.8m	£175.1m	-2%	-11%
Operating margin	18.0%	18.6%	-0.6% points	
Broker headcount (year end)	1,612	1,653	-2%	
Average revenue per broker (£'000)	565	548	+ 3%	-7%
Broker employment costs : broking revenue	58.0%	57.5%	+ 0.5% points	
Non-broker headcount (year end)	824	889	-7%	

Reported revenue in 2009 of £947.7m was slightly higher than 2008, and was 9% lower at constant exchange rates. Year end broker headcount was 2% lower, and average revenue per broker at £565k was 7% lower at constant exchange rates. The reduction in broker headcount reflects the impact of the cost reduction action taken at the end of 2008 and the decline in headcount in North America due to the defection of the brokers in the second half of the year, which has offset increased headcount in Europe and Asia Pacific.

Reported operating profit for 2009 of £170.8m is 2% lower than in 2008 and is 11% lower at constant exchange rates. The operating margin has reduced by 0.6% points to 18.0%. The objectives of the cost reduction action undertaken towards the end of 2008 to increase flexibility in front office costs and to reduce absolute support costs have been delivered. Broker compensation as a percentage of broking revenue has, however, increased by 0.5% points to 58.0%, driven by increases in North America and Asia due to inefficiencies in certain desks as a result of revenue declines, and generally increased costs of employment across the business as a result of competitive pressures. Support costs have been significantly reduced, driven by reductions in headcount. Non-broker headcount of 824 at the end of 2009 is 7% lower than at the end of 2008 and 13% lower than at June 2008.

### **Operating Review**

The tables below analyse revenue and operating profit for 2009 compared with 2008. A significant proportion of the group's activity is conducted outside the UK and the reported results are therefore impacted by the movement in the foreign exchange rates used to translate the results of non-UK operations. In order to give a more meaningful analysis of performance, revenue and operating profit growth rates for 2009 shown below are presented both as reported, and calculated using translation exchange rates for 2008 consistent with those used for 2009. The commentary below refers to growth rates at constant exchange rates.

Revenue by product group	Change			
	2009 £m	2008 £m	Reported	Constant Exchange Rates
Treasury Products	238.9	246.1	-3%	-12%
Interest Rate Derivatives	192.0	220.9	-13%	-22%
Fixed Income	317.1	282.1	+12%	+2%
Equities	74.0	94.2	-21%	-29%
Energy	100.6	81.5	+23%	+13%
Information Sales and Risk Management Services	25.1	18.8	+34%	+32%
	947.7	943.6	+0%	-9%

Revenue in many product areas was lower in 2009 than in 2008, reflecting the lower activity in the markets, particularly during the second half, when revenue in 2008 was boosted by the exceptional levels of volatility during the height of the financial crisis.

Within Treasury Products, which covers FX and cash, the reduction in revenue is most marked in FX options and in emerging market FX forwards, including non-deliverable forwards, reflecting the reduction in risk appetite and capital deployed in those areas.

Similarly, within Interest Rate Derivatives, the reduction in market activity in the product areas of interest rate options and emerging market interest rate swaps was more marked than the reduction in G7 currency interest rate swaps.

The growth in revenue in Fixed Income reflects the strength of our franchise in this area, and the high volume of activity in government and corporate bonds in both Europe and North America, especially in the first half. Activity in credit derivatives in both regions has suffered due to regulatory uncertainty, and in North America revenue in the last quarter was affected by the broker departures.

In Equities, revenue from both equity derivatives and cash equities was lower reflecting lower equity market values and lower activity.

Commodity markets have continued to be volatile and our Energy business has benefited from this and from the increased depth and breadth of the business from the acquisitions of Primex and Aspen enhancing our presence and liquidity in a wide range of oil products.

Our Information Sales business has continued to benefit from increasing customer demand for both real time and end of day data and from an expansion of the customer base. In addition, our post trade Risk Management Services have grown strongly following the extension of the product and geographic coverage of TP Match.

Revenue by region	2009 £m	2008 £m	Change	
			Reported	Constant Exchange Rates
Europe	542.6	504.1	+8%	+7%
North America	318.0	339.6	-6%	-23%
Asia Pacific	87.1	99.9	-13%	-30%
	947.7	943.6	+0%	-9%

### Europe

Revenue in Europe has increased by 7%. Broker headcount in Europe at 788 is 4% higher than a year ago and average revenue per broker has increased by 3%. The business has delivered strong growth in revenue in Fixed Income and Energy, benefiting from buoyant markets and the investments made in these areas over the last two years. Revenue in Treasury Products and Interest Rate Derivatives has been affected by lower activity in emerging market products. The Equities business, which is the smallest product group in Europe, is mainly focused on equity derivatives which have suffered from both lower equity market values and lower volumes.

In Fixed Income we have maintained our leading position in government bonds and have re-established our presence and gained market share in corporate bonds and credit derivatives following the actions taken in 2008, including the highly successful launch of tpCREDITDEAL, our electronic platform. The region's Energy business has benefited from the expansion of coverage of a wide range of oil products through the acquisitions in 2008 of Primex and Aspen, and from the investments made in establishing a presence in new products including emissions, bio-fuels and coal.

### North America

In North America, revenue fell by 23%. Year end broker headcount at 468 is 14% lower than at the end of 2008 due to the rationalisation and closure of marginal desks during the year and the broker departures in the last quarter. Average revenue per broker has also fallen compared with 2008 due to the generally lower levels of activity in most products, with the reduction in activity most marked in emerging market products, volatility products and cash equities.

Fixed Income continues to be the largest product group in the region and revenue in this area slowed significantly in the second half following a buoyant start to the year, with the market in credit derivatives particularly hit. In most other product areas the performance relative to 2008 was stronger in the second half than in the first half.

### Asia

Our business in Asia is predominantly focused on Treasury Products and Interest Rate Derivatives, which account for 90% of the region's revenue. We have maintained our

market share in our major products across the region but market activity was low throughout the year and revenue fell by 30%, with average revenue per broker 25% lower and average broker headcount also down. Revenue run rates began to stabilise during the second half and revenue in the last two months of the year was higher than in 2008.

Although the three largest centres in the region, Singapore, Hong Kong and Tokyo, continue to account for over 80% of the region's revenue, we have well established businesses in several other Asia Pacific financial centres, including our joint venture in Shanghai. The Energy business in the region has increased in scale with the addition of Aspen's Singapore based team, and we have established a securities business in Tokyo to provide brokerage services, initially in equity derivatives, which was granted its license and commenced operations in February 2010. Year end broker headcount in Asia at 356 is 2% higher than at the end of 2008. We are well positioned to benefit from the region's return to growth.

**Operating profit<sup>1</sup> by region**

	2009 £m	2008 £m	Change	
			Reported	Constant Exchange Rates
Europe	123.2	108.1	+14%	+13%
North America	44.4	57.8	-23%	-37%
Asia Pacific	3.2	9.2	-65%	-72%
Reported	170.8	175.1	-2%	-11%

**Operating margin<sup>1</sup> by region**

	2009	2008
Europe	22.7%	21.4%
North America	14.0%	17.0%
Asia Pacific	3.7%	9.2%
	18.0%	18.6%

Note 1. Operating profit and operating margin for 2008 are stated before exceptional items.

Operating profit in Europe has increased by 13%, with the operating margin increasing to 22.7%. The increased operating margin in Europe primarily reflects the increased scale of the business and the actions taken to reduce both front office and support costs. Broker employment costs as a percentage of revenue have reduced compared with 2008 reflecting the benefit from the actions taken at the end of that year, and the elimination of the inefficiencies experienced during 2008 resulting from the large number of brokers who joined the business building up to their full run rate of revenues.

Operating profit in North America has reduced by 37% and the operating margin has fallen to 14.0% mainly due to the reduction in revenue. Support costs have been reduced, but represent a higher percentage of revenue in 2009 than in 2008. Broker employment costs as a percentage of revenue also increased during the year due to inefficiencies in certain desks as a result of revenue declines, together with increased costs of employment in the light of competitor action.

The business in Asia Pacific has a higher level of operational gearing than the other two regions due to the relatively high level of fixed support costs incurred in maintaining a presence across a number of centres. Operating profit in Asia has been driven lower by the reduction in revenue with the operating margin falling to 3.7%. Broker employment costs as a percentage of revenue have increased due to the combination of revenue declines and increasing competition.

## **Financial Review**

The results for 2009 compared with those for 2008 are shown in the table below.

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Revenue	947.7	943.6
Operating profit <sup>1</sup>	170.8	175.1
Cash finance expense	(13.8)	(19.7)
Adjusted Profit before tax <sup>2</sup>	157.0	155.4
Tax	(53.0)	(56.0)
Associates	1.8	1.3
Minority interests	(0.6)	(0.5)
Adjusted Earnings <sup>3</sup>	105.2	100.2
Weighted average number of shares	213.9m	212.8m
Adjusted Earnings per share	49.2p	47.1p

Note 1. Operating profit for 2008 is stated before exceptional items

Note 2. Adjusted PBT reconciles to reported PBT as follows:

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Adjusted Profit before tax	157.0	155.4
Exceptional items	-	(19.5)
Non cash finance (expense)/income	(0.5)	1.1
Reported Profit before tax	156.5	137.0

Note 3. Adjusted Earnings reconciles to reported Earnings as follows:

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Adjusted Earnings	105.2	100.2
Exceptional items	-	(19.5)
Tax relief on exceptional items	-	5.8
Non cash finance (expense)/income	(0.5)	1.1
Deferred tax on non cash finance (expense)/income	0.2	(0.4)
Prior year tax items	5.9	7.3
Reported Earnings	110.8	94.5

### Finance Income/(Expense)

The cash finance expense primarily comprises the interest payable on the fixed rate bonds and the floating rate bank debt, partly offset by the interest income on cash deposits. The reduction in cash finance expense in 2009 compared to 2008 reflects the lower average amount of bank debt outstanding and the net benefit of lower interest rates, with the reduction in interest payable on the bank debt greater than the reduction in yield on the cash balances.

Non cash finance income/(expense) items are excluded from adjusted profit before tax and adjusted earnings. These items comprise the mark to market movements on derivative financial instruments held at fair value through profit and loss, the amortisation of discount on deferred consideration and the expected return and interest on pension scheme assets and liabilities. In 2008 the pension related items netted to a credit of £1.6m, in 2009 these items netted to a charge of £0.5m.

### Tax

The effective rate of tax on adjusted profit before tax is 33.8% (2008: 36.0%). The reduction in the effective rate compared with 2008 results primarily from the increase in the proportion of taxable profits generated in the UK relative to the US, together with the full year benefit of last year's reduction in the UK statutory rate.

Tax charges and credits arising on non cash finance income/(expense) items and prior year tax items are excluded from the calculation of the effective tax rate on adjusted profit before tax. Prior year tax items primarily reflect the release of tax provisions made in previous years as tax matters are settled, and do not relate to current trading.

### Adjusted Basic EPS

Adjusted Basic EPS is calculated using adjusted earnings shown in the table above and the undiluted weighted average number of shares in issue of 213.9m (2008: 212.8m).

### Exchange and Hedging

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

The balance sheets of the group's non-UK operations are translated into sterling using year end exchange rates. The major balance sheet translation exposure is to the US dollar. Until October 2008, the group had designated a cross currency interest rate swap as a net investment hedge of US\$117m of the US dollar denominated net assets. At that time the group decided to discontinue the hedging of this balance sheet translation exposure. The swap was therefore de-designated as a net investment hedge and a forward FX contract was executed to close out the FX position inherent in the swap. Both the cross currency interest rate swap and the forward FX contract matured in August 2009.

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

	<b>Average</b>		<b>Year End</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
US dollar	\$1.55	\$1.89	\$1.61	\$1.44
Euro	€1.12	€1.28	€1.13	€1.03
Singapore dollar	S\$2.26	S\$2.65	S\$2.27	S\$2.08
Japanese Yen	¥145	¥198	¥150	¥130

### Cash flow and financing

Cash flow before dividends and debt repayments and draw downs is summarised in the table below.

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Operating profit <sup>1</sup>	170.8	175.1
Share based compensation	(0.4)	4.9
Depreciation and amortisation	8.2	7.8
<b>EBITDA</b>	<b>178.6</b>	<b>187.8</b>
Capital expenditure (net of disposals)	(9.4)	(14.9)
Working capital	(31.3)	20.2
<b>Operating cash flow</b>	<b>137.9</b>	<b>193.1</b>
Exceptional items – restructuring cash payments	(6.8)	(1.4)
Interest	(11.7)	(18.8)
Maturity of derivative financial instruments	(10.0)	-
Taxation	(30.4)	(39.1)
Defined benefit pension scheme funding	(8.1)	(3.2)
ESOT transactions	1.5	-
Dividends received from associates/(paid) to minorities	1.2	(0.5)
Acquisitions/investments	(3.5)	(3.9)
<b>Cash flow</b>	<b>70.1</b>	<b>126.2</b>

Note 1. Operating profit for 2008 is stated before exceptional items

In 2009 the group has delivered a substantial operating cash flow, representing more than 80% of operating profit. The working capital outflow of £31.3m in 2009 reflects the unwind of the inflow in 2008 which was due to the unusually high levels of bonus accruals at the end of that year as a result of the high level of activity in the second half, and an increase in the broker sign-on prepayment balance. Net capital expenditure of £9.4m mainly relates to investment in electronic platforms and office fit-out work, including a new data centre in New Jersey, and was slightly higher than depreciation and amortisation.

The exceptional items cash payments of £6.8m in 2009 represent the completion of the cash outflows arising from the cost reduction actions taken at the end of 2008.

Interest payments in 2009 were lower than in 2008, in line with the lower profit and loss charge.

The maturity of derivative financial instruments, primarily the cross currency interest rate swap and the forward FX contract executed to close out the FX position inherent in the swap, resulted in a net cash outflow of £10.0m.

Tax payments in 2009 were lower than in 2008 mainly due to the increase in the proportion of the 2009 tax charge arising in the UK, where half of the liability is paid in the following year.

The group makes regular contributions to its defined benefit pension schemes to match the benefits paid and scheme expenses, and in January 2009 paid an additional £4.5m of contributions under agreements with the trustees of the schemes aimed at eliminating the actuarial deficits by 31 December 2010. Additional contributions of £4.5m have also been made in January 2010.

Expenditure on acquisitions and investments in 2009 mainly comprises deferred consideration payments relating to Chapdelaine and Primex.

The movement in cash and debt is summarised below.

<b>£m</b>	<b>Cash</b>	<b>Debt</b>	<b>Net</b>
At 31 December 2008	405.2	(422.6)	(17.4)
Cash flow	70.1	-	70.1
Dividends	(27.8)	-	(27.8)
Debt repayments / draw downs	(33.6)	33.6	-
Debt issue costs	(2.5)	2.5	-
Effect of movement in exchange rates	(15.2)	0.3	(14.9)
Movements in fair value / amortisation of costs	-	(1.0)	(1.0)
At 31 December 2009	<u>396.2</u>	<u>(387.2)</u>	<u>9.0</u>

At 31 December 2009 the group held cash, cash equivalents and other financial assets of £396.2m which exceeded the debt outstanding by £9.0m.

On 6 July 2009 holders of £141.1m of the group's Eurobond due August 2014 exchanged their holdings for the same amount of new notes due July 2016. The group's borrowings at 31 December 2009 comprised these new notes, the remaining £8.8m of the Eurobond due August 2014, £240m drawn under the amortising bank term loan facility, and a small amount of finance leases. The term loan is subject to repayments of £30m in each of January 2010 and January 2011, with £180m maturing in January 2012.

### Pensions

The group has two defined benefit pension schemes in the UK which were acquired with Tullett and Prebon, both of which are closed to new members and future accrual.

The combined deficit of these schemes under IAS19 has reduced to £1.3m at 31 December 2009 (2008: £8.5m). During 2009 the schemes' assets have increased from £106.9m to £137.7m reflecting strong investment returns and the additional contributions, and the schemes' liabilities have increased from £115.4m to £139.0m mainly reflecting a reduction in the discount rate applied to the schemes' liabilities.

### Return on capital employed

The return on capital employed in 2009 was 47% (2008: 50%) which has been calculated as operating profit divided by average shareholders' funds less net funds or plus net debt as appropriate, and adding back cumulative amortised goodwill and post tax reorganisation costs and exceptional items.

### **Regulatory Developments**

Various proposals aimed at strengthening the financial system generally, and the operation of the OTC derivatives markets specifically, continue to be debated by regulators and politicians in both the United States and Europe.

There are three common objectives of the proposals directed at the OTC derivatives markets:

- A reduction in operational risk through increased standardisation of contracts and increased use of electronic post trade processing,
- A reduction in counterparty risk through increased use of central counterparties (CCPs) and higher collateralisation and capital charges for bilateral contracts, and
- An increase in transparency through increased use of electronic trading platforms and increased pre and post trade reporting and use of trade repositories.

The proposals directed at reducing the systemic risk of individual financial institutions seek to do so through, amongst other matters, introducing increased capital and liquidity requirements, specific tax disincentives or levies, and restrictions on activities.

It is difficult at this stage to accurately judge how or when these proposals will be implemented or to estimate the effect that these proposals will have on the level of overall activity in the OTC markets. We are, however, confident that vibrant OTC markets will remain essential to the effective operation of the world's financial system, and that the role of intermediaries in those markets, creating liquidity and facilitating efficient trading and risk management, will be of increasing importance.

There remain a number of misconceptions about the proposals and their potential impact on OTC markets, how trading is undertaken, and how well positioned individual inter-dealer brokers and other trading venues are to respond and benefit. We put forward the following views.

It is neither practical nor desirable for all OTC derivatives to become standardised. One of the primary reasons that OTC markets exist is because of the need for financial institutions and end-users to manage their risks through bespoke contracts. Restricting the range of products that are available to manage risk positions would be counter productive to improving the strength of the financial system or the economy.

Those OTC derivatives that are deemed to be standard will not all migrate to trading on exchanges. The proposals in both Europe and the US allow for standardised OTC derivatives to be traded on venues other than exchanges, including Multilateral Trading Facilities in Europe (which our existing electronic platforms in the region are registered as), and Alternative Swap Execution Facilities in the US, the current definition of which covers our operations. In addition it is not universally accepted that mandating trading on organised markets is appropriate. In the UK the FSA argue that such a move would be detrimental and that the regulatory objectives can be achieved by other means.

It is inconceivable that OTC derivatives trading will all move onto pure electronic platforms. Pure electronic platforms, without intervention or support from brokers, are suitable only for the very few highly liquid and highly standardised OTC products, and these are already transacted on such platforms. The role of voice broking in providing liquidity will continue to be required in all but the most standardised of products. The hybrid model in electronic broking, under which electronic solutions operate together with and alongside voice brokers, is much more suitable for the majority of OTC derivatives products. Hybrid platforms have evolved from voice broking and the provision of pricing and volume data into execution platforms and we believe that the process of “electronification” in OTC derivatives markets will continue to be evolutionary.

It is not plausible that all OTC derivatives will move to being cleared through a CCP. Moves to central counterparty clearing transfer rather than eliminate risk, and it is essential that CCPs are able to manage the risks effectively. Some products are unsuitable for central counterparty clearing and we agree with the FSA that CCPs should not be forced to clear a product if they are unable to manage the risks of doing so. Nor does it follow that if an OTC derivative product is cleared by a CCP it will no longer be voice brokered. Interest rate swaps in the inter bank market have been successfully cleared through SwapClear since 1999 with over 60% of all inter-dealer swap volumes now cleared through this facility. Interest rate swaps remain one of the largest voice brokered OTC products.

The OTC markets and the inter-dealer broker sector are not synonymous. The majority of OTC transactions are undertaken directly between banks and other counterparties. The proportion of the total market volume that is transacted through IDBs appears to be increasing. We believe that this trend is likely to continue as banks seek to gain the benefits of accessing deep liquidity and trading anonymously, as well as facilitating reductions in their fixed costs, that are achieved by executing trades through IDBs.

## **Outlook**

Although the world's financial markets have remained unsettled, overall activity in the markets slowed in the second half of 2009 in comparison to the particularly volatile markets experienced in the autumn of 2008 and into the first half of last year and, as expected, activity currently remains at this more normal level.

The underlying revenue run rate in the first two months of the year is 5% lower than a year ago at constant exchange rates. We expect this run rate against prior year to improve, particularly in the second half. In addition, the net effect of the broker defections in North America has been to reduce revenue by 6%. The benefit from the actions that we have taken to mitigate the impact of the broker defections will increase during the year as the rebuilding programme continues and the new brokers hired build up to their full run rate of revenue.

The eventual outcome of the regulatory debate about how to strengthen the financial system remains uncertain, but we are confident that our role as an intermediary in the OTC markets will continue to be vital and that our business will continue to add significant value to our customers. We have a well diversified and robust business, and we are well positioned to respond to and to benefit from, changes in the way in which the OTC markets and our customers operate and are regulated.

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## Consolidated Income Statement

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
<b>Revenue</b>	3	947.7	943.6
Administrative expenses		(781.2)	(774.1)
Other operating income	4	4.3	5.6
Exceptional items	5	-	(19.5)
<b>Operating profit</b>		170.8	155.6
Finance income	6	20.2	24.8
Finance costs	7	(34.5)	(43.4)
<b>Profit before tax</b>		156.5	137.0
Taxation		(46.9)	(43.3)
<b>Profit of consolidated companies</b>		109.6	93.7
Share of results of associates		1.8	1.3
<b>Profit for the year</b>		111.4	95.0
<b>Attributable to:</b>			
Equity holders of the parent		110.8	94.5
Minority interests		0.6	0.5
		111.4	95.0
<b>Earnings per share</b>			
Basic	8	51.8p	44.4p
Diluted	8	51.2p	44.0p

**Adjusted earnings per share is disclosed in note 8**

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
<b>Profit for the year</b>	111.4	95.0
<b>Other comprehensive income:</b>		
Revaluation of available-for-sale assets	0.9	0.5
Gain/(loss) on net investment hedge	2.5	(17.2)
Effect of changes in exchange rates on translation of foreign operations	(17.2)	46.5
Actuarial losses on defined benefit pension schemes	(0.5)	(9.4)
Taxation (charge)/credit on components of other comprehensive income	(1.9)	9.7
<b>Other comprehensive income for the year</b>	<u>(16.2)</u>	<u>30.1</u>
<b>Total comprehensive income for the year</b>	<u>95.2</u>	<u>125.1</u>
Attributable to:		
Equity holders of the parent	94.9	123.6
Minority interests	0.3	1.5
	<u>95.2</u>	<u>125.1</u>

# Consolidated Balance Sheet

as at 31 December 2009

	2009 £m	2008 £m
<b>Non-current assets</b>		
Goodwill	373.5	387.7
Other intangible assets	7.4	5.8
Property, plant and equipment	25.6	27.6
Interest in associates	3.5	3.5
Other financial assets	4.8	4.7
Deferred tax assets	13.7	18.0
	<u>428.5</u>	<u>447.3</u>
<b>Current assets</b>		
Trade and other receivables	5,765.0	13,547.6
Other financial assets	30.1	30.2
Cash and cash equivalents	366.1	375.0
Derivative financial instruments	-	4.6
	<u>6,161.2</u>	<u>13,957.4</u>
<b>Total assets</b>	<u><u>6,589.7</u></u>	<u><u>14,404.7</u></u>
<b>Current liabilities</b>		
Trade and other payables	(5,825.5)	(13,648.5)
Interest bearing loans and borrowings	(30.2)	(30.6)
Derivative financial instruments	-	(14.3)
Current tax liabilities	(36.7)	(28.9)
Short term provisions	(1.5)	(2.2)
	<u>(5,893.9)</u>	<u>(13,724.5)</u>
<b>Net current assets</b>	<u>267.3</u>	<u>232.9</u>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	(357.0)	(392.0)
Retirement benefit obligations	(1.3)	(8.5)
Deferred tax liabilities	(8.1)	(0.6)
Long term provisions	(7.8)	(9.7)
Other long term payables	(9.1)	(24.9)
	<u>(383.3)</u>	<u>(435.7)</u>
<b>Total liabilities</b>	<u><u>(6,277.2)</u></u>	<u><u>(14,160.2)</u></u>
<b>Net assets</b>	<u>312.5</u>	<u>244.5</u>
<b>Equity</b>		
Share capital	53.8	53.8
Share premium	9.9	9.9
Reverse acquisition reserve	(1,182.3)	(1,182.3)
Other reserves	128.6	139.9
Retained earnings	1,300.3	1,220.8
	<u>310.3</u>	<u>242.1</u>
<b>Equity attributable to equity holders of the parent</b>	<u>310.3</u>	<u>242.1</u>
Minority interests	2.2	2.4
<b>Total equity</b>	<u><u>312.5</u></u>	<u><u>244.5</u></u>

# Consolidated Statement of Changes in Equity

*for the year ended 31 December 2009*

	Equity attributable to equity holders of the parent										Total equity £m
	Share capital £m	Share premium account £m	Reverse acquisition reserve £m	Re-valuation reserve £m	Merger reserve £m	Hedging and translation £m	Own shares £m	Retained earnings £m	Total £m	Minority interests £m	
<b>Balance at 1 January 2009</b>	<b>53.8</b>	<b>9.9</b>	<b>(1,182.3)</b>	<b>1.4</b>	<b>121.5</b>	<b>23.9</b>	<b>(6.9)</b>	<b>1,220.8</b>	<b>242.1</b>	<b>2.4</b>	<b>244.5</b>
Profit for the year								110.8	110.8	0.6	111.4
Other comprehensive income for the year				0.9		(16.3)		(0.5)	(15.9)	(0.3)	(16.2)
Total comprehensive income	-	-	-	0.9	-	(16.3)	-	110.3	94.9	0.3	95.2
Dividends paid in the year								(27.8)	(27.8)	(0.7)	(28.5)
Sale of own shares							2.6	(1.1)	1.5		1.5
Shares used to meet share award exercises							1.5	(1.5)	-		-
Increase in minorities' equity interests									-	0.2	0.2
Debit arising on share-based payment awards								(0.4)	(0.4)		(0.4)
<b>Balance at 31 December 2009</b>	<b>53.8</b>	<b>9.9</b>	<b>(1,182.3)</b>	<b>2.3</b>	<b>121.5</b>	<b>7.6</b>	<b>(2.8)</b>	<b>1,300.3</b>	<b>310.3</b>	<b>2.2</b>	<b>312.5</b>
<b>Balance at 1 January 2008</b>	<b>53.2</b>	<b>-</b>	<b>(1,182.3)</b>	<b>0.9</b>	<b>121.5</b>	<b>(4.4)</b>	<b>(20.7)</b>	<b>1,162.1</b>	<b>130.3</b>	<b>2.1</b>	<b>132.4</b>
Profit for the year								94.5	94.5	0.5	95.0
Other comprehensive income for the year				0.5		28.3		0.3	29.1	1.0	30.1
Total comprehensive income	-	-	-	0.5	-	28.3	-	94.8	123.6	1.5	125.1
Issue of share capital	0.6	9.9							10.5		10.5
Dividends paid in the year								(27.2)	(27.2)	(1.2)	(28.4)
Shares used to meet share award exercises							13.8	(13.8)	-		-
Credit arising on share-based payment awards								4.9	4.9		4.9
<b>Balance at 31 December 2008</b>	<b>53.8</b>	<b>9.9</b>	<b>(1,182.3)</b>	<b>1.4</b>	<b>121.5</b>	<b>23.9</b>	<b>(6.9)</b>	<b>1,220.8</b>	<b>242.1</b>	<b>2.4</b>	<b>244.5</b>

**Consolidated Cash Flow Statement**  
for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
<b>Net cash from operating activities</b>	10(a)	85.3	136.0
<b>Investing activities</b>			
(Purchase)/sale of other financial assets		(0.8)	0.9
Interest received		5.0	11.5
Dividends from associates		1.9	0.5
Purchase of available-for-sale assets		(0.1)	(0.1)
Purchase of intangible fixed assets		(4.1)	(3.4)
Purchase of property, plant and equipment		(5.2)	(13.2)
Proceeds on disposal of property, plant and equipment		0.2	-
Investment in subsidiaries		(3.4)	(3.8)
<b>Net cash used in investment activities</b>		(6.5)	(7.6)
<b>Financing activities</b>			
Dividends paid	9	(27.8)	(27.2)
Dividends paid to minority interests		(0.7)	(1.0)
Sale of own shares		1.5	-
Repayment of debt		(30.1)	(30.1)
Repayment of obligations under finance leases		(3.7)	(0.3)
Eurobond issue costs		(2.5)	-
Payments relating to net investment hedges		(12.5)	-
Receipts relating to net investment hedges		2.5	-
<b>Net cash used in financing activities</b>		(73.3)	(58.6)
<b>Net increase in cash and cash equivalents</b>		5.5	69.8
<b>Net cash and cash equivalents at the beginning of the year</b>		374.9	262.1
Effect of foreign exchange rate changes		(14.3)	43.0
<b>Net cash and cash equivalents at the end of the year</b>		366.1	374.9
Cash and cash equivalents		366.1	375.0
Overdrafts		-	(0.1)
<b>Net cash and cash equivalents</b>		366.1	374.9

# Notes to the Consolidated Financial Statements

*for the year ended 31 December 2009*

## **1. General information**

Tullett Prebon plc is a company incorporated in England and Wales under the Companies Act.

## **2. Basis of preparation of accounts**

### **Basis of accounting**

The financial information included in this document does not constitute the Group's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 237(2) or 237(3) of the Companies Act 1985 nor sections 498(2) or 498(3) of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these financial statements continue to be prepared on the going concern basis.

### **Basis of consolidation**

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

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

## 3. Segmental analysis

### Analysis by geographical segment

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
<b>Revenue</b>		
Europe	542.6	504.1
North America	318.0	339.6
Asia Pacific	87.1	99.9
	<u>947.7</u>	<u>943.6</u>
<b>Operating profit</b>		
Europe	123.2	108.1
North America	44.4	57.8
Asia Pacific	3.2	9.2
	<u>170.8</u>	<u>175.1</u>
<b>Operating profit before exceptional items</b>	170.8	175.1
Exceptional items (note 5)	-	(19.5)
	<u>170.8</u>	<u>155.6</u>
<b>Reported operating profit</b>	170.8	155.6
Finance income	20.2	24.8
Finance costs	(34.5)	(43.4)
	<u>156.5</u>	<u>137.0</u>
<b>Profit before tax</b>	156.5	137.0
Taxation	(46.9)	(43.3)
	<u>109.6</u>	<u>93.7</u>
<b>Profit of consolidated companies</b>	109.6	93.7
Share of results of associates	1.8	1.3
	<u>111.4</u>	<u>95.0</u>

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

## 4. Other operating income

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

## 5. Exceptional items

The exceptional items in 2008 reflected the cost of actions taken to reduce operating costs, including the costs of desk closures, redundancies and the write down of sign-on payments which were considered to be impaired.

## 6. Finance income

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Interest receivable and similar income	3.4	11.5
Fair value gain on derivative instruments	9.0	4.6
Expected return on pension schemes' assets	6.5	8.7
Amortisation of discount on deferred consideration	1.3	-
	<u>20.2</u>	<u>24.8</u>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

## 7. Finance costs

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Interest payable on bank loans	4.6	17.2
Interest payable on Eurobond	11.5	12.4
Other interest payable	0.2	0.3
Amortisation of debt issue costs	0.9	1.4
Total borrowing costs	17.2	31.3
Amortisation of discount on deferred consideration	-	0.5
Fair value loss on derivative instruments	10.3	4.5
Interest cost on pension schemes' liabilities	7.0	7.1
	<u>34.5</u>	<u>43.4</u>

## 8. Earnings per share

	<b>2009</b>	<b>2008</b>
Adjusted basic	49.2p	47.1p
Basic	51.8p	44.4p
Diluted	51.2p	44.0p

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

	<b>2009</b>	<b>2008</b>
	<b>No.(m)</b>	<b>No.(m)</b>
Weighted average shares in issue used for calculating basic and adjusted basic earnings per share	213.9	212.8
Contingently issuable shares	1.8	0.6
Issuable on exercise of options	0.7	1.3
Diluted weighted average shares in issue	<u>216.4</u>	<u>214.7</u>

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

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Earnings	111.4	95.0
Minority interests	(0.6)	(0.5)
<b>Earnings for calculating basic and diluted earnings per share</b>	<u>110.8</u>	<u>94.5</u>
Exceptional items	-	19.5
Expected return on pension schemes' assets	(6.5)	(8.7)
Interest cost on pension schemes' liabilities	7.0	7.1
Amortisation of discount on deferred consideration	(1.3)	0.5
Fair value movement on derivative financial instruments	1.3	-
Tax on above items	(0.2)	(5.4)
Prior year tax	(5.9)	(7.3)
<b>Adjusted earnings for calculating adjusted basic earnings per share</b>	<u>105.2</u>	<u>100.2</u>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

## 9. Dividends

	2009 £m	2008 £m
<b>Amounts recognised as distributions to equity holders in the year:</b>		
Interim dividend for the year ended 31 December 2009 of 5.0p per share	10.7	-
Final dividend for the year ended 31 December 2008 of 8.0p per share	17.1	-
Interim dividend for the year ended 31 December 2008 of 4.75p per share	-	10.2
Final dividend for the year ended 31 December 2007 of 8.0p per share	-	17.0
	27.8	27.2

In respect of the current year, the directors propose that the final dividend of 10.0p per share amounting to £21.4m will be paid on 20 May 2010 to all shareholders on the Register of Members on 30 April 2010. 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 Share Ownership Trust and the trustees of Tullett Prebon plc Employee Benefit Trust 2007 have waived their rights to dividends.

## 10. Notes to the cash flow statement

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

	2009 £m	2008 £m
<b>Operating profit</b>	170.8	155.6
Adjustments for:		
Share-based compensation	(0.4)	4.9
Profit on sale of other non-current financial assets	-	(1.3)
Loss on sale of property, plant and equipment	-	2.0
Depreciation of property, plant and equipment	6.1	6.5
Amortisation of intangible assets	2.1	1.3
Decrease in provisions for liabilities and charges	(1.8)	(5.4)
Outflow from retirement benefit obligations	(8.1)	(3.2)
Increase in non-current liabilities	0.7	0.7
<b>Operating cash flows before movement in working capital</b>	169.4	161.1
Decrease in trade and other receivables	4.4	13.1
(Increase) / decrease in net settlement balances	(0.2)	5.1
(Decrease) / increase in trade and other payables	(41.2)	26.1
<b>Cash generated from operations</b>	132.4	205.4
Income taxes paid	(30.4)	(39.1)
Interest paid	(16.7)	(30.3)
<b>Net cash from operating activities</b>	85.3	136.0

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

### (b) Cash and cash equivalents

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

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

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	366.1	375.0
Bank overdrafts	-	(0.1)
	<u>366.1</u>	<u>374.9</u>

### 11. Analysis of net funds

	<b>At 1 January 2009</b>	<b>Cash flow</b>	<b>Non-cash items</b>	<b>Exchange differences</b>	<b>At 31 December 2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash	229.6	(27.2)	-	(12.7)	189.7
Cash equivalents	142.7	32.5	-	(1.6)	173.6
Client settlement money	2.7	0.1	-	-	2.8
Cash and cash equivalents	<u>375.0</u>	<u>5.4</u>	<u>-</u>	<u>(14.3)</u>	<u>366.1</u>
Other current financial assets	30.2	0.8	-	(0.9)	30.1
Total funds	<u>405.2</u>	<u>6.2</u>	<u>-</u>	<u>(15.2)</u>	<u>396.2</u>
Overdraft	(0.1)	0.1	-	-	-
Bank loans within one year	(30.0)	30.0	(30.0)	-	(30.0)
Bank loans after one year	(238.5)	-	29.4	-	(209.1)
Loans due after one year	(149.8)	2.6	(0.4)	-	(147.6)
Finance leases	(4.2)	3.7	(0.3)	0.3	(0.5)
	<u>(422.6)</u>	<u>36.4</u>	<u>(1.3)</u>	<u>0.3</u>	<u>(387.2)</u>
Total net funds	<u>(17.4)</u>	<u>42.6</u>	<u>(1.3)</u>	<u>(14.9)</u>	<u>9.0</u>

### OTHER INFORMATION

The Annual General Meeting of Tullett Prebon plc will be held at Level 37, Tower 42, 25 Old Broad Street, London EC2N 1HQ on 13 May 2010 at 2.30pm.