



# Annual Report

IG Group Holdings plc  
Annual Report and Financial Statements  
31 May 2009

**IG Group Holdings plc** is a world leader in retail financial derivatives trading. Our dealing platforms are founded on award-winning technology and provide clients with easy access to global markets and the flexibility to trade multiple asset classes.

The Group has offices in the UK, mainland Europe, USA, Asia and Australasia where we serve both a retail and professional client base.

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- The largest and longest-running spread betting company in the world
- Spread betting on forex, indices, commodities, options and thousands of global shares
- Award-winning company: voted 'Best Spread Betting Firm' in 2007 and 2008 by Shares Magazine



- Contracts for Difference (CFD) trading on forex, shares, commodities, options and more
- Level 1 and 2 trading access via our PureDeal platform
- Offices in Australia, Europe, Singapore and USA
- Global network of partner companies



- A well-established Japanese forex service
- Recently launched CFDs on shares and indices, plus binary options



- Exchange based in the US offering simplified derivatives
- Trade on stock indices, commodities, forex and economic events
- Direct Access browser-based trading platform



spreads • fixed odds • binaries • casino

## Spread betting and CFD trading

Spread betting and CFD trading sit at the core of IG Group's operations. The following provides an explanation of how these key products work:

### How does spread betting work?

In the UK, financial spread betting offers a flexible tax-free\* way to profit from rising or falling markets 24 hours a day.

When placing a spread bet with IG Index, you do not physically own the instrument (a share or commodity for example), you bet on the direction you think the market will move. You 'buy' if you think the price will rise and 'sell' if you think it will fall; the difference between these prices is known as the spread.

You specify an amount to bet per point of movement – the degree to which you are correct affects how much you win or lose.

### How do CFDs work?

A CFD, or Contract for Difference, is simply an agreement to exchange the difference in value of a particular instrument at the time in which the contract is opened and the time at which it is closed.

As with spread betting, the degree to which you are correct determines your profit or loss.

With Share CFDs you trade at the cash price of the share and pay a commission (starting from just 0.1% on major shares). IG Markets also offers Direct Market Access (DMA) trading, which allows clients to trade directly into the order books of major equity markets.

## What does the IG Group offer?

### Advanced and reliable technology

Clients can trade on our award-winning PureDeal platform – also available on a range of mobiles, BlackBerry and iPhone devices.

### Full range of markets

Instant access to global stock indices, thousands of shares, forex, commodities, binaries, options and more.

### Trading tools and ongoing education

Live streaming news from Reuters, in-depth independent research and market-leading charting packages. We also offer a range of online and office-based seminars designed by our team of experts.

Spread betting and CFD trading can result in losses that exceed your initial deposit.

\* Tax law can be changed or may differ depending on your personal circumstances.



### Chicago

#### IG Markets

311 South Wacker Drive  
Suite 2650  
Chicago IL 60606

#### Nadex

311 South Wacker Drive  
Suite 2675  
Chicago IL 60606

### London

#### IG Index

Friars House  
157-168 Blackfriars Road  
London SE1 8EZ

#### IG Markets

Friars House  
157-168 Blackfriars Road  
London SE1 8EZ

#### extrabet.com

Friars House  
157-168 Blackfriars Road  
London SE1 8EZ

### Paris

#### IG Markets

17 Avenue George V  
75008 Paris

### Milan

#### IG Markets

Via Cesare Correnti, 12  
20123 Milano

### Luxembourg

#### IG Markets

15, rue du fort Bourbon  
L1249 Luxembourg

### Düsseldorf

#### IG Markets

Zweigniederlassung Deutschland  
Berliner Allee 10  
40212 Düsseldorf

### Madrid

#### IG Markets

Marqués de la Ensenada nº 16  
1 º planta, Oficina 18  
28004 Madrid

### Stockholm

#### IG Markets

Stureplan 2  
114 35 Stockholm

### Tokyo

#### FXOnline

Halifax Onarimon Building  
8F, 3-24-10 Nishi Shinbashi  
Minato-ku, Tokyo 105-0003

### Singapore

#### IG Markets

#22-04 Chevron House  
30 Raffles Place  
Singapore 048622

### Melbourne

#### IG Markets

Level 7  
417 St Kilda Road  
Melbourne VIC 3004

# At a Glance

Revenue

**+40%**

Revenue up 40% at £257.1 million

EBITDA\*

**+33%**

EBITDA up 33% at £131.1 million

Earnings per share\*\*

**+22%**

Diluted adjusted earnings per share up 22% at 24.74p

Total dividend

**+25%**

Total dividend up 25% to 15.0p per share

EBITDA margin

**51%**

Strong EBITDA margin of 51%

Financial accounts opened

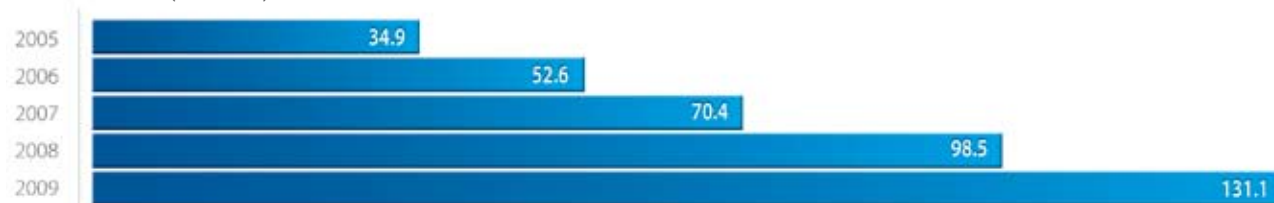
**+74%**

New financial accounts up 74% at 74,331

## Revenue (£million)



## EBITDA\* (£million)



## Earnings per share\*\*



\*EBITDA represents earnings before exceptional administrative costs, depreciation, amortisation of intangible assets, amortisation and impairment of intangibles arising on consolidation, amounts written off property, plant and equipment and intangible assets, taxation, interest payable on debt and interest receivable on corporate cash balances and includes interest receivable on clients' balances less interest payable to clients.

\*\*Excludes amortisation of intangibles arising on consolidation.



# Global Marketing Activity

The IG Group deploys a global marketing strategy, across multiple media, to ensure high brand visibility in the countries in which we operate. Our activity includes online and print advertising, television, event and team sponsorship, plus an ongoing presence at seminars and worldwide investment shows.

## Get Thinking campaign

To support IG's global expansion, the Group rolled out its innovative Get Thinking campaign across the UK, US, Europe and Asia Pacific. The campaign centred on 'cause and effect', depicting how events in the real world impact upon the financial markets. The adverts asked the audience if they could make the connections. If so, it was time to take a position with IG.



2008

2009

Sep 2008

DDB<sup>®</sup>

Global media and creative agencies appointed

Oct 2008

get thinking

Get Thinking brand campaign launched in UK and Asia Pacific

Nov 2008



Italian office opened, Portuguese operation launched

Jan 2009

get thinking

Get Thinking brand campaign launched in Europe

“ *The Get Thinking campaign takes the IG brand to a global audience* ”

## Television advertising

The pinnacle of the 2008/2009 Get Thinking campaign was a television advert designed and executed by a leading worldwide ad agency. The advert helped take the IG brand to a global TV audience, airing on the financial strands of major channels, including Bloomberg, BBC World and Sky News.

## Ongoing focus on client needs

An important factor in client recruitment and retention is our education programme, which includes our TradeSense course and our in-house and online training seminars. Our series of consumer-focused product ads in the national press helped to inform prospective clients that we offer a number of tools and programmes to help them on their trading journey. →



Feb 2009



New FXOnline site launched in Japan

Feb 2009

PureDMA

PureDMA campaign in the UK and Australia

Mar 2009

Take your profit now?



extrabet.com site relaunched

## A local emphasis from a global provider

### UK and mainland Europe

#### IG Index, IG Markets and extrabet.com

The Group launched the redesigned website of its flagship spread-betting brand IG Index in May 2009. Qualitative and quantitative research commissioned with major market research companies provided positive feedback on the site and showed that the audience connected with the Get Thinking campaign.

The Get Thinking concept was also used to promote our CFD trading brand, IG Markets, and the campaign rolled out across all marketing channels in the UK, Italy, France, Germany, Spain and Portugal. During the last year the success of our European brands has seen us launch new offices and operations for clients in Portugal, Italy and Luxembourg.

In March 2009, the Group relaunched its sports brand extrabet.com with a light-hearted touch. Manga-style animations were complemented by team sponsorship and a guerrilla marketing campaign featuring a rugby ball and magazine hand-out.

### Asia Pacific

#### FXOnline, IG Markets Australia, IG Markets Singapore

The Group broke further into the Asia Pacific market with the acquisition of FXOnline, a major forex provider in Japan. Our in-house UK and Japanese marketing teams produced a new and distinctive website, available in both languages, while existing FXOnline clients were migrated onto the PureDeal platform.



2009

Mar 2009



CFDs introduced  
in Japan



Apr 2009

**Bloomberg**  
TELEVISION

TV ad screened in the  
UK, Japan and Australia

“ *As our operations continue to expand in new territories, so does our marketing push* ”

In March 2009, FXOnline broadened its product set by becoming the first provider to offer both CFDs and binary options in Japan, as well as lowering spreads on key currency pairs. Both initiatives were backed up by extensive online, print and outdoor advertising in conjunction with the roll-out of the Get Thinking TV ad.

As our operations in Australia and Singapore continue to expand, so does our marketing push within these territories. As well as our Get Thinking brand ads, IG Markets promoted its level 2 PureDMA trading platform with a series of product-led online banner ads in Australia.

## North America

### Nadex and IG Markets US

The IG Group continues to support the US trading arm of IG Markets with targeted email marketing and an ongoing online presence.

In May 2009, the Group launched its latest venture: Nadex, the North American Derivatives Exchange, with the tagline 'Derivatives, simplified'. The site was promoted via online and direct marketing, as well as advertorial copy in a number of prominent financial magazines. ■



May 2009



IG Index site  
relaunched

May 2009



New treatment of  
brand ads released

Jun 2009



Nadex launch





“ We are constantly looking at ways to deliver advanced technology ”

## Technology

IG's trading platforms are founded on award-winning technology. We continue to lead the field in terms of innovation, quality of execution and reliability.

### Robust and reliable systems

During unprecedented volatility in September and October 2008, our trading systems stood up to the rigours of extreme market conditions. IG's PureDeal platform was available throughout the period, handling an unheralded 700,000 trades in one week at a time when competitors and even the London Stock Exchange suffered outage.

Off site, we have a state-of-the-art disaster-recovery facility which hosts our extensive network of backup servers. The venue operates as a fully functioning office, allowing the company to continue providing a full service should an emergency arise. Disaster Recovery is properly invoked and tested throughout the year.

### Integrating the latest technologies

IG clients can deal using the latest technology, from Apple's groundbreaking iPhone 3GS and iPod touch, to an increasing number of mobile phones, BlackBerry and PDA devices. Our charting packages have also been updated for use on the iPhone.

Another major development over the past year has been the introduction of our new Close-Out Monitor. The system closely monitors margin levels to ensure that clients do not suffer runaway losses. ■

**We are constantly looking at ways to deliver advanced technology. Over the last year we have introduced:**

#### PureDeal in Japan

Japanese clients can seamlessly migrate to our browser-based PureDeal trading platform via the FXOnline site.

#### ABC Trading

The latest white label offering from the Group allows our partners to brand the trading platform in their colours and offer it to clients.

#### PureDMA

Clients can trade straight into the order book of worldwide equity exchanges using Direct Market Access on our browser-based PureDeal platform.

#### extrabet.com

Our new sports platform successfully integrates fixed-odds, spread-betting and binary prices, plus a casino, all on one platform. This unique site is the first of its kind in the world.





**IG Group  
Holdings plc**



*"...making the world  
a better workplace..."*

“ *We believe that clients choose IG for our reputation. In return, we have built a consumer-focussed business with strong customer relationships* ”

# Corporate Social Responsibility

Responsibility has been at the heart of our business since the Group's inception in 1974. Over the years we have demonstrated our belief in acting fairly, honorably and transparently with all our stakeholders, from clients and employees to suppliers.

## Educating our clients

We believe that clients choose IG for our reputation. In return, we have built a consumer-focussed business with strong customer relationships and we commit to providing ongoing education throughout the client's trading life.

We also take seriously our commitment to the wider society and have taken a number of steps to reduce our environmental footprint.

**This year's Corporate and Social Responsibility Report can be found within the Directors' Report on page 44.**

## Key initiatives in the past year

- Introduced Close-Out Monitor system to limit potential losses at no extra charge to the client;
- Increased online client education seminars with high customer satisfaction rating (over 80% rated seminars 4/5 out of 5);
- Achieved the ISO 27001 security standard for Information Security;
- Continued our graduate recruitment programme;
- Paper statements reduced by 75%, representing more than half a million sheets of paper saved, in addition to envelopes and printer cartridges;
- Improved recycling initiatives, including IT equipment; and
- Initiated free employee counselling service.

## Engaging employees

IG is a rapidly growing company and provides a fast-moving and successful working environment. Our employees have pride in what we have achieved and a strong sense of belonging.

This culture is reflected in a number of accolades awarded to the company last year:

- Britain's Top Employer: named as one of the UK's top 50 employers;
- Sunday Times' Best Companies to Work for: listed as 'One to Watch'; and
- Corporate Research Foundation: named as one of Britain's Top Employers of 2009. ■





# FXOnlineのビジネスパートナーシップ ソリ パートナーシップは、企業成長への近道です



世界的に急拡大を遂げているCFD市場において提携することで、あなたのビジネスを成長させます。

FXOnlineはイギリス国内外にパートナーネットワークを構築し、更なる成長を共にするビジネスパートナーを求め

## FXOnlineが選ばれる理由

パートナーシップでは、最先端の商品の提供をお約束します。

- 人気の高い株式CFD
- 幅広い取引商品
- グローバルサポート

## FXOnlineが提供するサービス

御社のビジネスに最適なパートナーシップと、それに即したプラットフォームを提供します。

- 様々なニーズに合うパートナーシップ
- カスタマイズ可能なプラットフォーム

お問合せ・ご質問は  
FXOnline Japan 法人営業チーム03(4520)8565

“ *IG Markets and IG Index together have over 450 Introducing Brokers and Agents* ”

## Partners

With a range of partnership models, from straight referral through to full ‘white-labelling’ of our dealing and back-office systems, our partner network creates significant ongoing revenue for the Group.

### A global network

We have the power to bring our dealing technology to partners and their clients, and our scale, experience and expertise enables us to support a vast network around the world. The year 2008/2009 has seen IG expand its offering to partners who help to market our CFD and spread betting services.

Our white-label offering, including our generic brand, ABC Trading, has been significantly improved to give a more flexible choice of solutions across numerous languages. We now offer partners fully or partly branded online account opening, dealing platforms and statements. This allows partners to focus on new revenue streams by using their contacts, sales and marketing resources, rather than investing time in expertise and infrastructure.

IG Markets and IG Index together have over 450 Introducing Brokers and Agents, who generated revenue during the past year. As our business expands overseas so does our network of partners, which continues to become increasingly diverse, including advisors, online brokers, private client stockbrokers and wealth managers.

### Partnering with IG

Our relationships are designed to be mutually beneficial, and we provide generous rebates to successful partners. We offer our award-winning dealing platforms, plus our expertise in dealing, risk management and client services. ■



**01 Jonathan Davie****Non-Executive Chairman, 62 years old**

Jonathan qualified as a Chartered Accountant. He joined George M. Hill and Co, a jobber on the London Stock Exchange in 1969. The firm was acquired by Wedd Durlacher Mordaunt and Co where Jonathan became a partner in 1975. Jonathan was the senior dealing partner of the firm on its acquisition by Barclays Bank to form BZW in 1986. Jonathan developed BZW's Fixed Income business prior to becoming CEO of the Global Equities Business in 1991. In 1996 Jonathan became Deputy Chairman of BZW and then Vice Chairman of Credit Suisse First Boston in 1998 on their acquisition of most of BZW's businesses. Jonathan is presently a non-executive director of Portland Gas plc and Chairman of First Avenue Partners, an alternatives advisory boutique.

**02 Tim Howkins****Chief Executive, 46 years old**

Tim has a first class degree in Mathematics and Computer Science from Reading. He qualified as a Chartered Accountant with Ernst & Young and is also a member of the Chartered Institute of Taxation. Tim was one of a group of partners and staff who left Ernst & Young in 1990 to form Rees Pollock, a firm of chartered accountants targeted at entrepreneurial, owner-managed businesses. Tim was a partner in Rees Pollock for seven years and was the partner responsible for IG's audit. He joined IG as Finance Director in 1999, and became Chief Executive in 2006.

**03 Steve Clutton****Finance Director, 48 years old**

Steve gained a first class degree in Chemistry from Nottingham. After qualifying as a Chartered Accountant with KPMG, he spent five years in corporate finance with Barclays de Zoete Wedd. In 1994 he joined British Telecom heading up its internal corporate finance team before becoming the Chief Financial Officer of BT's international business based in Virginia, USA. Between 2000 and 2004, Steve was Finance Director of Interoute Communications Ltd, a private equity backed supplier of telecoms services with operations throughout Europe. Steve joined IG Group in October 2006 from Barclays Bank plc, where he was Finance Director of UK Retail Banking.

**05 Andrew MacKay****Head of Asia Pacific, 43 years old**

Andrew has a Masters in History from St Andrews University and completed the Law Society Finals examination at the College of Law in London. He qualified as a lawyer with Linklaters and worked there for seven years, principally in the litigation and financial services practices. In 1998, Andrew moved to LIFFE as market investigations manager before joining the IG Group as Legal Counsel in March 1999. Following the Group's acquisition of FXOnline in October 2008, Andrew moved to Tokyo to assume the role of Head of Asia Pacific.

**06 Sir Alan Budd****Non-Executive Director, 71 years old**

Sir Alan was appointed a non-executive director of IG Group in April 2005. He was Chief Economic Adviser to the Treasury and head of the government economic service between 1991 and 1997 and served as a member of the Monetary Policy Committee of the Bank of England between 1997 and 1999. Prior to 1991, he was group economic adviser at Barclays Bank and Professor of Economics at the London Business School. He was chairman of the Gambling Review Body and was Provost of The Queen's College, Oxford, until 2008. He is Chairman of the Tax Law Review Committee.

**07 Martin Jackson****Non-Executive Director, 60 years old**

Martin was appointed a non-executive director of IG Group and chairman of the Audit Committee in April 2005. He was the group Finance Director of Friends Provident plc between 2001 and 2003 and Friends Provident Life Office between 1999 and 2001. Prior to that, he was the group Finance Director at London & Manchester Group plc from 1992 to 1998 up to the date of its acquisition by Friends Provident Life Office. He is a non-executive director and chairman of the Audit Committee of Admiral Group plc and is a fellow of the Institute of Chartered Accountants.

**04 Peter Hetherington****Chief Operating Officer, 40 years old**

Peter read Economics at Nottingham University and has a Masters in Finance from the London Business School. Peter was an officer in the Royal Navy before joining IG Index, as a graduate trainee, in February 1994. He became head of financial dealing in 1999 and was appointed a director of IG Group in June 2002, since when he has performed the role of Chief Operating Officer.

**08 Robert Lucas****Non-Executive Director, 46 years old**

Robert read Electrical Engineering at Imperial College, London. He joined Marconi post graduation until 1987, when he moved into private equity investment with 3i plc. In 1996, he joined CVC Capital Partners Limited and, in 2004, he became a Managing Partner. Robert is a non-executive director of a number of companies in which funds managed or advised by CVC Capital Partners Limited or its affiliates have invested, including AA/Saga. He became a non-executive director of IG Group in 2003.

**09 Nat le Roux****Non-Executive Deputy Chairman, 52 years old**

Nat was Chief Executive of IG Group for four years before becoming Non-Executive Deputy Chairman in 2006. He initially joined the group as Financial Dealing Director in 1992 after a varied career in futures broking and stock broking. Nat holds an MA in Law from Cambridge University and an MSc in Anthropology from University College London. He is an independent director of the London Metal Exchange.

**10 Roger Yates****Senior Independent Non-Executive Director, 52 years old**

Roger joined the board as non-executive and Senior Independent Director in February 2006. Roger read Modern History at Worcester College Oxford, and has 28 years' experience in the fund management industry as an investment professional and business manager. Previously he was Chief Investment Officer of Invesco Global and held senior roles for fund management companies LGT and Morgan Grenfell. He joined Henderson Global Investors as Chief Executive in 1999, and in 2003 led the de-merger of Henderson from its then parent AMP, becoming Chief Executive of the resulting listed entity, now Henderson Group plc, before retiring from this role in November 2008. In June 2009, he also became a non-executive director of F&C Asset Management PLC.



# Directors' Biographies







“ Revenue for the year was up 40% to £257m and diluted adjusted earnings per share increased 22% to 24.7p ”

## Chairman's Statement

It is my pleasure to make this annual statement after another successful year at IG. Our annual revenue has increased 40% to £257m (2008: £184m) and diluted adjusted earnings per share increased 22% to 24.7p (2008: 20.3p).

Whilst we have continued to grow our more established markets in the United Kingdom and Australia, we have also taken further steps in our strategy to diversify internationally. In October 2008 we acquired FXOnline Japan KK and also opened our office in Milan. In January 2009 we opened our office in Luxembourg.

IG's continuing success reflects our investment in high quality dealing platforms, an innovative broad range of products and excellent customer service provided to our expanding client base.

Having made significant progress in penetrating new geographic markets for our products, our aim for the forthcoming year is to develop these to ultimately reach the scale that we have achieved in the United Kingdom and Australia.

At the forthcoming AGM, your board will recommend the payment of a final dividend of 11.0p per share. This will bring the total dividend for the year to 15.0p, an increase of 25% on last year. This represents a total dividend of approximately 60% of our earnings for the year which is consistent with the policy that the board announced two years ago. Our policy, which we will review from time to time, is to continue to pay a similar percentage of our earnings in future years.

### Board Evaluation

This year your board decided to commission the Institute of Chartered Secretaries and Administrators ('ICSA'), an external consultant, to conduct a full evaluation of the board in accordance with the Principle 6.A of the Combined Code on Corporate Governance.

The board has reviewed and agreed with the recommendations made by ICSA, which I believe will lead to further improvements in board performance in the future.

### Remuneration

One matter which is understandably at the top of many investor agendas is that of remuneration. Heretofore the Company has not reviewed executive and non-executive basic remuneration on an

annual basis. The result is that both executive and non-executive directors' basic pay has fallen into the bottom quartile in most relevant surveys.

After consultation with some of our leading shareholders, we have agreed some increases which are set out in detail in the Annual Report. We have also introduced an element of deferral into our bonus structure, reflecting the FSA's recent pronouncements on remuneration best practice.

Henceforth it is the present intention of the Remuneration Committee to review basic pay on an annual basis.

### Non-Executive Directors

I am sorry to say that Sir Alan Budd has informed the board that he wishes to step down as a non-executive director at a moment which is convenient to the board.

Your board has accepted Sir Alan's decision with understanding and regret.

Sir Alan joined the IG board when the Company was floated on the London Stock Exchange in April 2005. His highly distinguished career in both Government and Business and the experience that Sir Alan has brought to your board has been much valued. We will miss his wise counsel.

We have commenced the process of finding a replacement for Sir Alan. Later in our financial year, we will commence the search for an additional independent non-executive director in order to make progress to becoming more compliant over time with Code Provision A3.2 of the Combined Code. We will provide a further update in due course.

Our results for the past year could not have been achieved without the dedication and skill of all our employees throughout the world. I and my fellow directors would like to express our thanks to them all for their personal contributions to these excellent results.

I and all my colleagues at IG look forward to working towards ensuring another successful year for IG and its shareholders. ■



Jonathan Davie, Chairman, 21 July 2009



“ *Our growth has been driven by strong account opening. Our financial businesses opened over 74,000 accounts during the year, up from 43,000* ”

## Chief Executive's Report

Against a backdrop of chaos in financial markets worldwide, and a severe global recession, we have achieved good levels of growth in revenue and earnings per share. Our revenue grew by 40% this year, but that includes the impact of acquiring FXOnline Japan KK (FXOnline) part way through the year. Organic growth, excluding the impact of FXOnline, was 25%. Adjusted diluted earnings per share increased by 22% (statutory diluted earnings per share increased by 10%).

This growth was driven by strong account opening. Our financial businesses opened over 74,000 accounts during the year, compared to 43,000 in the previous year.

We have made good progress on our two key strategic objectives of continuing to grow our market-leading UK business and replicating that UK success internationally. Over the last three years, we have progressed from operating in only two countries, the UK and Australia, to having offices in 11 countries worldwide. Over those three years we have grown revenue for our UK financial business by 32% per annum compound. Three years ago only 17% of our revenue came from outside the UK; in the second half of this year this proportion had risen to 47% and our non-UK businesses accounted for half of all accounts opened in the year.

IG Index has long been recognised as the leader in the UK spread betting market. This year IG Markets established a market leading position in Contracts for Difference (CFDs) in many of the countries in which we operate. Of particular note, independent market research\* has just confirmed that we are now the most widely used primary CFD provider among active CFD users in Australia. Our approach differs from that of some of our competitors. We quote our CFD clients the underlying market price and offer near-instantaneous execution, with around 99% of client orders accepted. Unlike some of our competitors we do not 're-quote' and we are the only spread betting or CFD provider (other than our own white label partners) to offer Price Improvement whereby the benefit of any significant favourable price movements in the market between order and execution is passed on to clients. I believe that this approach, of high quality, transparent, fair execution, is

the reason we have attained the position of market leader in so many of the countries in which we operate.

During October we saw extreme volatility, the collapse in share price of many banking stocks and a severe market crash. This resulted in a high incidence of doubtful debts within our client base. For the year as a whole our doubtful debt charge was £18.2m, with over 80% of this charge arising in the first half. We continue to pursue all of the outstanding debts vigorously and we are beginning to achieve some recovery of amounts initially fully provided for.

After October we changed our approach to managing credit risk. The introduction of the close-out process provides a safety net, closing out client positions before they owe us money. Since we made these changes we have seen a second collapse in the prices of banking shares in January and a significant fall in global equity markets in late February and early March. Both of these severe market events provided a good test for our new approach to credit risk management and we incurred almost no doubtful debts in either. This approach not only provides us with protection from doubtful debts, but it also serves to protect and preserve our client base by reducing client losses.

### UK

Our UK financial business, which includes clients residing outside the UK who choose to transact through the UK office, achieved revenue of £150.6m, an increase of 9%. This sub-divides into growth in spread betting of 15% and a fall of 3% in CFDs, the latter revenue principally driven by the reduced activity of a subset of the client base who trade long-only equity positions. Throughout the year we saw a progressive shift in mix between new clients for spread betting and CFDs, with an increasing proportion of new accounts opened in the UK being for CFDs rather than spread betting.

We have a programme of continual improvement of all of our websites and have recently undertaken a complete redesign of the [igindex.co.uk](http://igindex.co.uk) website. →

\* Investment Trends June 2009 CFD report

## Europe

During the year we extended our coverage in Europe, opening a small satellite office in Luxembourg and marketing into Portugal from our office in Madrid. Together our European offices produced revenue of £30.2m, an increase of over 300%. In each of France, Spain and Italy we have established a very clear market lead.

By the end of the year our European offices were contributing 13% of the Group's monthly revenue.

## Australia and Singapore

Our Australian business achieved revenue of £27.9m, up 12%. The year ended strongly, with monthly revenue in April and May higher than in any previous month of the year, despite significantly lower volatility.

Revenue for Singapore was £9.5m, more than four times the level achieved in the previous year. Our Singapore office has the highest rate of account opening of any of the offices we have established in the last three years, an impressive achievement when considered relative to population.

“ *Our Australian business achieved revenue of £27.9m, up 12%* ”

## Japan

We acquired FXOnline Japan KK ('FXOnline') in October 2008. In its first eight months under our ownership it achieved revenue of £28m and the acquisition was earnings enhancing.

FXOnline's existing retail forex business faces challenges. The competitive landscape has shifted significantly in the last few months, with a number of competitors actively marketing spreads of 1 pip or less on the most popular currency pair – \$/¥. To counter this competitive threat we moved to a variable spread model at the beginning of June, so that we go as low as 0.9 pip when underlying market spreads are tight. This change has had some beneficial impact on volume and revenues, but the feedback we have had indicates that Japanese clients prefer a fixed spread model. Within the last few weeks we began to introduce lower fixed spreads progressively across the client base, initially targeting some larger clients who had left us to obtain lower spreads elsewhere. The early indications are that this has had a beneficial impact on revenues. The speed and reliability of our dealing platform mean that we are well equipped to compete in this low spread environment and we will continue to adapt our offering as the competitive landscape

evolves. Our experience elsewhere in the world is that there is significant price elasticity in forex, with volumes increasing as spreads reduce. The evidence so far suggests that the same is true in Japan.

As we have previously announced, the Japanese FSA undertook a period of public consultation on proposals to restrict leverage for retail forex in Japan. This consultation period has ended and the FSA are now assessing the responses. We expect that within the next few weeks they will announce the final form which any rules to restrict leverage may take. Prior to the consultation period, the FSA indicated that they intended that restrictions would not come into force for at least a year, and not fully for two years. This extended implementation timetable, if confirmed, will give us considerable time to prepare.

A major objective in buying this business was to acquire a platform from which to launch CFDs and binary options in

Japan, a country with a very active speculative trading culture. We launched these products progressively between late March and early May.

Early take up has been encouraging and last month these new products contributed more than 5% of our revenue from Japan. The importance of these products has been recognised by existing online brokers and we are in discussions with several parties about establishing white label relationships. We are currently the only provider of binary options in Japan and one of only a handful of CFD providers. We are at a very early stage but I believe we are well positioned to become a leading player in these markets as they develop.

## US



We achieved revenue of £2.3m in the US compared to £48k in the previous year. The majority of the revenue came from our US retail forex business, IG Markets Inc, which started to trade shortly before the beginning of the financial year.

In December 2007 we acquired HedgeStreet, a US based, CFTC-regulated, exchange. Since then we have been progressively extending the range of contracts trading on the exchange and have adapted our PureDeal dealing platform to provide the front-end for members to trade on the exchange. This development work culminated in the re-launch of the exchange last month under the new name Nadex, the North American Derivatives Exchange. Nadex offers two types of contract: binary options, which have an all-or-nothing payout, and spreads, which have a variable payout. Both types of



contracts are offered on equity index futures, forex, precious metals and commodities; binary markets are also offered on various economic indicators. Nadex is unique in that members of the public in the US can, at no cost, become a member of the exchange and then trade on it directly on its website, nadex.com.

Our US product range now includes contracts analogous to the most popular markets that we offer elsewhere. While we were developing the product range and new front-end we did little marketing for the exchange. Now that the Nadex offering is complete we have, over the last few weeks, begun to increase marketing and public relations activity. Our research indicates that there is a gap in the market in the US for a simple, limited risk, easily accessible way of trading the financial markets. The early reaction we have had from exchange members and the press has been encouraging.

 *We have made encouraging progress in each of our newer offices* 

We have made encouraging progress in each of our newer offices and they all have scope for significant further growth. Our main focus for the coming year will be on maximising the recruitment, conversion and retention of clients in each of the countries in which we operate.

Alongside our direct offering to retail clients we continue to develop our network of introducers and white label partners. This network provides us with access to established pools of clients on a revenue sharing basis, with no cost of client acquisition. We have established white label partnerships in a number of countries in recent months and are in discussions with several more potential partners. We expect these partnerships to become a more significant source of revenue in the coming year. We continue to develop the tools to allow our partners to offer our services in a variety of different ways.

## Sport

Our sports business, which represents less than 4% of group revenue, saw a 24% decline in revenue to £8.7m. This fall was mainly attributable to the loss of a number of larger clients, who have curtailed their sports betting activity in the current economic environment.

Towards the end of the year we combined our two sports websites and re-launched them with a new dealing interface under the extrabet.com brand. The extrabet.com website is unique in offering sports spread betting, fixed odds and binary betting from a single platform. With all three forms of betting, the client has the ability to close out a bet so as to lock in a profit or mitigate a loss before the end of the event. Client and press reaction to the new site and dealing interface have been overwhelmingly positive and the early signs are that we are achieving greater take up of sports spread betting by new clients as a result.

## Future developments

Over the last three years our main focus has been on extending our geographic reach and we now have businesses in most of the major economies worldwide where regulation permits us to operate. We will open an office in Sweden within the next few months. We are not currently planning further office openings, but will continue to monitor regulatory and other developments in a number of potential markets.

## Current trading and outlook

The new financial year has started well, despite subdued market volatility. It remains difficult to predict future trends in volatility or customer reaction to changing market and economic conditions. We face challenging comparatives in the first half of this year, particularly in the second quarter, as our revenue last year was boosted by the volatility caused by the extraordinary market events of September and October.

This has been a challenging year for most businesses, including ours. However, I believe we emerge from it in good health, with improved risk management and a strong competitive lead. Our longer-term growth trajectory continues to be underpinned by good levels of account opening and I remain confident about the prospects for the coming year. ■



**Tim Howkins**, Chief Executive, 21 July 2009

# Group Operating and Financial Review

for the year ended 31 May 2009

## Introduction

The Accounting Standards Board issued Reporting Statement: Operating and Financial Review in January 2006. This statement does not have mandatory force and is not an accounting or reporting standard. The directors have considered the recommendations of this reporting statement as appropriate in producing this operating and financial review (OFR). A discussion of the Group's performance and future prospects has been included in the Chief Executive's Report.

In applying this framework, the directors believe that they have adequately discharged their responsibilities under Section 417(3) of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

## Nature, objectives and strategies

### The Group's businesses

The Group has operated in two principal areas of activity throughout the year: financial and sport.

#### Financial

Contracts for Difference (CFDs), spread bets and exchange traded futures on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial markets. Exchange traded options and CFDs and spread bets on options on certain of these markets. Financial binaries, including exchange traded and OTC binary options and fixed odds bets on many of these markets. The operation of a regulated futures and options exchange.

#### Sport

Spread bets and fixed odds bets on sporting and other events and the operation of an online casino.

### Business objective

The Group's objective is to maximise shareholder value by pursuing the following strategies:

- Maintaining a leading position in the markets in which the Group operates;
- Continuing to broaden the client base;
- Expanding the Group's international reach; and
- Continuing to deliver product and technological innovation.

### Business strategies

The Chief Executive's Report provides an overall assessment of the Group's progress during the year and prospects for the future with reference to the business strategies outlined below.

#### Maintaining a leading position in the markets in which the Group operates

The Group is widely recognised as the market leader in the UK financial spread betting market. It also has a market leading position in a number of the countries where it offers CFDs. The Group's strategy is to continue to strengthen market position by offering the broadest range of products and by offering quality and speed of execution.

#### Continuing to broaden the client base

The Group continues to broaden the client base, both directly and through introducers, from what has historically been a relatively narrow but sophisticated group of predominantly retail clients. This includes attracting a greater proportion of leisure-oriented clients for the Group's fixed odds offerings and more market professionals and institutional clients for its CFD business. Further developing the business of market making on betting and financial exchanges, as well as white-labelling opportunities (where the Group's products are branded and distributed in the name of third parties), will extend the reach of the Group's products.

## Nature, objectives and strategies (continued)

### Expanding the Group's international reach

The Group continues to expand its non-UK client base and in the year ended 31 May 2009 revenue from non-UK clients grew to 43% of total revenue (2008: 27%). It has been a significant year for international expansion with the acquisition of FXOnline Japan KK in October and the opening of offices in Luxembourg and Milan. A Portuguese desk was launched from our Madrid office and a number of white label arrangements were established, most notably in France with two of the country's leading online stockbrokers, providing access to extensive client bases. Shortly after the year end, the Group re-launched its US based CFTC-regulated exchange under the new name North American Derivatives Exchange (Nadex) with an expanded product set. Nadex is the only regulated, retail-focused, online futures exchange in the US. The Group will continue to explore the feasibility of other branches or offices where local regulation permits and market conditions are suitable. In addition, the Group continues to extend the range of third parties who introduce clients to the Group and this is an effective way of establishing a presence for the Group's regulated financial business in territories which do not merit the establishment of a local office. The Group has a complete CFD offering, including website, dealing application, customer support and telephone dealing in nine languages, in addition to offering a website and dealing application in a small number of additional languages.

### Continuing to deliver product and technological innovation

The Group recognises the benefits it has experienced as a result of the introduction of innovative products. During the year, a new charting package was launched providing clients with the facility to monitor trends and set parameters to trade from charts. February and March saw the launch of PureDeal (our browser-based financial dealing platform) and CFDs respectively in Japan. The introduction of automated margin calling and the close-out monitor process has led to a significant reduction in the number of clients going into deficit and has allowed a reduction in margin requirements on forex and index products. This culture of innovation is one which the Group intends to maintain in order to continue to be at the forefront of the market in terms of product offering and technology platforms.

## Five year summary

	Year ended 31 May				
	2009	2008	2007	2006	2005 <sup>1</sup>
	IFRS £000	IFRS £000	IFRS £000	IFRS £000	IFRS £000
Revenue	257,089	184,008	121,990	89,391	62,177
EBITDA <sup>2</sup>	131,086	98,493	70,351	52,626	34,949
EBITDA margin <sup>2</sup>	51.0%	53.5%	57.7%	58.9%	56.2%
Profit before taxation (adjusted) <sup>3</sup>	125,872	96,990	68,894	51,140	16,621
Profit before taxation (statutory)	111,259	96,990	68,894	51,140	16,621
Diluted earnings per share (adjusted) <sup>3,4</sup>	24.74p	20.28p	14.52p	10.88p	5.41p
Diluted earnings per share (statutory)	22.31p	20.28p	14.52p	10.88p	5.41p
Normalised earnings per share <sup>2</sup>	N/A	N/A	N/A	N/A	6.75p
Interim dividend paid per share	4.0p	3.0p	2.0p	1.5p	–
Final dividend proposed per share	11.0p	9.0p	6.5p	4.0p	–
Total dividend per share	15.0p	12.0p	8.5p	5.5p	–

<sup>1</sup> Figures reported for 2005 were re-stated to reflect changes in accounting policies brought about as a result of the Group's adoption of International Financial Reporting Standards (IFRS).

<sup>2</sup> EBITDA, EBITDA margin, and normalised earnings per share are defined and explained in the key performance indicators commentary.

<sup>3</sup> Excludes amortisation and impairment of intangibles arising on consolidation.

<sup>4</sup> A reconciliation to statutory earnings per share is provided in note 11 of the financial statements.



## Group revenue

### Group revenue by business segment

The Group operates in two business segments: financial and sport.

	2009 £000	2008 £000	Increase/ (decrease) %
Financial	248,346	172,475	44.0%
Sport	8,743	11,533	(24.2%)
	257,089	184,008	39.7%

### Group revenue by geographical segment

The geographical analysis classifies revenue according to client location reflecting the increasing proportion of revenue derived from outside the UK.

	2009 £000	2008 £000	Increase %
United Kingdom	147,471	134,713	9.5%
Europe	39,530	20,396	93.8%
Asia Pacific	65,500	27,371	139.3%
Rest of World	4,588	1,528	200.3%
	257,089	184,008	39.7%
Proportion of revenue from non-UK clients	42.6%	26.8%	

Certain clients choose to transact through an office that is outside their country of residence. Analysis of revenue by office is reconciled to revenue by location of client as shown below:

2009 Location of client	Location of office				Total £000
	United Kingdom £000	Europe £000	Asia Pacific £000	Rest of World £000	
United Kingdom	147,402	34	35	–	147,471
Europe	9,475	30,039	14	2	39,530
Asia Pacific	172	8	65,178	142	65,500
Rest of World	2,255	90	97	2,146	4,588
Total	159,304	30,171	65,324	2,290	257,089
Financial	150,561	30,171	65,324	2,290	248,346
Sport	8,743	–	–	–	8,743
Total	159,304	30,171	65,324	2,290	257,089

## Group revenue (continued)

### Group revenue by geographical segment (continued)

2008 Location of client	Location of office				Total £000
	United Kingdom £000	Europe £000	Asia Pacific £000	Rest of World £000	
United Kingdom	134,125	538	10	40	134,713
Europe	13,606	6,739	51	–	20,396
Asia Pacific	225	1	27,145	–	27,371
Rest of World	1,350	22	148	8	1,528
<b>Total</b>	<b>149,306</b>	<b>7,300</b>	<b>27,354</b>	<b>48</b>	<b>184,008</b>
Financial	137,773	7,300	27,354	48	172,475
Sport	11,533	–	–	–	11,533
<b>Total</b>	<b>149,306</b>	<b>7,300</b>	<b>27,354</b>	<b>48</b>	<b>184,008</b>

## Group profit

	2009 £000	2008 £000	Increase/ (decrease) %
Financial	150,476	126,265	19.2%
Sport	1,893	1,892	0.0%
Result before unallocated items	152,577	128,157	19.1%
Unallocated administrative expenses	(42,319)	(34,584)	22.4%
Unallocated finance revenue	2,828	4,100	(31.0%)
Unallocated finance costs	(1,619)	(683)	137.0%
<b>Profit before taxation</b>	<b>111,259</b>	<b>96,990</b>	<b>14.7%</b>

## Key performance indicators

The Chief Executive's Report provides an overall assessment of the Group's progress during the year and prospects for the future.

The directors have assessed that the following key performance indicators, together with revenue, EBITDA, EBITDA margin, and earnings per share, are the most effective measures of progress towards achieving the Group's strategies and as such towards fulfilling the Group's business objectives.

	2009	2008	Increase/ (decrease) %
<b>Financial *</b>			
Number of clients dealing	88,336	56,291	56.9%
Average revenue per client (£)	2,495	3,064	(18.6%)
Number of accounts opened	61,538	42,693	44.1%
Number of accounts dealing for the first time	44,291	29,211	51.6%
<b>Sport</b>			
Number of clients dealing	19,246	15,860	21.3%
Number of accounts opened	13,309	10,401	28.0%
Number of accounts dealing for the first time	10,661	8,102	31.6%
<b>Volatility of daily revenue</b>			
Coefficient of variability at 31 May	0.37	0.53	(30.1%)
Average for the year	0.51	0.55	(7.3%)
Highest in year	0.70	0.69	1.4%
Lowest in year	0.36	0.45	(20.0%)

\*FXOnline has been excluded to aid the year on year comparison. Including FXOnline: the number of clients dealing was 112,282; the average revenue per client was £2,212; the number of accounts opened was 74,331; the number of accounts dealing for the first time was 50,364.

### Number of clients dealing

Revenue is determined to a significant extent by the number of clients dealing.

The number of financial clients dealing increased by 57% compared with the previous year. This reflects the underlying growth of the business driven by increased penetration of new and existing markets. In addition, increased levels of market volatility seen during the year will have encouraged clients to trade. For example, the Vix Volatility Index rose from 19.8 on 1 June 2008 to 89.5 in October 2008, a record month for both revenue and number of clients trading.

The number of sports clients dealing directly with IG increased by 21% compared with the previous year.

### Average revenue per financial client

Average revenue per financial client (total revenue divided by the number of clients dealing) varies significantly for different products and geographies. The 19% reduction in the overall average reflects changes in the business mix during the year and the impact of market volatility. The extraordinary levels of market volatility, in particular during the three months ended November 2008, led to record levels of client recruitment and a spike in the number of clients dealing. The newly recruited clients trading during this period have tended to churn at a higher rate than normally experienced, having a detrimental impact on the simple average.

### Number of accounts opened and dealing for the first time

Over the long term, the growth of IG's client base is a key driver of revenue growth. The number of accounts opened and the number of accounts dealing for the first time in the financials business increased by 44% and 52% respectively compared with the previous year and are leading indicators of future prospects. The increases seen in the financials business reflect international diversification and the favourable impact of sustained high levels of market volatility which drives account opening and encourages clients to trade.

### Volatility of daily revenue

The coefficient of variability of daily revenue is a statistical measure of the volatility of the Group's revenue from day to day. The Group calculates this as the 60-day standard deviation of daily revenues divided by the 60-day mean. Over recent years the coefficient of variability has been consistently low reflecting the Group's policy of maintaining low volatility of its revenues and thus maintaining high quality of earnings. The Group has a formal risk policy which includes limits, or a methodology for setting limits for every single financial market which the Group trades. Despite greatly increased volatility in financial markets during the year, coefficient of volatility has continued the past trend and fallen year on year.



## Key performance indicators (continued)

### EBITDA and EBITDA margin

EBITDA represents earnings before exceptional administrative costs, depreciation, amortisation of intangible assets, amortisation and impairment of intangibles arising on consolidation, amounts written off property, plant and equipment and intangible assets, taxation, interest payable on debt and interest receivable on corporate cash balances and includes interest receivable on clients' balances less interest payable to clients. The net interest receivable on client balances is considered to be part of the normal activities of the Group and is therefore included in EBITDA.

EBITDA margin represents EBITDA as a percentage of revenue.

The Group's capital structure changed significantly in September 2003 when the Company raised significant debt and preference shares in order to finance the purchase of IG Group plc by IG Group Holdings plc. This acquisition gave rise to significant goodwill. The Group's capital structure changed again in May 2005 when this debt and preference shares were repaid at the time of the Company's initial public offering (IPO). To facilitate comparison of business performance over time the Group uses EBITDA as a primary profit measure. The Group seeks to achieve rapid growth in EBITDA, and bonuses for most staff other than directors of the Company are linked to EBITDA.

	2009 £000	2008 £000
Operating profit	102,450	83,350
Net interest on client balances	7,600	10,221
Depreciation	5,402	4,016
Amortisation of intangible assets	984	782
Amortisation of intangible assets arising on consolidation	14,613	–
Amounts written off property, plant and equipment and intangible assets	37	124
<b>EBITDA</b>	<b>131,086</b>	<b>98,493</b>
<b>EBITDA margin</b>	<b>51.0%</b>	<b>53.5%</b>

EBITDA for the year was £131.1m, a 33% increase on the prior year. This growth was driven by the increase in revenue, partially offset by a substantial increase in the charge for impairment of trade receivables leading to a reduced EBITDA margin in the year under review to 51.0% from 53.5%. EBITDA margin in the second half of the year increased to 54.2% from 47.7% in the first half, reflecting a much reduced impairment of trade receivables charge in the second half of the year following changes made to reduce client credit risk.

### Earnings per share

The Group seeks to maximise the growth in earnings per share over time in order to maximise shareholder value. The Group's Long Term Incentive Plans (LTIPs) and directors' bonuses are linked to growth in diluted adjusted earnings per share and growth in the Company's share price. Further details of LTIPs and directors' bonuses are set out in the directors' remuneration report and note 25 to the financial statements.

Diluted adjusted earnings per share were 24.74p compared with 20.28p in the previous year, an increase of 22.0%.

In order to facilitate comparison of performance between periods the Group uses diluted adjusted earnings per share (EPS) as its primary measure of EPS. Diluted adjusted EPS represents adjusted earnings divided by the number of ordinary shares in issue and to be issued. Adjusted earnings comprise earnings excluding amortisation and impairment of intangibles arising on consolidation net of taxation and minority interests.

The directors consider that the basic and diluted earnings per share calculations for the years ended 31 May 2005 and prior does not fully reflect changes in the Group's capital structure referred to above. In order to facilitate comparison of performance over the periods to 31 May 2005, normalised earnings per share was established. Normalised earnings per share were not calculated for the year ended 31 May 2006 or subsequently.

Normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue and to be issued, adjusted for normalising items. Normalising adjustments to earnings comprise the impact, net of tax, of exceptional administrative costs, interest and charges on debt finance, redeemable preference share interest payable and tax items relating to the financing structure. Normalising adjustments to the number of shares comprise the impact of restating the weighted average number of ordinary shares in issue prior to a subdivision and re-designation on 31 May 2005 to the equivalent weighted average number of ordinary shares in issue in the period and treating the issue of new ordinary shares at the time of the Company's flotation as if it had taken place prior to 1 June 2002.

## Employees

The Group's continued growth is highly dependent upon attracting and retaining high calibre employees.

The Group pays performance-related bonuses to all staff and has made awards under LTIPs to key personnel. In addition, the opportunity to acquire shares under various Share Incentive Plans (SIPs) has been made available to all UK and Australian staff, with a further plan to be introduced to USA staff in the year to 31 May 2010. These awards reward employees for past performance and help to retain them in the future. The Group provides a range of benefits to its employees, including pension contributions, and private health cover.

The average number of employees in the Group increased in the year from 551 to 761, in part reflecting the acquisition of FXOnline. At the year end approximately 30% of staff were based overseas (2008: 20%).

The Group aims to provide a challenging and rewarding working environment. A significant proportion of the employment cost consists of performance-related bonuses and commissions which vary according to revenue, profitability or earnings per share growth. The majority of employees are in a pool scheme that is driven by the overall profitability of the Group and allocated on a discretionary basis. Other staff are in specific schemes driven by formulae related to earnings per share growth or elements of group revenue and profits.

Inclusive of national insurance and pension costs, employment costs comprise:

	2009 £000	2008 £000
Fixed employment costs	40,165	27,768
Performance-related bonuses and commissions	10,661	15,971
Share based payment schemes	3,256	4,716
	54,082	48,455

Performance-related bonuses and commissions are further split as follows:

	2009 £000	2008 £000
Pool scheme	5,136	10,157
Specific schemes	5,525	5,814
	10,661	15,971

## Financial position

### Property, plant and equipment

The Group continues to invest heavily in technology in order to enhance its capacity and resilience which are critical to the success of the business. During the year, the Group completed the fit out of its disaster recovery location in Hayes, Middlesex and additional office space was taken in London, Europe and the USA all requiring fit-out expenditure. In total, additions during the year amounted to £5.1m compared with £5.7m in the previous year. Depreciation charged in the year amounted to £5.4m (2008: £4.0m).

### Intangible assets

Goodwill at the start of the year principally comprised that arising on the acquisition of IG Group plc and its subsidiaries in 2003. The increase in goodwill during the year of £107.0m to £217.0m reflects the acquisition of FXOnline. Goodwill has been capitalised and under the provisions of IFRS is subject to an annual impairment review. There were no impairment write-offs in the year.

Expenditure on other intangible assets amounted to £46.0m of which £43.5m related to FXOnline trade name and customer relationships. These are being amortised using the sum of digits method over their useful lives of two and five years respectively. Amortisation charged in the year amounted to £15.6m (2008: £0.8m).

### Working capital

An explanation of the liquidity exposure faced by the Group and the management of this risk is included in note 30 to the financial statements. The working capital position at the year end was as follows:

	2009 £000	2008 £000
Amounts due from brokers	178,261	252,522
Amounts due from clients	4,824	10,801
Cash and cash equivalents	520,421	471,722
Amounts due to clients	(511,656)	(582,689)
Other current net liabilities	(58,958)	(37,533)
Net working capital	132,892	114,823

Amounts due to and from clients include unrealised profits/losses on clients' open positions, profits/losses on closed positions as well as the cash balance on clients' accounts. The Group hedges the vast majority of clients' open positions in the financials business and amounts due from brokers represent cash or treasury bills placed with counterparties in order to provide initial and variation margin to support these positions. Net working capital increased by £18.1m during the year. Excluding the impact of FXOnline which accounts for £28.5m of the balance at the year end (2008: £nil), net working capital decreased by £10.5m.

The Group offers credit only to a minority of clients. A charge for impairment of trade receivables (amounts due from brokers and clients) is established where there is objective evidence of non-collectability. Reference is made to an aged profile of debt and the provision is subject to management review. The charge for the year was approximately 7.1% of revenue (2008: 2.2%), reflecting the higher incidence of doubtful debts resulting from extreme market volatility in October 2008. The Group continues to pursue outstanding debts vigorously.

At the year end, the Group had total committed bank facilities of £154.4m (2008: £200.0m), none of which were drawn. Facilities of £120.0m (2008: £160.0m) are to provide short-term liquidity as necessary and facilities of £34.4m (2008: £40.0m) provide for paperless settlement of share transactions (CREST).

Extraordinary movements in world markets during October 2008 coincided with large cash payments in respect of the final dividend (£29.6m) and the acquisition of FXOnline (£40.6m net of share placing proceeds). This resulted in a short term funding requirement to meet the Group's payment obligations to market counterparties and profit making clients before payment was received from losing clients. Consequently the Group utilised its committed bank facilities for a period of 18 days, which were drawn to a peak of £88m of an available £160m.

### Cash flow

Cash and cash equivalents (before the effect of exchange rates) increased by £34.4m during the year, reflecting the cash generative nature of the business. The most significant cash outflow during the year was £121.6m in respect of the acquisition of FXOnline, part funded by a share placing which raised £81.0m in cash net of issue costs. Other outflows included £20.3m for taxation (2008: £29.5m); £44.0m for dividends (2008: £31.1m) and capital expenditure of £8.0m (2008: £6.2m).

The Group holds client money on account in segregated bank accounts which at the year end amounted to £421.0m compared with £369.0m in the previous year.

## Financial position (continued)

### Capital structure

	2009 £000	2008 £000
Equity share capital	18	16
Share premium	206,246	125,235
Other reserves	45,281	11,576
Retained earnings	141,819	107,849
Shareholders' equity	393,364	244,676
Minority interests	2,549	40
Total equity	395,913	244,716
Redeemable preference shares	40	40
Total liabilities	40	40

During the year, 4,218,970 ordinary shares with an aggregate nominal value of £210 were issued following the exercise of Long Term Incentive Plan awards for a consideration of £210. In addition, 27,864,407 ordinary shares with an aggregate nominal value of £1,393 were issued in a share placing at a price of £2.95 raising £82.2m excluding issue costs of £1.2m.

The Group remains debt free except for preference shares. Own shares held in Employee Benefit Trusts were purchased to satisfy future obligations of the SIP awards.

### Dividend policy

The Company's dividend policy is for the dividend payout proportion to be approximately 60% of earnings (based on diluted adjusted EPS). This policy will be kept under review, but the Company's current intention is to pay out a similar proportion of earnings in the future.

During the year the Company paid an interim dividend of 4.0p per share amounting to £14.4m. The final dividend for 2009 proposed for approval by shareholders at the AGM is 11.0p per share which will amount to £39.6m taking the total dividends for the year to £54.0m. This represents a dividend cover of 1.6, consistent with prior year.

### Regulatory capital

Three of the Group's UK operating subsidiaries are regulated by the FSA. The FSA imposes a minimum level of regulatory capital which must be retained by each Company and also an overall level of regulatory capital which must be maintained by the Group.

At 31 May 2009 the Group had an overall consolidated FSA regulatory capital surplus as disclosed in note 30 to the financial statements of approximately £81m (2008: £67m).

On behalf of the Board



**Steve Clutton**, Finance Director, 21 July 2009



# Corporate Governance

## Statement by the directors in compliance with the Combined Code

The Board is satisfied that the Group complied with the provisions of the Combined Code on corporate governance, issued by the Financial Reporting Council in June 2008, for the whole year, with the exception that the Group was not compliant with paragraph A3.2 throughout the year.

Paragraph A3.2 of the Combined Code requires that at least half of the Board, excluding the Chairman, are independent non-executive directors. The Board is currently comprised of four executive directors and four non-executive directors excluding the Deputy Chairman and the Chairman.

The Deputy Chairman, Nat le Roux is considered a non-independent director as he is a former Chief Executive of the Group. The Board considers the value he brings with 17 years' experience in the uniquely specialised market of spread betting and retail contracts for difference justifies his position on the Board and is in the best interests of the Group and the shareholders.

Robert Lucas, is considered to be a non-independent non-executive director as he represents funds managed or advised by CVC Capital Partners Limited and associates ("CVC"), a substantial shareholder, holding 8.4% of the ordinary share capital of the company at 31 May 2009 (2008: 7.7%). Robert has been involved with the IG Group since 2003 and consequently has a detailed knowledge of the company and its businesses. He is valued for his challenging participation at Board meetings, and his deep private equity experience is highly regarded by the independent non-executive directors. On balance weighing up all the considerations and the best interests of the shareholders the Board considers that Robert's presence on the Board is a positive asset to the IG Group.

The Board recently commissioned the board evaluation team of the Institute of Chartered Secretaries and Administrators ("ICSA") to carry out a thorough evaluation of the performance of the Board. ICSA's board evaluation report (the "report") has found that the performance of the Board is towards the upper quartile of public company boards generally. It acknowledged that "the Group has a Board whose members appear well qualified and appropriate to manage the shareholders' interests", and the team recognised the value of having experienced non-executives on the Board during times of turbulent economic and market conditions.

Nevertheless the report also recommended that the Board take heed of institutional investors who were concerned with the Group's non-compliance with A3.2 of the Combined Code by appointing an additional independent non-executive director. Notwithstanding the Board's stance that the three independent non-executive directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making, the Board has decided to recruit an additional independent director later in the financial year after first seeking a replacement for Sir Alan Budd, who has indicated to the Board his intention to retire.

Brief biographies of the directors appear on pages 12 and 13.

## The workings of the Board and its Committees

### The Board

The division of responsibilities between the Chairman and the Chief Executive is clearly defined in writing and has been approved by the Board.

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 49 and a statement regarding the use of the going concern basis in preparing these financial statements is given on page 47.

The Board has a formal schedule of matters specifically reserved to it. These include:

- setting Group strategy;
- approving major acquisitions, divestments and capital expenditure;
- approval of extension of the Group's activities into new business or geographic areas;
- approving annual budgets;
- reviewing operational and financial performance;
- reviewing the Group's systems of internal control and risk management;
- approving Board, Board Committee and Company Secretary appointments;
- ensuring adequate succession planning for the Board and senior management;
- defining and setting Board Committee terms of reference;
- approving policies relating to directors' remuneration and the severance of directors' contracts;
- setting risk appetite and approving any changes to the Group's risk management policy which materially increase the risk profile of the Group; and
- receiving reports on the views of the Company's shareholders.

Matters not specifically reserved to the Board are delegated to the executive directors. These include:

- the development and recommendation of strategic plans for the Group;
- implementation of the strategies of the Group;
- day to day monitoring of the operating and financial results of the Group;
- prioritising the allocation of capital, technical and human resources; and
- developing and implementing risk management systems, policies and procedures.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Directors receive appropriate training as necessary when they are appointed. Training on the duties and responsibilities of directors is provided by the Group's legal advisers.

The Group purchases appropriate liability insurance for all directors and staff.

The Board meets regularly; at least five times a year. In addition the Board meets when necessary to discuss ad hoc emerging important issues that require consideration between regular board meetings. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are appropriate and fully considered. To enable the Board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed to all directors in advance of board meetings and financial information is distributed monthly. The Chairman ensures that the directors take independent professional advice as required.

The following committees deal with specific aspects of the Group's affairs:

### Remuneration Committee

The Remuneration Committee comprises Roger Yates (Chair), Sir Alan Budd, Jonathan Davie and Martin Jackson, who are all independent directors. It makes recommendations to the Board, within agreed terms of reference, on an overall remuneration package for executive directors in order to attract, retain and motivate high quality directors capable of achieving the Group's objectives. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance-related bonus schemes, pension rights, compensation payments and contingent share awards. The Committee approves all share-based awards under the Group's LTIP and SIP schemes and approves the remuneration of the Chairman. The Board itself determines the remuneration of the other non-executive directors.

## The workings of the Board and its Committees (continued)

### Audit Committee

The Audit Committee members comprising Martin Jackson (Chair, with recent and relevant financial experience), Roger Yates and Sir Alan Budd are all independent non-executive directors. The Finance Director, Group Financial Controller, Head of Internal Audit, Head of Compliance, Company Secretary and the external auditors attend the Audit Committee by invitation appropriate to the matters under consideration. Other directors, representatives from the finance function and other areas of the business attend the Audit Committee as and when required. The Audit Committee normally meets four times a year and as and when required.

The main duties of the Audit Committee are:

- to monitor the integrity of the financial statements of the Group including annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance, reviewing significant issues and judgements contained therein;
- to keep up to date with changes to Accounting Standards and to review any changes to accounting policies year on year;
- to consider and make recommendations to the Board on the appointment, re-appointment and removal of the company's external auditors, which is subject to shareholder approval;
- to review the effectiveness of the Group's internal controls and risk management systems;
- to monitor and review the effectiveness of the Group's internal audit function;
- to review the overall effectiveness of the Group's implementation of the FSA's Treating Customers Fairly (TCF) requirements; and
- to review the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Company Secretary drafts the agenda for each Audit Committee, ensuring that each item in the terms of reference is covered at least once in the financial year and more frequently if required, which is then finalised by the Chair of the Audit Committee.

During the financial year the focus has been on keeping up to date with changes in Accounting Standards, developments in financial and corporate governance reporting requirements and developments in the FSA's Disclosure and Transparency Rules (DTR).

Summary of main activities undertaken by the Audit Committee during the financial year:

- reviewed the annual report and interim results of the Group;
- reviewed and approved key regulatory documents produced by the Group – Internal Capital Adequacy Assessment Process (ICAAP) and Capital Requirements Directive (CRD), Pillar 3 (Disclosures) prior to formal approval by the Board;
- reviewed the external auditors' audit planning and other reports, proposed audit fees and performance of the external auditors including their independence and objectivity;
- reviewed the policy on the use of external auditors for non-audit services and reviewed all non-audit services provided by the external auditors to ensure compliance with the policy as part of the safeguards in place to ensure the independence of the audit is not compromised;
- reviewed the effectiveness of the Group's internal controls and risk management systems;
- reviewed the effectiveness of the Group's internal audit function including a review of the three-year rolling internal audit plan, individual internal audit reports and the report on the implementation of internal audit recommendations;
- reviewed reports from the compliance functions;
- reviewed the effectiveness of the Group's implementation of the FSA's Treating Customers Fairly (TCF) requirements;
- reviewed the Company's procedures for detecting internal fraud; and
- reviewed the Group's whistle-blowing arrangements.

In addition, the members of the Audit Committee meet privately in separate meetings with Head of Internal Audit, Head of Compliance and external auditors to focus on respective areas of responsibility and to discuss any potential issues where support from the Audit Committee may be required to address any issues arising.

The Audit Committee members also received presentations from IT production, IT development and the Sports department during the course of the financial year as part of an on-going programme to provide them with more in-depth knowledge of the operations of the business.

Following each meeting the Committee reports to the Board on its activities.

## The workings of the Board and its Committees (continued)

### Nomination Committee

The Nomination Committee considers appointments to the Board and meets as necessary. The Nomination Committee is responsible for nominating candidates to fill board vacancies and for making recommendations on board composition and balance.

The Committee leads the process for making appointments to the Board or where the appointee is likely to become a board member. The Committee ensures there is a formal, rigorous and transparent procedure for the appointment of new directors to the Board through a full evaluation of the skills, knowledge and experience of candidates. The Committee also ensures plans are in place for orderly succession for appointments to the Board, and to other senior management positions. Responsibility for making senior management appointments is vested in the Chief Executive.

The membership of these committees was as follows:

Audit Committee	Remuneration Committee	Nomination Committee
Martin Jackson (chair) Sir Alan Budd Roger Yates	Roger Yates (chair) Sir Alan Budd Jonathan Davie Martin Jackson	Jonathan Davie (chair) Sir Alan Budd Martin Jackson Roger Yates

Copies of the terms of reference of these committees can be obtained from the Company Secretary on request and are available in the investor relations section of the Group's website, [www.iggroup.com](http://www.iggroup.com).

## Relations with shareholders

The Board recognises the importance of communications with shareholders. The Chairman's Statement, Chief Executive's Report and Operating and Financial Review include detailed reviews of the business and future developments. There is regular dialogue with institutional shareholders including presentations by management around the time of the Company's preliminary announcement of the year-end results and at the half year. These presentations are made available on the Group's website at [www.iggroup.com](http://www.iggroup.com) which also provides information to shareholders and prospective shareholders. Feedback is provided to the Board following these investor presentations of any views or concerns expressed by shareholders.

The Board uses the annual general meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that all of the directors, including the chairmen of the Remuneration and Audit Committees, are available at annual general meetings to answer questions. Details of resolutions to be proposed at the annual general meeting will be contained in the notice of the meeting.

Roger Yates, the Senior Independent Director, is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through other mechanisms for shareholder communication.

The Chairman and the Senior Independent Director provide feedback to the Board of any views or concerns expressed to them by shareholders.

## Internal control and risk management

The board of directors has overall responsibility for the system of internal control and has delegated responsibility to the Audit Committee for reviewing the effectiveness of the Group's system of internal control at least annually. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and can only provide reasonable assurance, but not absolute assurance against the risk of material misstatement or loss.

The Audit Committee has reviewed the effectiveness of the Group's system of internal control, covering financial, operational and compliance controls and risk management systems, and no significant weaknesses were identified during this review. Furthermore, the Audit Committee regularly receives and reviews reports on internal control from internal audit and receives quarterly reports from the compliance function.

Executive directors and senior managers are responsible for the day-to-day operation of the Group's system of internal control which aims to provide reasonable assurance over the:

- accomplishment of business objectives and goals;
- compliance with policies, plans, procedures, laws and regulations;
- reliability and integrity of financial and management information;
- economic and efficient use of resources; and
- safeguarding of assets.



## Internal control and risk management (continued)

The main features of the Group's system of internal control are:

### Organisation structure

The organisation of people within the Group is contained within the organisation charts which document the responsibilities of the Executive Directors and clear reporting lines through the organisation. The organisation charts are reviewed and changed to meet business requirements.

### Risk management framework and risk registers

The Group's risk appetite and significant risk management policies are set by the Board. The main risks relate to market, credit, liquidity and operational risk. The Risk Committee, comprising chief executive officer, chief operating officer and finance director as well as the dealing, credit and risk directors, meets regularly to review the risks faced by the Group, within the parameters set by the Board. An on-going process of identifying, evaluating and managing significant risks using risk registers is co-ordinated by the risk function, headed by the risk director. Heads of department are responsible for departmental risk registers and these are updated regularly and include appropriate action plans for improving controls to mitigate risks. The key risks are reviewed regularly by the Board and the Audit Committee and internal audit carries out an annual review of the risk management process and reports to the Audit Committee. The process has been in place for the full year under review and up to the date of approval of the annual report and accounts.

The Group's approach to the management of key risks arising from financial instruments including market, credit and liquidity risk is discussed in note 30 to the financial statements together with other non-financial risks. The main such risk is operational risk, in particular the risk of failure of critical business systems, which would affect client risk positions, data feeds and trading systems. A comprehensive business continuity and disaster recovery plan is in place which greatly reduces the likelihood and severity of an occurrence. Failover to IG's alternative data centre is tested at regular scheduled intervals and disaster recovery is tested by closing the normal office environment. The multiple offices which IG operates enable it to continue critical operations within five minutes of a localised disaster in one of the key operational sites.

### Policy framework

A framework of policies covering HR, Compliance and Information Security requirements is in place to provide guidance to all members of staff. Policies are reviewed and changed as and when required and a new channel for distributing policies to all staff across the Group is currently being introduced.

### Financial planning and reporting

Business managers across the Group have budget responsibility with oversight of budgeting and reporting on performance against budget provided by the Financial Planning and Analysis team.

## Attendance at Board and Committee meetings

The number of full board meetings and committee meetings attended by each of the directors as members of each committee during the year was as set out below. In each case the first figure indicates the number of meetings attended and the second figure indicates the maximum number of meetings during the year for which each individual was a director or committee member.

	Full board meetings	Nomination Committee	Audit Committee	Remuneration Committee
Jonathan Davie (Chairman)	7/7	–	–	3/4
Tim Howkins (Chief Executive)	7/7	–	–	–
Steve Clutton	7/7	–	–	–
Peter Hetherington	7/7	–	–	–
Andrew MacKay	6/7	–	–	–
Sir Alan Budd	7/7	–	4/4	3/4
Martin Jackson	6/7	–	4/4	3/4
Nat le Roux	6/7	–	–	–
Robert Lucas	7/7	–	–	–
Roger Yates	7/7	–	4/4	4/4

## Evaluation of the Board's performance

As mentioned on page 29, an independent evaluation of the Board's performance was carried out by ICSA's board evaluation team. The evaluation took place in May and June this year and the final report was submitted to the Board in July. The evaluation consisted of individual interviews with each director and the preparation of a final report.

## Review of the Audit Committee's performance

During the year the Audit Committee reviewed its performance. The review was carried out using the Audit Committee Institute's evaluation checklist and a discussion of the results by the Committee took place at a meeting in May 2009. The results were reported to the Board in May 2009.

## Review of the Remuneration Committee's performance

During the year the Remuneration Committee reviewed its performance. The review consisted of all members completing an evaluation questionnaire and a discussion of the results by the Committee took place at a meeting in May 2009. The results were reported to the Board in May 2009.

## Directors subject to re-election

In accordance with the Company's articles of association, the following directors retire, and being eligible, offer themselves for re-election at the next annual general meeting: Sir Alan Budd, Roger Yates and Martin Jackson. Sir Alan Budd has indicated his intention to stand down from the Board once a suitable replacement independent director has been appointed to the Board. Sir Alan's replacement will offer him/herself for election at the AGM following his/her appointment. This is in addition to the recruitment of an additional independent non-executive referred to on page 29.

# Directors' Remuneration Report

This report has been prepared by the Board following the provisions in Schedules 5 and 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and gives details of the remuneration and service contracts of the directors.

## Information not subject to audit

The Remuneration Committee, whose composition is set out on page 32, determines the contract terms, remuneration and other benefits for each of the executive directors, including performance-related bonus schemes, pension rights, compensation payments and contingent awards.

The Committee aims to put in place a remuneration structure for executive directors which positions total remuneration:

- competitively against the market;
- at median for target performance; and
- at upper quartile for above-target performance.

The Board itself determines the remuneration of the non-executive directors.

## Basic salary

During the year, the Remuneration Committee commissioned external advisors to carry out a comprehensive review of the remuneration of the Executive Directors and of the Chairman. As regards the former, the review benchmarked the salary and total remuneration of the Company's Executive Directors against a peer group of comparable FTSE 250 companies. This benchmarking revealed that all of the Executive Directors were at or close to the bottom of the lowest quartile in relation to salary and generally well below median as regards total compensation. In addition, the Chief Operating Officer, Peter Hetherington and the Head of Asia Pacific, Andrew MacKay were given additional responsibilities during the year.

While the Remuneration Committee was aware of heightened investor concern about executive pay, it felt that there was a strong case for increases in current circumstances. This was particularly true since IG has been and remains a successful, growing business as revealed in the results shown elsewhere in this Annual Report. Therefore the Remuneration Committee approved the following salary increases for the Executive Directors effective from 1st June 2009:

<b>Tim Howkins</b>	- from £265,000 to £325,000
<b>Steve Clutton</b>	- from £200,000 to £215,000
<b>Peter Hetherington</b>	- from £160,000 to £200,000 *
<b>Andrew MacKay</b>	- from £190,000 to £235,000

Since this decision, Tim Howkins has decided that, against the background of limited or zero salary increases for most IG employees, his new salary should be deferred for 12 months, to be effective from 1 June 2010.

The Remuneration Committee also decided to bring the Chairman's salary more into line with the median for Non-Executive Chairmen of comparable FTSE 250 companies. Accordingly, his salary has risen to £120,000 from £80,000, with effect from 1 June 2009.

In the future, the Remuneration Committee has decided to review the remuneration of the Executive Directors annually.

\* Peter Hetherington's salary changed with effect from 1 January 2009.

## Performance-related bonuses

The annual cash bonus for IG's Executive Directors is calculated by reference to growth in diluted adjusted earnings per share (EPS). For the year ended 31 May 2009, this required EPS growth of 35% to achieve a maximum bonus, set at 200% of salary. For the same period, no bonus was payable if EPS growth was below 17%. As shown elsewhere in the Annual Report, actual EPS growth for the year was 21.99% which resulted in a bonus of 62.4% of salary for each of the Executive Directors. In cash terms, the total bonuses payable to the four Executive Directors was £0.5m compared to £1.6m in the previous year.

For the year which began on 1 June 2009, the Remuneration Committee was faced with the challenge of calibrating the bonus scheme against a much more difficult financial background and one in which IG is not immune. To achieve a maximum bonus, again set at 200% of salary, the Committee has set a target of 15% EPS growth or higher. At 7.5% EPS growth a bonus of 100% of salary is payable and below 2.5% growth, no bonus is paid. The Committee feels that the new targets represent an appropriate balance between a stretching objective but one which is not completely unachievable. In a more benign environment in the future it is possible that the EPS growth targets will be increased from the levels set out above.

## Information not subject to audit

### Performance-related bonuses (continued)

The Remuneration Committee also decided, in the light of emerging FSA guidelines, to introduce an element of deferral into the cash bonus scheme. The first £100,000 of any bonus to be paid in cash; one third of the resulting balance would also be paid in cash and the remaining two thirds deferred for one year and provided in shares. The Remuneration Committee will continue to monitor FSA guidelines on remuneration.

The Remuneration Committee retains the right to reduce the bonuses payable if it considers that the formula has not produced an appropriate result.

Performance-related bonuses are paid in full within three months of the year end.

### Long-term incentive plans

The Group operates Long Term Incentive Plans (LTIPs) for management, including the Executive Directors. Awards were made under the LTIPs during the years ended 31 May 2005, 2007, 2008 and 2009 which vest(ed) on publication of the results for the financial years to 31 May 2008, 2009, 2010 and 2011 respectively. The maximum participation limit of the LTIP scheme is 10% of the issued share capital in a ten-year rolling period.

The Remuneration Committee considers delivery of high rates of growth in diluted adjusted earnings per share to be a key driver of shareholder return. The vesting criteria below were selected to ensure that senior management has significant incentive to deliver high rates of growth. LTIP awards are discussed further in note 25 to the financial statements.

Awards may be made to the executive directors in future on the recommendation of the Remuneration Committee. The Remuneration Committee will determine appropriate vesting conditions for future awards with regard to prevailing conditions at the time the awards are granted.

The Remuneration Committee intends to make awards in the year ending 31 May 2010 to senior management, including the executive directors, with no single award exceeding four times salary.

The vesting criteria of these plans are based on compound annual growth rate in diluted adjusted earnings per share and share price growth over the relevant three year period as shown in the table below:

Year of award	Scheme	Base period (year ended 31 May)	Base earnings per share (pence)	Measurement period (year ended 31 May)	Compound annual growth	% of award vesting
31 May 2009	Share price growth award	2008	N/A *	2011	<22.5% 22.5-100%	Nil 0-100%
31 May 2009	Earnings per share award	2008	20.28	2011	<12% 12-18% 18-25%	Nil 0-50% 50-100%
31 May 2008	Share price growth award	2007	N/A *	2010	<22.5% 22.5-100%	Nil 0-100%
31 May 2008	Earnings per share growth award	2007	14.52	2010	<20% 20-25% 25-31%	Nil 37.5-75% 75-100%
31 May 2007	Senior management award	2006	10.88	2009	<10% 10-20% 20-30% 30-40% 40-50%	Nil 0-40% 40-70% 70-90% 90-100%
31 May 2007	Executive award	2006	10.88	2009	<20% 20-50%	Nil 0-100%
31 May 2005	Senior management IPO high growth award	2005	6.75	2008	<20% 20-50%	Nil 0-100%
31 May 2005	Senior management basic award	2005	6.75	2008	<15% 15-25%	Nil 0-100%

\* share price growth is determined on a base share price of 310.9 pence (2008) and 306.8 pence (2009).

In all cases vesting is pro-rata between the lower and upper limits.



## Information not subject to audit (continued)

### Long-term incentive plans (continued)

In order to obtain tax-favoured treatment for the Group and participants, up to 100% of the ultimate value of the LTIP awards made in the year ended 31 May 2009 ("2009 LTIP"), which is conditional on the performance conditions noted above, will be delivered to the participants using HM Revenue and Customs ("HMRC") approved options. The HMRC approved options have been granted to participants subject to the rules of the IG Group Limited Executive Share Option Scheme ("Approved Plan") which has been updated and re-approved by HMRC. These approved options have exactly the same vesting and exercise conditions as the 2009 LTIP awards. In order to ultimately exercise a 2009 LTIP award, a participant will have to first exercise the Approved Plan option and use the IG Group Limited shares acquired as ultimate payment for that 2009 LTIP award.

The Company operates a Share Incentive Plan (SIP) for all UK employees except executive directors who are not able to participate in the scheme.

### Benefits

The Group provides a range of benefits to its employees, including private health cover and health club membership. The executive directors are entitled to participate in these non-cash benefits on equal terms with all other staff. The Group ceased providing health club membership to all staff from 1 June 2009.

### Pensions

The Group contributes 15% of basic salary to personal pensions for each of the executive directors. As an alternative to the payment of part of a performance-related bonus or basic salary, directors may elect to receive an equivalent contribution to their pension.

### Fees

The fees for non-executive directors are determined by the Board. The non-executive directors are not involved in any discussions or decisions by the Board about their own remuneration.

### Service contracts

During the year, the executive directors' service contracts were novated to IG Group Limited, a wholly owned intermediate holding company.

Each of the executive directors is employed under a service contract for the benefit of the Company and the Group, which can be terminated on six months notice by either the Company or the executive director. All service contracts are continuous and contractual termination payments are for the unexpired notice period. The effective dates of the service contracts for each of the executive directors as at the date of this report are:

### Executive directors

Tim Howkins	12 April 2005
Steve Clutton	2 October 2006
Peter Hetherington	12 April 2005
Andrew Mackay	12 April 2005

The non-executive directors were each appointed for an initial term of 12 months with appointment continuing indefinitely thereafter subject to re-election, but capable of being terminated on three months notice.

There are no special provisions for compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of individual cases of early termination and determine compensation payments accordingly.

## Information not subject to audit (continued)

### Interests in share capital

The directors who served during the year and their beneficial interests in the share capital of the Company were as follows:

	31 May 2009 Ordinary Shares	31 May 2009 Preference Shares	31 May 2008 Ordinary Shares	31 May 2008 Preference Shares
J R Davie	1,000,000	–	910,000	–
T A Howkins	4,601,291	10,000	4,081,800	10,000
S Clutton	17,169	–	3,500	–
P G Hetherington	976,620	10,000	909,900	10,000
A R MacKay	2,010,680	10,000	1,456,225	10,000
Sir Alan Budd	27,438	–	16,667	–
D M Jackson	–	–	–	–
R R Lucas	47,312	–	42,664	–
N B le Roux	222,100	10,000	222,100	10,000
R P Yates	25,000	–	25,000	–

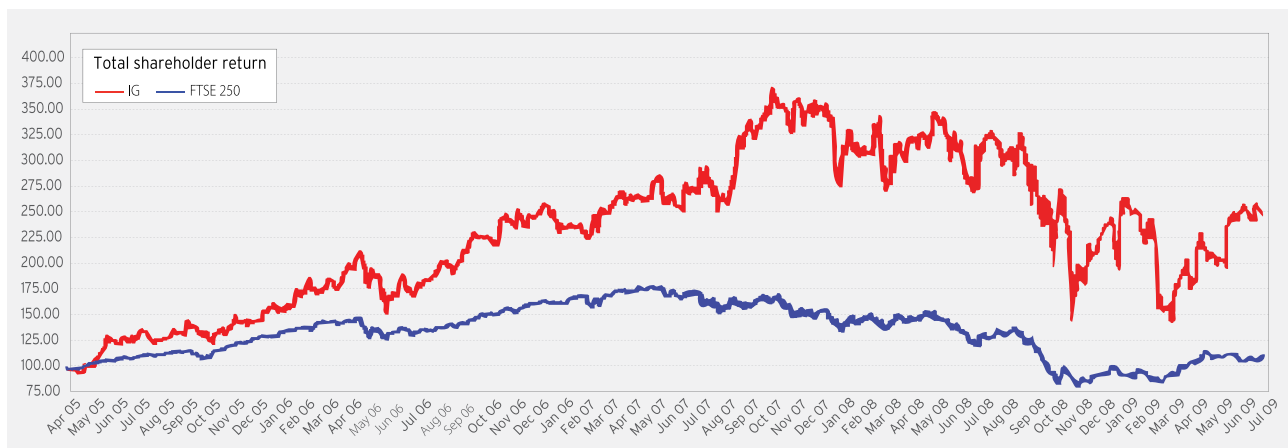
There have been no changes in directors' interests in share capital between the year end and the date of the annual report.

The market price of the Company's ordinary shares on 31 May 2009 was 226.0p and the high and low share prices in the year were 390.0p and 166.0p respectively.

### Performance graph

The following graph illustrates the performance of IG Group Holdings plc ordinary shares measured by total shareholder return (share price growth plus dividends paid) in the period since conditional dealings commenced on the London Stock Exchange on 27 April 2005. The most appropriate benchmark is considered by the directors to be the FTSE 250 index as it represents a broad equity market index in which the Company is a constituent member.

The figures have been rebased to 100 as at 27 April 2005 in order to aid comparison and are presented to 20 July 2009.



## Information subject to audit

### Directors' remuneration

This section of the report sets out the remuneration of the directors for the year ended 31 May 2009. The remuneration of the directors who served during the year was as follows:

	Basic salary and fees £000	Other benefits and payments <sup>1</sup> £000	Performance related bonuses £000	Pension elections <sup>2</sup> £000	Year ended 2009 £000	Year ended 2008 £000
<b>Executive directors:</b>						
T A Howkins	265	1	165	–	431	795
S Clutton	200	–	125	–	325	420
P G Hetherington <sup>4</sup>	177	–	110	(35)	252	281
A R MacKay <sup>5</sup>	190	–	119	(21)	288	358
	832	1	519	(56)	1,296	1,854
<b>Non-executive directors:</b>						
J R Davie	80	–	–	–	80	80
Sir Alan Budd	35	–	–	–	35	35
D M Jackson	40	–	–	–	40	40
R R Lucas <sup>3</sup>	30	–	–	–	30	30
N B le Roux	35	–	–	–	35	35
R P Yates	35	–	–	–	35	35
	1,087	1	519	(56)	1,551	2,109

1 All executive directors are entitled to receive professional subscriptions, private health cover and health club membership.

2 Executive directors can elect to receive pension contributions in lieu of performance-related bonuses and salary. These contributions are deducted in the remuneration table and included within pension entitlements below inclusive of employers' national insurance.

3 Fees of £30,000 (2008: £30,000) relating to the services of Robert Lucas as a director of the Company were paid to CVC Capital Partners Limited.

4 Included within pension elections is £25,000 of salary sacrificed in relation to extended paternity leave for 2008.

5 In addition, Andrew MacKay received £32,000 (2008: £nil) as a living allowance as part of his relocation to Japan.

There was no compensation for loss of office paid during the year (2008: £nil).

### Pension entitlements

In addition, the Group contributed to personal pensions for each of the executive directors as follows:

	2009 £000	2008 £000
T A Howkins	40	40
S Clutton	30	235
P G Hetherington	66	217
A R MacKay	52	233
	188	725

There were no contributions made for the non-executive directors during the year ended 31 May 2009.

## Information subject to audit (continued)

**Interests in Long Term Incentive Plans**

Awards under the Group's LTIPs have been made to each of the executive directors. The awards made and those that have lapsed or been exercised during the year, together with the maximum numbers of shares that can vest are as follows:

	Award date	Share price at award date	Number as at 31 May 2008	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2009
<b>T A Howkins</b>							
Senior management IPO basic award	16 May 2005	112.50p	141,666	–	–	(141,666)	–
Senior management IPO high growth award	16 May 2005	112.50p	425,000	–	(81,897)	(208,334)	134,769
Executive award	7 Aug 2006	217.00p	122,120	–	–	–	122,120
Earnings per share award	23 July 2007	312.25p	169,736	–	–	–	169,736
Share price growth award	23 July 2007	312.25p	169,736	–	–	–	169,736
Earnings per share award	30 Sept 2008	313.75p	–	174,917	–	–	174,917
Share price growth award	30 Sept 2008	313.75p	–	174,918	–	–	174,918
			1,028,258	349,835	(81,897)	(350,000)	946,196
<b>S Clutton</b>							
Senior management award	4 Oct 2006	261.75p	76,409	–	–	–	76,409
Executive award	4 Oct 2006	261.75p	229,226	–	–	–	229,226
Earnings per share award	23 July 2007	312.25p	96,077	–	–	–	96,077
Share price growth award	23 July 2007	312.25p	96,077	–	–	–	96,077
Earnings per share award	30 Sept 2008	313.75p	–	132,013	–	–	132,013
Share price growth award	30 Sept 2008	313.75p	–	132,014	–	–	132,014
			497,789	264,027	–	–	761,816
<b>P G Hetherington</b>							
Senior management IPO basic award	16 May 2005	112.50p	125,000	–	–	(125,000)	–
Senior management IPO high growth award	16 May 2005	112.50p	375,000	–	(72,262)	(302,738)	–
Executive award	7 Aug 2006	217.00p	82,949	–	–	–	82,949
Earnings per share award	23 July 2007	312.25p	76,861	–	–	–	76,861
Share price growth award	23 July 2007	312.25p	76,861	–	–	–	76,861
Earnings per share award	30 Sept 2008	313.75p	–	105,611	–	–	105,611
Share price growth award	30 Sept 2008	313.75p	–	105,611	–	–	105,611
			736,671	211,222	(72,262)	(427,738)	447,893

## Information subject to audit (continued)

### Interests in Long Term Incentive Plans (continued)

	Award date	Share price at award date	Number as at 31 May 2008	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2009
<b>A R MacKay</b>							
Senior management IPO basic award	16 May 2005	112.50p	112,500	–	–	(112,500)	–
Senior management IPO high growth award	16 May 2005	112.50p	337,500	–	(65,036)	(272,464)	–
Executive award	7 Aug 2006	217.00p	69,124	–	–	–	69,124
Earnings per share award	23 July 2007	312.25p	86,469	–	–	–	86,469
Share price growth award	23 July 2007	312.25p	86,469	–	–	–	86,469
Earnings per share award	30 Sept 2008	313.75p	–	125,413	–	–	125,413
Share price growth award	30 Sept 2008	313.75p	–	125,413	–	–	125,413
			692,062	250,826	(65,036)	(384,964)	492,888
<b>N B le Roux</b>							
Senior management IPO basic award	16 May 2005	112.50p	61,111	–	–	(61,111)	–
Senior management IPO high growth award	16 May 2005	112.50p	183,333	–	(35,328)	(148,005)	–
			244,444	–	(35,328)	(209,116)	–

Nat le Roux was employed under a service contract with an effective date of 12 April 2005 until his resignation as Chief Executive on 2 October 2006 when he was appointed as a non-executive director. He voluntarily relinquished two-thirds of his LTIP awards on stepping down as Chief Executive with the agreement of the Remuneration Committee. The table above reflects the one third retained.

Lapsed interests in Long Term Incentive Plans refer to the difference between the maximum number awarded on grant and the actual number vesting.

The charge for the year ended 31 May 2009 relating to share-based payments in respect of the directors was £926,000 (2008: £1,467,000).

### Gains made by directors on share options

The table below shows gains made by individual directors from the exercise of share options during the year. The gains are calculated by reference to the share price as at the respective exercise date, although the shares may have been retained.

	2009 £000	2008 £000
T A Howkins	639	–
S Clutton	–	–
P G Hetherington	781	–
A R MacKay	703	–
N B le Roux	382	–
	2,505	–

On behalf of the Board



Steve Clutton, Finance Director, 21 July 2009



# Directors' Report

The directors have pleasure in submitting their report together with the Group financial statements for the year ended 31 May 2009.

## Principal activities

The principal activities of the Group throughout the year have been those of trading as principal and market maker for contracts for difference, foreign exchange, and options, running a spread-betting market, operating the CFTC-regulated exchange Nadex and acting as a fixed-odds bookmaker. The Group hedges unmatched bets and trades, as considered appropriate, to ensure that it is not unacceptably exposed to material losses.

## Results

The Group's profit for the year, after taxation, amounted to £78,652,000 (2008: £67,288,000), of which £77,986,000 (2008: £67,288,000) is attributable to the equity members of the Company.

## Dividends

The directors recommend a final ordinary dividend of 11.0 pence per share, amounting to £39,554,000, making totals of 15.0 pence per share and £53,934,000 for the year. Dividends are recognised in the financial statements in the year in which they are paid, or in the case of a final dividend, when approved by the shareholders. The amount recognised in the financial statements, as described in note 12, is made up of this year's interim dividend and the final dividend from the previous year, which were both paid during the year.

The final ordinary dividend, if approved, will be paid on 13 October 2009 to those shareholders on the register at 11 September 2009.

## Review of business and future developments

A review of the Group's progress, outlining developments during the year and giving an indication of likely future developments, is provided in the Chief Executive's Report set out on pages 17 to 19.

An analysis of the position of the Group at the year end and key performance indicators is provided in the operating and financial review on pages 20 to 28.

## Directors and their interests

Details of the directors who served and their interests in the share capital of the Company are set out in the directors' remuneration report on pages 35 to 41.

## Major interests in shares

Notifications have been received by the Company of the following shareholdings of three percent or more of the issued ordinary share capital:

	As at 17 July 2009		As at 31 May 2009	
	No.	percentage	No.	percentage
CVC Capital Partners Limited	30,190,819	8.40%	30,190,819	8.40%
Janus Capital Management, LLC	27,922,770	7.77%	25,386,625	7.06%
Lion Trust Investment Services Limited	17,907,353	4.98%	17,907,353	4.98%
Investec Asset Management Limited	17,863,943	4.97%	17,863,943	4.97%
Standard Life Investments Limited	17,564,421	4.88%	17,564,421	4.88%
JP Morgan Chase & Co	15,830,307	4.40%	15,830,307	4.40%
Legal & General Group plc	14,287,840	3.97%	14,287,840	3.97%
Reach Capital Management LLC	11,409,480	3.17%	11,409,480	3.17%
Prudential plc	11,066,417	3.08%	–	–

## Additional information for shareholders

The following provides additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

### Share capital and own shares

Details of the Company's equity and preference share capital are given in notes 22 and 21 respectively to the financial statements. Details of the Group's required regulatory capital are disclosed in note 30 to the financial statements.

The Group purchases its own shares in order to satisfy awards under the Group's share schemes. Details of the shares held and the amounts paid during the year are disclosed in note 23 to the financial statements.

### Change of control

Following a change of control of the Company following a takeover bid, the Group's banking facilities will be cancelled and any obligations will become immediately due and payable.

## Branches outside the United Kingdom

In line with the stated strategic objectives the Group has branches in a number of overseas jurisdictions including France, Spain, Italy, Germany and Luxembourg.

## Supplier payment policy and practice

The Company does not incur significant costs and the Group does not follow any stated code on payment practice. It is the Group's policy to agree terms of payment with suppliers when agreeing the terms for each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice except where different terms have been agreed with the supplier at the outset. There were six creditor days of suppliers' invoices outstanding at the year end (2008: 16) for the Group.

## Risk management

The principal activities of the Group outlined above give rise to exposure to financial risks in the ordinary course of business. The objective of the risk department is to manage the Group's financial risk and to minimise the effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group.

The main risks associated with the Group's financial assets and liabilities, as well as the key operational risks faced by the Group are set out in note 30 to the financial statements, as are the policies agreed by the Board for the management thereof.

## Donations

The Group made no political donations (2008: £nil). The Group made charitable donations of £49,912 in the year (2008: £13,779) as follows:

Gambling Trust	£16,908
Child Line	£7,500
Cancer research	£4,440
Other	£21,064

## Employee involvement

During the year, the policy of providing employees with information about the Group continued through quarterly management forums where line managers are informed of current developments and encouraged to present suggestions and views of the Group's performance, development and policies. Line management communicates the points raised in the forum across the organisation.

The Group's intranet is used to communicate with staff. Employees participate directly in the success of the business through the Group's performance-related bonus schemes and employee share plans.

## Corporate and Social Responsibility

In this section, we describe our commitment to responsible business conduct during the past year.

The Group is committed to ensuring that interaction with employees, clients, suppliers, shareholders, society and the wider environment is managed responsibly. This has been a key feature of the IG's values since its inception in 1974.

## Business Standards

We support the high standards of corporate governance contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (Combined Code).

The Group has always recognised the need for a high quality product and a high standard of client treatment. We apply high standards worldwide, and these standards frequently exceed local regulatory requirements in many of the jurisdictions in which we operate. For example, IG defaults individual clients to segregated client money accounts and only offers title transfer arrangements to a small number of clients (this can be contrasted with some of our competitors, who as a default use title transfer arrangements to use client's money for their own purposes). Furthermore, margin deposited with IG is treated as client money and is segregated from IG's own money on a default basis.

The Group believes that quality of order execution is key to ensuring that clients are treated fairly. We offer near instantaneous online execution, with 99% of client orders being accepted. Where possible we source prices from multiple execution venues to ensure that we offer our clients the most advantageous price.

IG is the only spread betting and CFD firm in the industry to offer "Price Improvement". This feature of our online trading platform, PureDeal, ensures that, if a price moves significantly in the client's favour in the fraction of a second between them clicking a trade and it being executed, then we will give them the improved price and will not reject the deal.

During the year IG introduced a Close-Out-Monitor system which aims to limit potential losses at no extra cost to the client. This is available on our Plus and Trader accounts - the default accounts for spread betting and CFD clients. We also provide a Limited Risk account for less-experienced clients, offering Guaranteed Stops on all positions so that the maximum possible loss is known at the outset.

## Client services

Client service has been a key feature of our commitment to the responsible treatment of clients. Our large team of trained and dedicated staff delivers a professional and responsive value-based approach to client service. Almost 10% of IG's total global staff is engaged in client services.

Clients of all our FSA-regulated products have the option to exclude themselves upon request for a minimum period of six months. This is not a regulatory requirement.

We also prioritise the security of our clients' information and funds and we have recently achieved the ISO 27001 certificate for Information Security.

## Corporate and Social Responsibility (continued)

### Education

IG is at the forefront of client education in the industry through its TradeSense training programme; this six-week course is available to all clients. For clients that we feel may not initially have an appropriate level of knowledge and experience with which to understand the risks associated with our products, we require (or recommend depending on experience) that they complete the TradeSense programme.

In 2008, we introduced online seminars which have enabled greater numbers of clients to view seminars they might not have been able to attend in person.

### Workplace

IG is a rapidly growing company and provides a fast-moving and successful working environment. Our employees have pride in what we have achieved and a strong sense of belonging.

This culture is reflected in IG being listed as one of Britain's Top Employers 2009 by the Corporate Research Foundation, having performed well in each of the surveyed categories: pay and benefits, training and development, and corporate culture. IG was also named as 'One to Watch' in the Sunday Times' Best Companies to Work for.

All of our employees are offered membership of a generous pension scheme, permanent health insurance and death-in-service insurance. During the year we also introduced employee counselling on matters ranging from housing to personal finance.

We also operate schemes to encourage and reward innovation from employees. Senior management consults with employees to achieve objectives.

Up to 90% of our workforce comprises university graduates and we consider our employees as a great source of talent and ideas for generating the future growth of the business. Investing in training and education to equip employees with the skills and capabilities required to unlock their potential is part of the Group's long-term business strategy.

Our graduate recruitment programme intake was 25 in 2008 and this is expected to be the same in 2009. The programme involves intensive training over 12 to 18 months.

### Equality and Diversity

We are an equal opportunities employer and have extensive human resource policies in place to ensure that employees can expect to work in an environment free from discrimination and harassment.

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim.

### Environment

As a business which conducts over 90% of its client trades online we do not see ourselves as a significant emitter of harmful emissions. However, we do understand that our operations have an impact on the environment and we are committed to taking greater consideration of our environmental footprint.

We take steps to minimise the impact of our offices on the environment, including the installation of both automated sensor lighting and air conditioning which minimise usage when offices are not in use.

Another key business change has been our move from daily printed statements to email statements. This has reduced paper statements by 75%, which represents more than half a million sheets of quality paper in addition to envelopes and printer cartridges.

With the encouragement of employees we have also improved our recycling facilities, including IT equipment, and shifted from providing bottled to filtered water.

## Corporate and Social Responsibility (continued)

### Carbon Emissions

During the year, the Group recorded the number of kilowatt hours (kWh) of energy used and business travel by air and road.

Carbon footprint calculations from Carbon Trust:

	CO <sub>2</sub> e (tonnes)	kWh	Comment
Scope 1 – direct emissions	2.4	9,684	Employee travel by road for one company vehicle
Scope 2 – indirect emissions	1,816.6	3,382,945	Electricity for UK sites
Scope 3 – other indirect emissions	584.8	2,386,856	Employee air travel
Total	2,403.8	5,779,485	

Last year air travel featured significantly as a proportion of total emissions (24%). This was due mainly to senior-management travel related to the acquisition and integration of FXOnline in Japan, and the re-launch of the US futures exchange Nadex (formerly HedgeStreet). New video conference facilities in all our key global offices will reduce future business travel across the group. On a global basis, emissions equated to 3.3 tonnes per employee.

### Society

We are keen to encourage employees to engage in activities that help their development and support local communities. For example, we match any funds employees have raised for sponsored events. During the year we matched funding of almost £8,000.

Our Absence Management Policy also offers the opportunity for employees to take up voluntary work, for which IG grants additional leave on a like-for-like basis up to a maximum of five matched days per annual leave year.

## Events since the balance sheet date

There have been no significant events since the balance sheet date.

## Annual general meeting

The Group's annual general meeting will be held on 6 October 2009. A separate circular will be sent to all shareholders which details the agenda for the AGM.

## Auditors

A resolution to re-appoint Ernst & Young LLP as the Group's auditor will be put to the forthcoming annual general meeting.



## Directors' statement as to disclosure of information to auditors

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The directors who were members of the Board at the time of approving the directors' report are listed on pages 12 and 13. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is information needed by the Group's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

## Going concern

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The directors have prepared the financial statements on a going concern basis which requires the directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The directors have reviewed the Group's processes to control those financial risks to which the Group is exposed, as disclosed in note 30 to the financial statements, as well as reviewing the annual budget.

As a result of this review the directors do have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



**Steve Clutton**, Finance Director, 21 July 2009



## Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance of the Group and cash flows of the Group and of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- 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 of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group and the Company have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group 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 company's website, and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 12 and 13, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
- the Chief Executive's Statement, the Group Operating and Financial Review and the Directors' Report contained in the Annual Report include 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 whole, together with a description of the principal risk and uncertainties that they face.

By order of the Board



**Steve Clutton**, Finance Director, 21 July 2009

## Group Income Statement for the year ended 31 May 2009

	Note	Year ended 31 May 2009 £000	Year ended 31 May 2009 Before amortisation and impairment of intangibles arising on consolidation £000	Year ended 31 May 2009 Amortisation and impairment of intangibles arising on consolidation £000	Year ended 31 May 2008 * Total £000
Revenue	3	257,089	–	257,089	184,008
Cost of sales		(7,223)	–	(7,223)	(10,842)
Gross profit		249,866	–	249,866	173,166
Impairment of trade receivables		(18,168)	–	(18,168)	(4,057)
Other administrative expenses		(114,635)	(14,613)	(129,248)	(85,759)
Operating profit		117,063	(14,613)	102,450	83,350
Finance revenue	8	15,775	–	15,775	30,609
Finance costs	9	(6,966)	–	(6,966)	(16,969)
Profit before taxation		125,872	(14,613)	111,259	96,990
Tax expense	10	(38,744)	6,137	(32,607)	(29,702)
Profit for the year		87,128	(8,476)	78,652	67,288
Profit for the period attributable to:					
Equity holders of the parent		86,462	(8,476)	77,986	67,288
Minority Interests		666	–	666	–
		87,128	(8,476)	78,652	67,288
Earnings per share (pence)	11				
- basic				22.42p	20.62p
- diluted				22.31p	20.28p

All of the Group's revenue and profit for the year and prior year relate to continuing operations.

The notes on pages 55 to 93 are an integral part of these financial statements.

\* amortisation and impairment of intangibles arising on consolidation charge was nil for the year ended 31 May 2008.

## Statements of Changes in Shareholders' Equity for the year ended 31 May 2009

### Group

	Equity share capital (Note 22) £000	Share premium (Note 22) £000	Other reserves (Note 24) £000	Retained earnings £000	Share- holders' equity £000	Minority interests £000	Total equity £000
At 1 June 2007	16	125,235	4,743	71,674	201,668	40	201,708
Profit for the year	-	-	-	67,288	67,288	-	67,288
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 10(c))	-	-	2,352	-	2,352	-	2,352
Total recognised income and expense for the year	-	-	2,352	67,288	69,640	-	69,640
Equity-settled employee share-based payments	-	-	4,682	-	4,682	-	4,682
Purchase of treasury shares	-	-	(201)	-	(201)	-	(201)
Equity dividends paid	-	-	-	(31,113)	(31,113)	-	(31,113)
Movement in shareholders' equity	-	-	6,833	36,175	43,008	-	43,008
At 1 June 2008	16	125,235	11,576	107,849	244,676	40	244,716
Profit for the year	-	-	-	77,986	77,986	666	78,652
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 10(c))	-	-	(1,730)	-	(1,730)	-	(1,730)
Total recognised income and expense for the year	-	-	(1,730)	77,986	76,256	666	76,922
Shares issued	2	82,199	-	-	82,201	-	82,201
Share issue costs	-	(1,188)	-	-	(1,188)	-	(1,188)
Minority interest arising on acquisition	-	-	-	-	-	1,528	1,528
Foreign currency translation on overseas subsidiaries	-	-	32,437	-	32,437	315	32,752
Equity-settled employee share-based payments	-	-	3,256	-	3,256	-	3,256
Purchase of treasury shares	-	-	(258)	-	(258)	-	(258)
Equity dividends paid	-	-	-	(44,016)	(44,016)	-	(44,016)
Movement in shareholders' equity	2	81,011	33,705	33,970	148,688	2,509	151,197
At 31 May 2009	18	206,246	45,281	141,819	393,364	2,549	395,913

The notes on pages 55 to 93 are an integral part of these financial statements.



## Statements of Changes in Shareholders' Equity for the year ended 31 May 2009

### Company

	Equity share capital (Note 22) £000	Share premium (Note 22) £000	Other reserves (Note 24) £000	Retained earnings £000	Total equity £000
At 1 June 2007	16	125,235	2,921	172,278	300,450
Profit for the year	–	–	–	35,641	35,641
Equity-settled employee share-based payments	–	–	4,682	–	4,682
Equity dividends paid	–	–	–	(31,113)	(31,113)
Purchase of own shares	–	–	(201)	–	(201)
At 1 June 2008	16	125,235	7,402	176,806	309,459
Profit for the year	–	–	–	51,600	51,600
Shares issued	2	82,199	–	–	82,201
Share issue costs	–	(1,188)	–	–	(1,188)
Equity-settled employee share-based payments	–	–	3,256	–	3,256
Equity dividends paid	–	–	–	(44,016)	(44,016)
Purchase of own shares	–	–	(258)	–	(258)
At 31 May 2009	18	206,246	10,400	184,390	401,054

The notes on pages 55 to 93 are an integral part of these financial statements.

## Balance Sheets at 31 May 2009

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
<b>Non-current assets</b>					
Property, plant and equipment	13	11,632	9,824	–	–
Intangible assets	14	260,607	112,056	–	–
Investment in subsidiaries	15	–	–	424,071	309,581
Deferred tax assets	10	7,562	8,053	–	–
		279,801	129,933	424,071	309,581
<b>Current assets</b>					
Trade receivables	17	183,085	263,323	–	–
Prepayments and other receivables		4,928	5,690	96,943	1,631
Cash and cash equivalents	18	520,421	471,722	122	46
		708,434	740,735	97,065	1,677
<b>Total assets</b>		988,235	870,668	521,136	311,258
<b>Current liabilities</b>					
Trade payables	19	511,656	582,689	–	–
Other payables	20	27,326	26,715	120,042	1,759
Income tax payable		36,560	16,508	–	–
		575,542	625,912	120,042	1,759
<b>Non-current liabilities</b>					
Deferred tax liability	10	16,740	–	–	–
Redeemable preference shares	21	40	40	40	40
		16,780	40	40	40
<b>Total liabilities</b>		592,322	625,952	120,082	1,799
<b>NET ASSETS</b>		395,913	244,716	401,054	309,459
<b>Capital and reserves</b>					
Equity share capital	22	18	16	18	16
Share premium	22	206,246	125,235	206,246	125,235
Other reserves	24	45,281	11,576	10,400	7,402
Retained earnings		141,819	107,849	184,390	176,806
<b>Shareholders' equity</b>		393,364	244,676	401,054	309,459
Minority interests		2,549	40	–	–
<b>TOTAL EQUITY</b>		395,913	244,716	401,054	309,459



Tim Howkins, Director



Steve Clutton, Director

The notes on pages 55 to 93 are an integral part of these financial statements.

# Cash Flow Statements

## for the year ended 31 May 2009

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
<b>Operating activities</b>					
Operating profit/(loss)		102,450	83,350	(2,556)	(2,020)
<i>Adjustments to reconcile operating profit/ (loss) to net cash flow from operating activities</i>					
Depreciation of property, plant and equipment		5,402	4,016	–	–
Amortisation of intangible assets		984	782	–	–
Amortisation of intangibles assets arising on consolidation		14,613	–	–	–
Share-based payments		3,256	4,716	–	–
Property, plant and equipment written off		37	115	–	–
Intangible assets written off		–	9	–	–
Impairment of trade receivables		18,168	4,057	–	–
Decrease in trade and other receivables		77,725	83,151	77,919	37,163
(Decrease) in trade and other payables		(153,138)	(145,818)	(795)	(3,998)
Cash generated from operations		69,497	34,378	74,568	31,145
Income taxes paid		(20,274)	(29,501)	–	–
<b>Net cash flow from operating activities</b>		49,223	4,877	74,568	31,145
<b>Investing activities</b>					
Interest received		16,317	31,020	1,065	1
Purchase of property, plant and equipment		(5,897)	(4,905)	–	–
Payments to acquire intangible assets		(2,142)	(1,282)	–	–
Purchase of subsidiary undertaking		(121,643)	(3,375)	–	–
Investment in subsidiary undertaking		–	–	(111,234)	–
Cash acquired on purchase of subsidiary undertaking		68,202	132	–	–
<b>Net cash flow from investing activities</b>		(45,163)	21,590	(110,169)	1
<b>Financing activities</b>					
Interest paid		(6,426)	(17,550)	(1,059)	(390)
Equity dividends paid to shareholders of the parent		(44,016)	(31,113)	(44,016)	(31,113)
Proceeds from the issue of shares		81,013	–	81,013	–
Purchase of own shares		(258)	(201)	(258)	(201)
Payment of redeemable preference share dividends		(3)	(3)	(3)	(3)
<b>Net cash flow from financing activities</b>		30,310	(48,867)	35,677	(31,707)
<b>Net increase/(decrease) in cash and cash equivalents</b>		34,370	(22,400)	76	(561)
Cash and cash equivalents at the beginning of the year		471,722	484,556	46	607
Exchange gains on cash and cash equivalents		14,329	9,566	–	–
<b>Net cash and cash equivalents at the end of the year</b>	18	520,421	471,722	122	46

The notes on pages 55 to 93 are an integral part of these financial statements.

# Notes to the Financial Statements at 31 May 2009

## 1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of IG Group Holdings plc ("the Company") and its subsidiaries (together "the Group") for the year ended 31 May 2009 were authorised for issue by the Board of the directors on 21 July 2009 and the balance sheet signed on the Board's behalf by TA Howkins and S Clutton. IG Group Holdings plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as they apply to the financial statements of the Group and of the Company for the year ended 31 May 2009 and applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Group and the Company are set out in note 2.

## 2. Accounting policies

### Basis of preparation

The accounting policies which follow have been applied in preparing the financial statements for the year ended 31 May 2009.

The Group has presented its consolidated income statement in a columnar format. This enables the Group to continue its practice of improving the understanding of its results by presenting profit for the year before amortisation and impairment of intangibles arising on consolidation. This is the profit measure used to calculate adjusted EPS (see note 11) and is considered to be the most appropriate as it better reflects the Group's underlying cash earnings. Profit before amortisation and impairment of intangibles arising on consolidation is reconciled to profit before tax on the face of the income statement.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimates means that actual outcomes could differ from those estimates.

As permitted by Section 408(1)(b), (4) of the Companies Act 2006, the individual income statement of IG Group Holdings plc has not been presented in these financial statements. The amount of profit after taxation for the financial year dealt with in the financial statements of IG Group Holdings plc is £51,600,000 (2008: £35,641,000).

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

### Going concern

The directors have prepared the financial statements on a going concern basis which requires the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

### Basis of consolidation

The Group financial statements consolidate the financial statements of IG Group Holdings plc and the entities it controls (its subsidiaries) made up to the reporting date, as listed in note 15.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of consideration paid including an estimate of any contingent or deferred consideration and the directly attributable costs of the acquisition. Contingent or deferred consideration is re-measured at each balance sheet date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in a consolidated subsidiary's equity may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interests until the minority's share of losses previously absorbed by the majority has been recovered.

## 2. Accounting policies (continued)

### Basis of consolidation (continued)

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All inter-company transactions and balances between Group entities are eliminated on consolidation.

### Foreign currencies

The functional currency of each company in the Group is that of the country of incorporation as disclosed in note 15. The Group's most significant functional currency is Sterling. Transactions in other currencies are initially recorded in the functional currency by applying spot exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are taken to the income statement, except for exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and taken directly to a translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives. Estimated residual value and useful lives are reviewed on an annual basis and residual values are based on prices prevailing at the balance sheet date. Depreciation is charged on a straight-line basis over the expected useful lives as follows:

<b>Leasehold improvements</b>	- over the lease term of up to 15 years
<b>Office equipment, fixtures and fittings</b>	- over 5 years
<b>Computer and other equipment</b>	- over 2, 3 or 5 years
<b>Motor vehicles</b>	- over 4 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the income statement in the period of derecognition.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition (fair value of consideration paid) over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and is allocated to cash generating units for purposes of impairment testing. Cash generating units represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Business combinations on or after 1 June 2004 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 May 2004 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.



## 2. Accounting policies (continued)

### Goodwill (continued)

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

### Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination such as a trade name or customer relationship is recognised at fair value outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed; and
- the correlation between development costs and future revenue has been established.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite life are amortised over their expected useful lives, as follows:

Client lists	- straight-line basis over the expected trading life of up to five years
Development costs	- straight-line basis over three years
Software and licences	- straight-line basis over the contract term of up to five years
Trade names	- sum-of-digits method over two years
Customer relationships	- sum-of-digits method over five years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.

### Impairment of assets

At least annually, or when impairment testing is required, the directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists (or at least annually for goodwill), the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

The recoverable amount is the higher of fair value less selling costs 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. This rate reflects current market assessments of the time value of money as well as the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, although impairment losses relating to goodwill may not be reversed.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses.

### Operating leases

Leases are classified as operating leases where the lessor retains substantially all the risks and benefits of ownership of the asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

### Financial instruments

The Group determines the classification of its financial instruments at initial recognition in accordance with the categories outlined below and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

## 2. Accounting policies (continued)

### Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified as held for trading, or designated as such on inception, are included in this category and relate to trade receivables and trade payables as shown in the balance sheet. Financial instruments are classified as held for trading if they are expected to settle in the short term. The Group uses derivative financial instruments, in order to hedge exposures resulting from derivatives with clients, which are also classified as held for trading.

All financial instruments at fair value through the profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

### Determination of fair value

Bets and other derivative financial instruments are stated at fair value determined by reference to third party market values (bid prices for long positions and offer prices for short positions).

For all other derivative financial instruments where there is no underlying active market, the fair value is determined using an appropriate valuation technique as determined by the Group at the year end.

### Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

### Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in

the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

### Trade receivables and trade payables

Assets or liabilities resulting from profit or losses on open positions are carried at fair value. Amounts due from/to clients and brokers are netted against other assets and liabilities with the same counterparty where a legally enforceable netting agreement is in place and where it is anticipated that assets and liabilities will be netted on settlement.

Trade receivables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions result in an amount due to the Group. A provision for impairment is established where there is objective evidence of non-collectability. Reference is made to an aged profile of debt and the provision is subject to management review.

Trade payables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions results in an amount payable by the Group.

### Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment is established where there is objective evidence of non-collectability.

### 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, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority (FSA) and other regulatory bodies. This money is included within cash and cash equivalents on the balance sheet and the corresponding liability to clients is included in trade and other payables. The return received on managing client balances is included within finance revenue.

### Other payables

Non-trading financial liabilities are recognised initially at fair value and carried at amortised cost using the effective interest rate method if the time value of money is significant.

## 2. Accounting policies (continued)

### Taxation

The income 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 period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is generally accounted for on all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Classification of shares as debt or equity

When shares are issued, any component that creates a financial liability of the Group is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement.

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

### Own shares held in Employee Benefit Trusts

Shares held in trust by the Company for the purposes of employee share schemes are classified as a deduction from shareholders' equity and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

### Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Group and the revenue can be reliably measured.

Rendering of services includes gains and losses on the running of betting markets and trading in financial markets, net of commissions expensed. Open positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue as well as gains and losses realised on positions that have closed.

Finance revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate which exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Dividends receivable are recognised when the shareholders' right to receive the payment is established.

### Cost of sales

Cost of sales represents duties and levies charged on betting revenues. Betting duties are charged at a fixed rate on aggregate net client losses.

### Operating profit

Operating profit is the sum of the results of the principal activities of the Group after charging depreciation of property, plant and equipment, amortisation of intangible assets, operating lease rentals on land and buildings, foreign exchange differences, profit/loss on sale of property, plant and equipment and other administrative expenses.

### Finance costs

The interest cost recognised in the income statement is accrued on a time basis by reference to the principal amount charged at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts the future expected cash flows to the carrying amount of the liability. Issue costs are included in the determination of the effective interest rates.

## 2. Accounting policies (continued)

### Retirement benefit costs

The Group operates defined contribution schemes. Contributions are charged to the income statement as and when they become payable according to the rules of the schemes.

### Share-based payments

The Company operates two employee share plans: a Share Incentive Plan (SIP) and a Long Term Incentive Plan (LTIP) both of which are equity-settled. The cost of these awards is measured at fair value based on the market price of the Company's shares at the date of the grant and are recognised as an expense in the income statement on a straight-line basis over the vesting period based on the Company's estimate of the number of shares that will eventually vest.

At each balance sheet date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions determining the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement as part of administrative expenses, with a corresponding entry in equity.

The Company also operates a Shadow SIP scheme for overseas staff, which is cash settled. The fair value of these awards is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions of the award. A liability is recognised over the expected vesting period and until the liability is settled it is re-measured at each reporting date with changes in fair value recognised in the income statement.

### Recent accounting developments

*IFRIC interpretations which are effective for the year ended 31 May 2009 but are not relevant to the Group:*

IFRIC 12 "Service concession arrangements"

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

*Standards and interpretations that have been issued with an effective date after the date of these financial statements:*

The Group has not applied these standards and interpretations in the preparation of these financial statements. The impact on the Group's financial statements of the future adoption of the standards and interpretations is still under review, but the Group does not expect any of these changes to have a material effect on the results or net assets of the Group in the period of initial application. The Group expects to apply the following standards from their respective effective dates.

IFRS 8 "Operating Segments" applies to accounting periods beginning after 1 January 2009. This standard replaces IAS 14 "Segment Reporting" and will not affect the results of the Group but will require a change in the disclosure of segmental information. IFRS 8 amends the current segmental reporting requirements of IAS 14 and requires "management approach" to be adopted so that segmental information is presented on the same basis as that used for internal reporting purposes.

IAS 1 (Amendments) "Presentation of Financial Statements" applies to accounting periods beginning after 1 January 2009. The amendments prohibit the presentation of items of income and expense (that is "non-owner changes in equity") in the statement of changes in equity. The amendment also sets out the additional disclosure requirements for entities making restatement or reclassifications, and clarifies the classification of items 'held for trading' in accordance with IAS 39.

IFRS 2 (Amendment) "Share-based payment" applies to accounting periods beginning after 1 January 2009. This amendment clarifies that vesting conditions are service and performance conditions only. It also specifies that all cancellations should receive the same accounting treatment whether cancelled by the entity or by other parties.

IAS 32 (Amendment) "Financial Instruments: Presentation" and IAS 1 (Amendment) "Presentation of Financial Statements – Puttable Instruments and Instruments with obligations arising on Liquidation" applies to accounting periods beginning after 1 January 2009.

IAS 27 (Revised) "Consolidated and separate financial statements" applies to accounting periods beginning after 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. An amendment to the standard that applies to accounting periods beginning after 1 January 2009 clarifies the interaction of IFRS 5 and IAS 30 with regards to investments in subsidiary operations.

IFRS 3 (Revised) "Business Combinations" applies to accounting periods beginning after 1 July 2009. The revised standard includes significant changes to how the acquisition method is applied to business combinations.

IFRS 5 (Amendment) "Non-current assets held-for-sale and discontinued operations" applies to accounting periods beginning after 1 July 2009. The amendment clarifies the disclosure requirements where the partial sale of a subsidiary results in a loss of control.

IAS 36 (Amendment) "Impairment of assets" applies to accounting periods beginning after 1 January 2009. The amendment requires that, where fair value less costs to sell is calculated based on discounted cash flows, disclosures equivalent to those for a value in use calculation should be made.

## 2. Accounting policies (continued)

### Recent accounting developments (continued)

IAS 38 (Amendment) **"Intangible Assets"** applies to accounting periods beginning after 1 January 2009. The amendment allows the recognition of a prepayment only in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

IAS 19 (Amendment) **"Employee benefits"** applies to accounting periods beginning after 1 January 2009. The amendment clarifies certain accounting and valuation of defined benefit plans and alters the distinction of short term and long term employee benefits.

IAS 39 (Amendment) **"Financial Instruments: Recognition and Measurement"** applies to accounting periods beginning after 1 January 2009. The amendment clarifies certain definitions and aligns the example of a segment (for inter-segment hedging) with IFRS 8.

IFRIC 16 **"Hedges of a Net Investment in a Foreign Operation"** applies to accounting periods beginning after 1 October 2008.

*Standards and interpretations that are not yet effective and are not relevant to the Group's operations:*

IAS 23 (Amendments) **"Borrowing Costs"** applies to accounting periods beginning after 1 January 2009. The amendments to the standard require an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing borrowing costs is removed. The amendments also align the definition of borrowing costs with that in IAS 39.

IAS 16 (Amendment) **"Property plant and equipment"** and consequential amendment to IAS 7 **"Statement of cash flows"** applies to accounting periods beginning after 1 January 2009. The amendment relates to entities whose ordinary activities are renting and subsequently selling assets.

IAS 28 (Amendment) **"Investments in Associates"** applies to accounting periods beginning after 1 January 2009. The amendment requires that the investment in an associate is treated as a single asset for the purposes of impairment testing.

IAS 29 (Amendment) **"Financial reporting in hyperinflationary economies"** applies to accounting periods beginning after 1 January 2009.

IAS 31 (Amendment) **"Interests in joint ventures"** applies to accounting periods beginning after 1 January 2009.

IAS 38 (Amendment) **"Intangible Assets"** applies to accounting periods beginning after 1 January 2009. The amendment deletes wording that states that there is 'rarely, if ever' support for use of a method of amortisation that results in a lower rate than the straight-line method.

IAS 40 (Amendment) **"Investment Property"** applies to accounting periods beginning after 1 January 2009. The amendment brings property that is under construction or development for future use as an investment property within the scope of IAS 40.

IAS 41 (Amendment) **"Agriculture"** applies to accounting periods beginning after 1 January 2009. The amendment relates to the valuation methodologies for biological assets.

IAS 20 (Amendment) **"Accounting for government grants and disclosure of government assistance"** applies to accounting periods beginning after 1 January 2009. The amendment relates to accounting for the benefit of a below market rate government loan.

IFRIC 13 **"Customer loyalty programmes"** applies to accounting periods beginning after 1 July 2008.

IFRIC 15 **"Agreements for the Construction of Real Estate"** applies to accounting periods beginning after 1 January 2009.

IFRIC 17 **"Distributions of Non-cash Assets to Owners"** applies to accounting periods beginning after 1 January 2009.

IFRIC 18 **"Transfer of Assets from Customers"** applies to asset transfers after 1 July 2009.

### Critical accounting estimates and judgements

In the directors' opinion there are no critical accounting estimates or judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The accounting estimates or judgements that have the most significant impact on the financial statements are the estimation of share-based payment costs (see note 25), the measurement and impairment of goodwill (see note 16), the impairment of trade receivables (see note 5) and the assessment of net market risk and associated disclosures (see note 30).

### 3. Revenue

Revenue represents the net trading income from financial instruments carried at fair value through profit and loss. Revenue disclosed in the income statement is analysed as follows:

	2009 £000	2008 £000
Rendering of services	257,089	184,008

Finance revenue is disclosed in note 8.

### 4. Segment information

The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.

#### Primary reporting format - business segments

The primary segment reporting format is by business segment as the Group's risks and rates of return are affected predominantly by differences in the products provided.

The Group operates in two principal areas of activity: financial and sport. The types of financial instrument included within each of the above categories are described in the Group Operating and Financial Review.

#### Year ended 31 May 2009

	Financial £000	Sport £000	Unallocated £000	Total £000
<b>Revenue</b>	248,346	8,743	–	257,089
<b>Segment result</b>				
Segment result before amortisation and impairment arising on consolidation	165,089	1,893	–	166,982
Amortisation and impairment of intangibles arising on consolidation	(14,613)	–	–	(14,613)
<b>Segment result</b>	150,476	1,893	–	152,369
Unallocated administrative expenses				(42,319)
Unallocated finance revenue				2,828
Unallocated finance costs				(1,619)
<b>Profit before taxation</b>				111,259
Tax expense				(32,607)
Profit for the year				78,652
<b>Assets and liabilities</b>				
Segment assets	960,775	10,220	17,240	988,235
Segment liabilities	521,857	3,405	67,060	592,322
<b>Other segment information</b>				
Capital expenditure				
Property, plant and equipment	2,870	559	1,691	5,120
Intangible assets	1,171	238	731	2,140
Depreciation	3,066	577	1,759	5,402
Amortisation of intangible assets	521	106	357	984
Amortisation and impairment of intangibles arising on consolidation	14,613	–	–	14,613
Impairment of trade receivables	18,129	39	–	18,168



#### 4. Segment information (continued)

##### Primary reporting format - business segments (continued)

Year ended 31 May 2008

	Financial £000	Sport £000	Unallocated £000	Total £000
<b>Revenue</b>	172,475	11,533	–	184,008
<b>Segment result</b>	126,265	1,892	–	128,157
Unallocated administrative expenses				(34,584)
Unallocated finance revenue				4,100
Unallocated finance costs				(683)
<b>Profit before taxation</b>				96,990
Tax expense				(29,702)
<b>Profit for the year</b>				67,288
<b>Assets and liabilities</b>				
Segment assets	745,613	8,285	116,770	870,668
Segment liabilities	591,275	145	34,532	625,952
<b>Other segment information</b>				
Capital expenditure				
Property, plant and equipment	2,417	736	2,522	5,675
Intangible assets	680	137	465	1,282
Depreciation	1,482	590	1,944	4,016
Amortisation of intangible assets	407	84	291	782
Impairment of trade receivables	3,426	631	–	4,057

Unallocated administrative expenses comprise overheads, including information technology costs, which are not specifically attributable to business segments.

Unallocated assets and liabilities comprise property, plant and equipment, intangible assets, deferred tax assets, prepayments and other debtors, cash and cash equivalents, accruals, tax liabilities and financial liabilities which are not specifically attributable to business segments.

Unallocated assets include cash and cash equivalents amounting to £2,218,000 (2008: £99,411,000).

## 4. Segment information (continued)

### Secondary reporting format - geographical segments

Geographical segment information for revenue and profit is based upon client location. The UK segment includes all clients located in the UK; Europe includes all clients located in Ireland and continental Europe; Asia Pacific includes all clients located in Australasia, Asia and the Far East; all other clients are classified as Rest of World. Geographical segment information for assets and capital expenditure is based upon asset location.

The Group has offices in the United Kingdom, France, Germany, Italy, Luxembourg, Spain, Australia, Japan, Singapore, and the United States of America.

### Year ended 31 May 2009

	UK £000	Europe £000	Asia Pacific £000	Rest of World £000	Unallo- cated £000	Total £000
<b>Revenue</b>	147,471	39,530	65,500	4,588	–	257,089
<b>Segment assets</b>	661,929	28,487	255,705	34,552	7,562	988,235
<b>Other segment information:</b>						
Capital expenditure						
Property, plant and equipment	4,191	185	401	343	–	5,120
Intangible assets	1,803	1	–	336	–	2,140

### Year ended 31 May 2008

	UK £000	Europe £000	Asia Pacific £000	Rest of World £000	Unallo- cated £000	Total £000
<b>Revenue</b>	134,713	20,396	27,371	1,528	–	184,008
<b>Segment assets</b>	757,217	54,694	35,246	15,458	8,053	870,668
<b>Other segment information:</b>						
Capital expenditure						
Property, plant and equipment	4,377	392	103	803	–	5,675
Intangible assets	923	6	1	352	–	1,282

Unallocated assets comprise deferred tax assets.

## 5. Operating profit

	Group	
	2009 £000	2008 £000
<b>This is stated after charging/(crediting):</b>		
Depreciation of property, plant and equipment	5,402	4,016
Amortisation of intangible assets	984	782
Amortisation of intangible assets arising on consolidation	14,613	–
Operating lease rentals for land and buildings	3,385	1,793
Impairment of trade receivables	18,168	4,057
Foreign exchange differences	735	(127)
Advertising and marketing	23,682	11,922
Property, plant and equipment written off	37	115
Intangible assets written off	–	9

All of the above except foreign exchange differences are included in the administrative expenses within the income statement. Foreign exchange differences are included in revenue.

## 6. Auditors' remuneration

	Group	
	2009 £000	2008 £000
<b>Audit fees:</b>		
Group audit	352	273
Additional costs in relation to the prior year	–	45
<b>Other fees to auditors:</b>		
Statutory and regulatory audit of subsidiaries of the Company pursuant to legislation	173	85
Additional costs in relation to the prior year statutory and regulatory audit of subsidiaries of the Company	21	–
Other services supplied pursuant to legislation	17	30
All other services	61	–
	272	115

## 7. Staff costs

The staff costs for the year including directors were as follows:

	Group	
	2009	2008
	£000	£000
Wages and salaries	46,015	41,871
Social security costs	5,008	4,284
Other pension costs	3,059	2,300
	54,082	48,455

Staff costs include the following amounts in respect of performance-related bonuses, inclusive of national insurance and share-based payments charged to the income statement:

	Group	
	2009	2008
	£000	£000
Performance-related bonuses	10,661	15,971
Equity-settled share-based payment schemes	3,256	4,682
Cash settled share-based payment schemes	–	34
	13,917	20,687

The directors' emoluments for the year ended 31 May 2009 and the comparative year can be found in the directors' remuneration report on page 39.

The average monthly number of employees was made up as follows:

	Group	
	2009	2008
Dealing, sales and client support	464	329
Management and administration including IT	297	222
	761	551

## 8. Finance revenue

	Group	
	2009	2008
	£000	£000
Interest receivable from brokers	3,812	7,725
Interest receivable from clients	1,285	885
Bank interest receivable	10,678	21,999
	15,775	30,609

Finance revenue includes £12,888,000 (2008: £26,562,000) of interest receivable in respect of segregated and non-segregated client balances, part of which is held with brokers.

## 9. Finance costs

	Group	
	2009 £000	2008 £000
Interest payable to clients	5,288	16,341
Interest payable to brokers	598	329
Bank interest payable	150	–
Dividend on redeemable preference shares	3	3
Other charges	927	296
	6,966	16,969

## 10. Taxation

### (a) Tax on profit on ordinary activities

Tax charged in the income statement

	Group	
	2009 £000	2008 £000
<b>Current income tax:</b>		
UK Corporation tax	30,895	30,857
Foreign tax	4,578	1,046
Adjustment in respect of prior years	2,391	(440)
Total current income tax	37,864	31,463
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(5,257)	(1,761)
Tax expense in the income statement (note 10(b))	32,607	29,702

### (b) Reconciliation of the total tax charge

The rate of corporation tax in the UK was reduced from 30% to 28% from 1 April 2008. The tax expense in the income statement for the year is marginally higher than the standard rate of corporation tax in the UK of 28% (2008: 29.67%). The differences are reconciled below:

	2009 £000	2008 £000
Accounting profit before income tax	111,259	96,990
Accounting profit multiplied by the UK standard rate of corporation tax of 28% (2008: 29.67%)	31,153	28,777
Expenses not deductible for tax purposes	309	1,638
Lower taxes on overseas earnings	(1,246)	(120)
Foreign tax losses previously not recognised	–	(153)
Adjustment in respect of prior years	2,391	(440)
Total tax expense reported in the income statement	32,607	29,702

The effective tax rate is 29.3% (2008: 30.6%).

## 10. Taxation (continued)

### (c) Deferred income tax assets

The deferred income tax assets included in the balance sheet are as follows:

	Group	
	2009 £000	2008 £000
Decelerated capital allowances	1,345	817
Tax losses available for offset against future tax	2,699	759
Doubtful debt provision	675	–
Share-based payments	2,388	6,477
Other	455	–
	7,562	8,053

The tax losses available for offset against future tax relate to operating losses arising in overseas subsidiary companies, the recoverability of which is dependent on future operating profits in those entities. A deferred tax asset is recognised where it is anticipated that future operating profits, consistent with the Board-approved three-year plan, will exceed the losses that have arisen to date. Where it is not anticipated that future operating profits will exceed the losses that have arisen to date, a deferred tax asset is not recognised.

Share-based payment awards have been charged to the income statement but are not allowable as a tax expense until the awards vest. The excess of tax relief in future periods over the amount charged to the income statement is recognised as a credit directly to equity.

The gross movement in the deferred income tax assets included in the balance sheet is as follows:

	Group	
	2009 £000	2008 £000
At the beginning of the year	8,053	3,940
Income statement (charge)/credit	(880)	1,761
Tax credited directly to equity	(1,730)	2,352
Acquired on acquisition	1,719	–
Foreign currency adjustment	400	–
At the end of the year	7,562	8,053

### (d) Deferred income tax liabilities

The deferred income tax liabilities included in the balance sheet are as follows:

	Group 2009 £000
At the beginning of the year	–
Acquisition of a subsidiary	18,257
Foreign currency adjustment	4,620
Income statement charge	(6,137)
At 31 May 2009	16,740

A deferred tax liability of £18.3m was recognised in respect of separately identifiable intangible assets arising on the acquisition of FXOnline (see note 15).

The deferred tax liability of £18.3 million decreased from the date of acquisition to the end of the period by £1.5m (£6.1m reduction as a result of the amortisation of the underlying intangibles less £4.6m foreign currency translation gain).



## 10. Taxation (continued)

### (e) Deferred income tax - income statement charge

	Group	
	2009 £000	2008 £000
The deferred income tax credit included in the income statement is made up as follows:		
Decelerated capital allowances	528	(119)
Tax losses available for offset against future tax	1,940	560
Share-based payments	(2,359)	1,320
Doubtful debt provision	675	-
Other	(1,664)	-
Amortisation of intangibles arising on acquisition	6,137	-
	5,257	1,761

The deferred tax (debited)/credited to equity during the year is as follows:

Share-based payments	(1,730)	2,352
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The deferred tax asset recognised in equity relates to a deductible temporary excess of the estimated future taxation benefit and the amounts charged to date in the income statement.

## 11. Earnings per ordinary share

The income statement may only disclose basic and diluted EPS. The Group has also calculated an adjusted EPS measurement ratio as the directors consider it is the most appropriate measurement since it better reflects the business's underlying cash earnings.

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as own shares held in Employee Benefit Trusts. Diluted earnings per share is calculated using the same profit figure as that used in basic earnings per share and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares arising from share schemes. Adjusted earnings is based on earnings before amortisation and impairment of intangibles arising on consolidation.

The following reflects the income and share data used in the earnings per share computations:

	Group	
	2009 £000	2008 £000
Earnings attributable to equity shareholders of parent	77,986	67,288
Amortisation and impairment of intangibles arising on consolidation net of tax and minority interests	8,476	-
Adjusted earnings	86,462	67,288
<b>Weighted average number of shares:</b>		
Basic and adjusted	347,904,665	326,243,567
Dilutive effect of share-based payments	1,627,469	5,515,661
Diluted	349,532,134	331,759,228
Earnings per share		
Basic	22.42p	20.62p
Diluted	22.31p	20.28p
Basic adjusted	24.85p	20.62p
Diluted adjusted	24.74p	20.28p

## 12. Dividends

	Company and Group	
	2009	2008
	£000	£000
<b>Declared and paid during the year:</b>		
Final dividend for 2008 at 9.00p per share (2007: 6.50p)	29,636	21,288
Interim dividend for 2009 at 4.00p per share (2008: 3.00p)	14,380	9,825
	44,016	31,113
<b>Proposed for approval by shareholders at the AGM:</b>		
Final dividend for 2009 at 11.00p per share (2008: 9.00p)	39,554	29,475

## 13. Property, plant and equipment

### Group

	Leasehold improvements £000	Office equipment, fixtures and fittings £000	Computer and other equipment £000	Total £000
<b>Cost:</b>				
At 1 June 2007	4,734	237	11,590	16,561
Foreign currency adjustment	15	6	(158)	(137)
Additions	2,078	505	3,092	5,675
Acquisition of subsidiary	–	5	115	120
Written off	(922)	(47)	(1,712)	(2,681)
At 31 May 2008	5,905	706	12,927	19,538
Foreign currency adjustment	166	53	565	784
Additions	2,102	469	2,549	5,120
Acquisition of subsidiary	204	127	1,158	1,489
Written off	(2)	(3)	(3,104)	(3,109)
At 31 May 2009	8,375	1,352	14,095	23,822
<b>Depreciation:</b>				
At 1 June 2007	1,440	91	6,872	8,403
Foreign currency adjustment	–	2	(141)	(139)
Provided during the year	1,132	61	2,823	4,016
Written off	(830)	(47)	(1,689)	(2,566)
At 31 May 2008	1,742	107	7,865	9,714
Foreign currency adjustment	24	7	116	147
Provided during the year	1,390	233	3,779	5,402
Written off	–	(3)	(3,070)	(3,073)
At 31 May 2009	3,156	344	8,690	12,190
Net book value at 31 May 2009	5,219	1,008	5,405	11,632
Net book value at 31 May 2008	4,163	599	5,062	9,824
Net book value at 1 June 2007	3,294	146	4,718	8,158

## 14. Intangible assets

	Goodwill £000	Client lists and customer relationships £000	Trade name £000	Develop- ment costs £000	Software and licences £000	Total £000
<b>Cost:</b>						
At 1 June 2007	106,218	826	–	3,119	2,678	112,841
Foreign currency adjustment	5	24	–	–	10	39
External purchases	–	–	–	50	1,232	1,282
Acquisition of subsidiary	3,802	–	–	–	49	3,851
Written off	–	–	–	(9)	(292)	(301)
At 31 May 2008	110,025	850	–	3,160	3,677	117,712
Foreign currency adjustment	19,819	9,666	176	(5)	176	29,832
External purchases	–	–	–	99	2,041	2,140
Acquisition of subsidiary	87,121	42,691	778	–	429	131,019
Written off	–	–	–	(2,357)	(436)	(2,793)
At 31 May 2009	216,965	53,207	954	897	5,887	277,910
<b>Amortisation:</b>						
At 1 June 2007	–	699	–	3,034	1,433	5,166
Provided during the year	–	151	–	89	542	782
Written off	–	–	–	(9)	(283)	(292)
At 31 May 2008	–	850	–	3,114	1,692	5,656
Foreign currency adjustment	–	(1,114)	(47)	(1)	5	(1,157)
Provided during the year	–	14,046	567	38	946	15,597
Written off	–	–	–	(2,357)	(436)	(2,793)
At 31 May 2009	–	13,782	520	794	2,207	17,303
Net book value at 31 May 2009	216,965	39,425	434	103	3,680	260,607
Net book value at 31 May 2008	110,025	–	–	46	1,985	112,056
Net book value at 1 June 2007	106,218	127	–	85	1,245	107,675

## 15. Investment in subsidiaries

### At cost:

	Company	
	2009 £000	2008 £000
At the beginning of the year	309,581	304,899
Investment relating to equity-settled share-based payments for subsidiary employees	3,256	4,682
Increase in investment in IG Group Ltd	111,234	–
At the end of the year	424,071	309,581

The following companies are all owned directly or indirectly by IG Group Holdings plc:

Name of Company	Country of incorporation	Holding	Voting rights	Nature of business
<b>Subsidiary undertakings held directly:</b>				
IG Finance	UK	Ordinary shares	100%	Financing
IG Group Limited	UK	Ordinary shares*	100%	Holding company
<b>Subsidiary undertakings held indirectly:</b>				
IG Index plc	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
extrabet Limited	UK	Ordinary shares	100%	Spread betting and fixed odds bookmaker
extrabet Financial Limited	UK	Ordinary shares	100%	Fixed odds bookmaker
IG Australia Pty Limited	Australia	Ordinary shares	100%	Australia sales and marketing office
IG Asia Pte Limited	Singapore	Ordinary shares	100%	Margin trading and foreign exchange
IG Markets Inc.	USA	Ordinary shares	100%	Foreign exchange and USA sales office
North American Derivatives Exchange, Inc. (formerly HedgeStreet Inc.)	USA	Ordinary shares	100%	Exchange
FXOnline Japan KK	Japan	Ordinary shares	87.5%	Margin trading and foreign exchange
Market Data Limited	UK	Ordinary shares	100%	Data distribution
Market Risk Management Inc.	USA	Ordinary shares	100%	Market maker
IG Infotech (India) Private Ltd	India	Ordinary shares	100%	Software development
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
IG Finance Two	UK	Ordinary shares	100%	Financing
IG Finance Three	UK	Ordinary shares	100%	Financing
IG Finance Four	UK	Ordinary shares	100%	Financing
IG Finance Five Limited	UK	Ordinary shares*	100%	Financing
IG Finance Six Limited	UK	Ordinary shares	100%	Financing
IG Finance Seven Limited	UK	Ordinary shares	100%	Financing
IG Finance Eight Limited	UK	Ordinary shares	100%	Financing

## 15. Investment in subsidiaries (continued)

Name of Company	Country of incorporation	Holding	Voting rights	Nature of business
<b>Subsidiary undertakings held indirectly (continued):</b>				
Fox Sub Limited	Gibraltar	Ordinary shares	100%	Financing
Fox Sub Two Limited	Gibraltar	Ordinary shares	100%	Financing
Fox Japan Holdings Limited	Gibraltar	Ordinary shares*	100%	Holding company
IG US Holdings Inc.	USA	Ordinary shares	100%	Holding company
Market Data Japan KK	Japan	Ordinary shares	100%	Holding company

\* Each of IG Group Limited, Fox Japan Holdings Limited and IG Finance 5 Limited has preference shares in issue. These are 100% held within the IG group of companies.

### Employee Benefit Trusts:

IG Group Holdings plc Inland Revenue Approved Share Incentive Plan (UK trust)

IG Group Limited Employee Benefit Trust (Jersey trust)

### 15a) Acquisition of HedgeStreet Inc.

On 6 December 2007, the Group acquired 100% of the ordinary shares of HedgeStreet Inc. ("HedgeStreet") for a consideration of £3,024,000 (\$6,000,000) satisfied in cash.

Goodwill of £3,829,000 arose on the acquisition of HedgeStreet relating to certain intangible assets that cannot be individually separated and reliably measured and includes the future growth potential of the business. There has not been an amendment to the fair value of the acquired assets or consideration paid in the year ended 31 May 2009 in relation to this acquisition.

On 21 June 2009, HedgeStreet Inc. changed its name to North American Derivatives Exchange, Inc.

### 15b) Acquisition of FXOnline Japan KK

On 2 October 2008, the Group acquired 87.5% of the issued share capital of FXOnline Japan KK ("FXOnline"), a leading privately-owned Japanese online retail FX trading company, for a total consideration of ¥22.2 billion (£117.6 million). The Group also has a call option to acquire the remaining 12.5% of the issued share capital exercisable from January 2011 according to a pre-agreed formula that is linked to the future performance of FXOnline. The entire consideration was satisfied in cash, which was in part financed by a share placing of 27,864,407 shares at a placing price of £2.95 raising £82.2 million.

FXOnline contributed £22.6 million to revenue and £9.2 million to profit before tax excluding £5.4 million of synergies generated post acquisition. If the combination had been completed on the first day of the financial period, the estimated revenue would have been £33.4 million with profit before tax of £9.6 million for the year, excluding £5.4 million of synergies generated post acquisition. A number of exceptional costs were incurred pre acquisition reducing profit for the year.

## 15. Investment in subsidiaries (continued)

### 15b) Acquisition of FXOnline Japan KK (continued)

The book and fair value of the assets acquired is given below.

Net assets acquired	Book value £000	Fair value £000
Intangible assets arising on acquisition – trade name	–	778
Intangible assets arising on acquisition – customer relationships	–	42,691
Property, plant and equipment	1,489	1,489
Intangible assets – software and licences	429	429
Deferred tax assets	1,719	1,719
Trade receivables	14,251	14,251
Other receivables	485	485
Cash and cash equivalents	68,202	68,202
Trade payables	(65,341)	(65,341)
Other payables	(6,456)	(6,456)
Corporate tax liabilities	(2,555)	(2,555)
Deferred tax liability	–	(18,257)
	12,223	37,435
Goodwill		87,121
<b>Consideration and minority interests</b>		<b>124,556</b>
Represented by:		
Cash		117,612
Deferred contingent consideration		1,385
Acquisition costs capitalised, settled in cash		4,031
Minority interests		1,528
		124,556

The fair value adjustments include the recognition of separately identifiable intangible assets arising on acquisition that meet the identification and measurement requirements of IAS 38. These comprise the FXOnline trade name and customer relationships and are amortised using the sum of digits method over two and five years respectively. The fair value of these assets was determined by an external, professional valuer through an estimate of the present value of earnings or of costs avoided that are attributable to the asset (the relief from royalties and the multi period excess earnings methods respectively).

A deferred tax liability of £18.3 million was recognised in respect of separately identifiable intangible assets arising on the acquisition of FXOnline. A deferred tax liability is recognised in a business combination in respect of any identified intangible asset representing the difference between the fair value of the acquired asset and its tax base. Recognition of a deferred tax liability in respect of such a difference gives rise to a corresponding increase in goodwill accounted for in the consolidated balance sheet.

The deferred tax liability of £18.3 million decreased from the date of acquisition to the end of the period by £1.5 million (£6.1 million reduction as a result of the amortisation of the underlying intangibles less £4.6 million foreign currency translation gain).

Deferred contingent consideration represents the management's estimate of the deferred payments expected to be made to the former FXOnline share option holders at 31 January 2011 and 31 January 2012 as a result of the cancellation of their options on acquisition by the Group.

The directors consider that the fair value of the goodwill of £87.1 million that arose on the acquisition of FXOnline is reasonable and related to certain intangible assets that cannot be individually separated and reliably measured. The goodwill includes the future growth potential of the business, the assembled workforce as well as revenue and cost synergies expected to accrue to the Group. These assets are not separately identifiable.



## 16. Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to the cash generating units (CGUs), as follows:

	Group	
	2009 £000	2008 £000
Financial	100,946	100,946
Sport	5,250	5,250
US business	4,690	3,829
Japanese business	106,079	–
	216,965	110,025

Goodwill arising on the purchase of IG Group plc by IG Group Holdings plc on 5 September 2003 has been allocated according to the profitability of the Financial and Sport CGUs at that date.

The identification of the Group's CGUs was reviewed subsequent to the acquisition of FXOnline. As a result, goodwill arising on the acquisitions of each of HedgeStreet and FXOnline has been allocated to the separate US business and Japanese business CGUs respectively as these businesses generate largely independent cash flows.

For the purposes of impairment testing of goodwill the carrying amount of each CGU (including goodwill) is compared to the recoverable amount of each CGU and any deficits are provided. The carrying amount of a CGU includes only those assets that can be attributed directly, or allocated on a reasonable and consistent basis.

The estimated recoverable amount of each CGU is based on value-in-use calculated as the total of the present value of projected five-year future cash flows and a terminal value.

### Key assumptions used in value-in-use calculations

The calculation of value-in-use for the CGUs is most sensitive to the following assumptions:

- Growth rates used to extrapolate cash flows beyond the three-year plan period (2008: two year period);
- The long-term growth rate used for the terminal value calculation;
- Discount rate being the weighted average cost of capital ("WACC");
- Client recruitment rates; and
- Average revenue per client.

Projected future cash flows for each CGU were based on the Board-approved three-year plan (2008: two-year period) comprising a one-year budget and two-year forecast (2008: one-year) which reflect past experience as well as future expected trends. Cash flows beyond the relevant plan period (for example years four and five in the cash flow model for 2009) were estimated using a range of subsequent growth rates in order to allow for differing growth scenarios. These ranges are disclosed in the following table and are consistent with the long-term growth rates of the Financial and Sport businesses, being 39% and 3.5% respectively, measured over a five-year period.

The cash flows for the US and Japanese businesses were translated into Sterling using period end market rates.

The cash flows were discounted using pre-tax discount rates (WACC) as disclosed in the table below. These were derived using region-specific, market-based cost of equity and debt assumptions in order to reflect both the financing cost and risk associated with each CGU. The long-term growth rates ("g") used in the terminal value calculations are disclosed below and are equivalent to or lower than the respective long-term growth rate for the economy in which the CGU operates.

Cash Generating Unit	2009	2008	2009	2008	2009	2008
	WACC	WACC	Years 4-5 growth rate	Years 3-5 growth rate	g	g
Financial	15.0%	14.1%	4-8%	5%	2.0%	2.0%
Sport	15.0%	14.1%	0-5%	5%	2.0%	2.0%
US business	19.8%	N/A	15-30%	N/A	3.0%	N/A
Japanese business	17.5%	N/A	5-10%	N/A	1.5%	N/A

## 16. Impairment of goodwill (continued)

Client recruitment rates and average revenue per client were based upon actual amounts measured in prior periods which were projected forward in accordance with expected trends.

The directors have performed a sensitivity analysis around the cash flow assumptions and have concluded that no reasonably possible change in key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount.

On the basis of the results of the above analysis there was no impairment of goodwill during the year.

## 17. Trade receivables

	Group	
	2009 £000	2008 £000
Amounts due from brokers	178,261	252,522
Amounts due from clients	4,824	10,801
	183,085	263,323

## 18. Cash and cash equivalents

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash at bank and in hand	95,560	99,411	122	46
Short-term deposits	3,847	3,348	–	–
Client money held	421,014	368,963	–	–
	520,421	471,722	122	46

Cash and cash equivalents are deposited 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. The fair value of cash and cash equivalents is not materially different from the book value.

Net interest receivable on client balances amounted to £7,600,000 (2008: £10,221,000).

Undrawn committed borrowing facilities amounted to £120m (2008: £160m) at the balance sheet date.

## 19. Trade payables

	Group	
	2009 £000	2008 £000
Amounts due to clients	511,656	582,689

## 20. Other payables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Accruals	26,131	25,501	962	1,756
Other taxes and social security	1,192	1,211	–	–
Amounts due to group companies (note 29)	–	–	119,077	–
Dividends on redeemable preference shares	3	3	3	3
	27,326	26,715	120,042	1,759

## 21. Redeemable preference shares

	Company and Group	
	2009 £000	2008 £000
<b>Authorised:</b>		
Preference shares of £1 each	40	40
<b>Allotted, called up and fully paid:</b>		
Preference shares of £1 each	40	40

The preference shares are entitled to a fixed non-cumulative dividend of 8% paid in preference to any other dividend. Redemption is only permissible in accordance with capital distribution rules or on the winding up of the Company where the holders are entitled to £1 per share plus, if the Company has sufficient distributable reserves, any accrued or unpaid dividends. The preference shares have no voting rights, except that they are entitled to vote should the Company fail to pay any amount due on redemption of the shares. The effective interest rate on these shares is 8% (2008: 8%).

## 22. Equity share capital

	Company and Group	
	2009 £000	2008 £000
<b>Authorised:</b>		
500,000,000 ordinary shares of 0.005p each	25	25
65,000 B shares of 0.001p each	–	–
	25	25

	Number of shares	Ordinary	Share
		share Capital £000	premium £000
<b>Allotted, called up and fully paid:</b>			
<b>(i) ordinary shares (0.005p)</b>			
At 1 June 2007 and 1 June 2008	327,500,959	16	125,235
Issued during year (net of issue costs)	32,083,377	2	81,011
At 31 May 2009	359,584,336	18	206,246
<b>(ii) B shares (0.001p)</b>			
At 31 May 2008 and 31 May 2009	65,000	–	–

## 22. Equity share capital (continued)

During the year to 31 May 2009, 4,218,970 ordinary shares with an aggregate nominal value of £210 were issued following the exercise of Long Term Incentive Plan awards for a consideration of £210. In addition, 27,864,407 ordinary shares with an aggregate nominal value of £1,393 were issued in a share placing on 29 September 2008, at a price of £2.95 in order to finance the acquisition of FXOnline (see note 15). This share placing raised £82.2 million before issue costs of £1.2 million.

Except as the ordinary shareholders have agreed or may otherwise agree, on a winding up of the Company, the balance of assets available for distribution after the payment of all of the Company's creditors and subject to any special rights attaching to other classes of shares are distributed among the shareholders according to the amounts paid up on shares by them.

### B shares

The B shares carry no entitlement to dividends and no voting rights. To the extent not already received by them the B shareholders shall, on a winding up of the Company, be entitled to receive, from the trustee, a consideration equal to the amount realised by the sale by the trustee of approximately 122 ordinary shares for every B share held.

## 23. Own shares held in Employee Benefit Trusts

The movements in own shares held in Employee Benefit Trusts in respect of employee share plans during the year were as follows:

	Company and Group	
	2009	2008
	£000	£000
<b>At the beginning of the year:</b>		
1,172,840 (2008: 1,206,445) ordinary shares of 0.005p each	704	503
<b>Purchased during the year:</b>		
79,345 (2008: 59,764) ordinary shares of 0.005p each	258	201
<b>Exercised during the year:</b>		
34,611 (2008: 93,369) ordinary shares of 0.005p each	–	–
<b>At the end of the year:</b>		
1,217,574 (2008: 1,172,840) ordinary shares of 0.005p each	962	704

The Group has a UK resident Employee Benefit Trust in order to hold shares in the Company in respect of awards under the Group's HM Revenue and Customs approved share incentive plan (SIP). At 31 May 2009 702,333 ordinary shares (2008: 660,765) were held in the trust and at the balance sheet date have reduced shareholders' equity by £952,699 (2008: £704,149). These include 201,219 ordinary shares (2008: 185,509) which were not allocated to employees and are available for future SIP awards. The market value of the shares held conditionally at the balance sheet date was £1,587,273 (2008: £2,525,774).

The Group has a Jersey resident Employee Benefit Trust which holds shares in the Company. At the balance sheet date the trust held 512,075 (2008: 512,075) ordinary shares which are available to satisfy awards under the SIP and LTIP schemes. The shares held at the balance sheet date have reduced shareholders' equity by £26 (2008: £26). The market value of the shares held conditionally at the balance sheet date was £1,157,290 (2008: £1,957,407).

The Group has an Australian resident Employee Equity Plan Trust in order to hold shares in the Company in respect of awards under a share incentive plan (SIP). At 31 May 2009 3,166 ordinary shares (2008: nil) were held in the trust and at the balance sheet date have reduced shareholders' equity by £9,004 (2008: £nil). These include nil ordinary shares (2008: nil) which were not allocated to employees and are available for future SIP awards. The market value of the shares held conditionally at the balance sheet date was £7,155 (2008: £nil).

Upon flotation of the Company on 4 May 2005 5,861,497 ordinary shares and cash of £2.4m were transferred to the Jersey Employee Benefit Trust by institutional shareholders in order to satisfy their obligations to holders of 48,059 B shares and 16,941 B shares respectively. During the year ended 31 May 2009 777 (2008: 3,653) B shares were sold by B shareholders to the trust. The trust sold 94,767 (2008: 445,537) ordinary shares in order to realise the funds necessary to purchase these B shares. The trust unconditionally held 59,611 (2008: 58,834) B shares at the balance sheet date. The Trust also held 5,389 (2008: 6,166) B shares and 657,267 (2008: 752,034) ordinary shares which it may sell in order to satisfy its obligations to B shareholders, all of whom are current or former employees.

## 24. Other reserves

The share-based payment reserve relates to the estimated cost of equity-settled employee share plans based on a straight-line basis over the vesting period and the associated credit for the excess of the tax deduction for employee share-based payments over the amounts charged to the income statement. The foreign currency translation reserve includes amounts in relation to the translation of overseas subsidiaries.

	Share based payments (Note 25) £000	Foreign currency translation £000	Own shares held in Employee Benefit Trusts (Note 23) £000	Total other reserves £000
<b>Group</b>				
At 1 June 2007	5,246	–	(503)	4,743
Equity-settled employee share-based payments	4,682	–	–	4,682
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 10(c))	2,352	–	–	2,352
Purchase of treasury shares	–	–	(201)	(201)
At 1 June 2008	12,280	–	(704)	11,576
Equity-settled employee share-based payments	3,256	–	–	3,256
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 10(c))	(1,730)	–	–	(1,730)
Foreign currency translation on overseas subsidiaries	–	32,437	–	32,437
Purchase of treasury shares	–	–	(258)	(258)
At 31 May 2009	13,806	32,437	(962)	45,281

	Share based payments (Note 25) £000	Own shares held in Employee Benefit Trusts (Note 23) £000	Total other reserves £000
<b>Company</b>			
At 1 June 2007	3,424	(503)	2,921
Equity-settled employee share-based payments	4,682	–	4,682
Purchase of treasury shares	–	(201)	(201)
At 1 June 2008	8,106	(704)	7,402
Equity-settled employee share-based payments	3,256	–	3,256
Purchase of treasury shares	–	(258)	(258)
At 31 May 2009	11,362	(962)	10,400

## 25. Employee share plans

The Company operates two employee share plans; a Share Incentive Plan (SIP) and a Long Term Incentive Plan (LTIP) both of which are equity-settled. In addition the Company operated in the year 31 May 2008, a Shadow SIP scheme for Australian employees which was cash settled. The expense recognised in the income statement in respect of share-based payments was as follows:

	Group	
	2009 £000	2008 £000
Equity-settled share-based payment schemes	3,256	4,682
Cash-settled share-based payment schemes	–	34
	3,256	4,716

### SIP awards made to UK staff

SIP awards are made available to all UK staff, except executive directors and are equity-settled. There are no further performance conditions other than remaining in employment with IG for the term of each award. Shares awarded under the scheme are held in a UK trust in accordance with HM Revenue and Customs rules. Employees are entitled to receive dividends on the shares held in trust for as long as they remain employees.

On 3 May 2005, the SIP awarded all UK employees, except executive directors, a total of 94,267 free shares which vested immediately and 470,758 additional free shares which vest after three years. The price of ordinary shares on the award date was £1.20.

On 24 August 2006, the Company invited all UK employees to subscribe for up to £1,500 of partnership shares when the share price was £2.38. IG offered to match every partnership share with 2 matching shares up to a maximum of £3,000. The matching shares vest after three years.

On 24 July 2007, the Company invited all UK employees to subscribe for up to £1,500 of partnership shares when the share price was £3.36. IG offered to match every partnership share with 1 matching share up to a maximum of £1,500. The matching shares vest after three years.

On 22 July 2008, the Company invited all UK employees to subscribe for up to £1,500 of partnership shares when the share price was £3.28. IG offered to match every partnership share with 1 matching share up to a maximum of £1,500. The matching shares vest after three years.

### Shadow SIP and SIP awards made to non-UK staff

Shadow SIP awards are made to overseas staff and are cash settled. The fair value of these awards is estimated at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions of the award. A liability is recognised over the expected vesting period and until the liability is settled it is re-measured at each reporting date with changes in fair value recognised in the income statement.

On 9 December 2005, Australian employees were awarded a total of 45,000 shares which settled on a cash basis on 31 May 2008. There were no further performance conditions other than remaining in employment with IG for the term of the award. At the vesting date a bonus was payable to each participant equivalent to the value of 2,500 IG shares at 31 May 2008. The number of awards vesting was the equivalent of 37,500 shares.

On 27 January 2009, the Company invited all Australian employees to subscribe for up to A\$3,000 of partnership shares when the share price was £2.84. IG offered to match every partnership share with 1 matching share up to a maximum of A\$3,000. The matching shares vest after three years.

### LTIP awards

LTIPs allow the award of nil cost or nominal cost shares. UK employees' awards for the years ended 31 May 2005 and 31 May 2007 automatically crystallised on the vesting date. During the year ended 31 May 2008, these awards were modified at the Company's discretion, to offer employees the opportunity to convert all or a proportion of their shares entitlement under the initial share award plans to share options. The modification had no impact on the income statement. LTIP awards made in the year ended 31 May 2009 and to Australian employees are legally categorised as options. The fair value of awards made to UK staff (for the years ended 31 May 2005 and 2007) is the price of ordinary shares at the grant date adjusted for the present value of future dividends to which the holder is not entitled. The fair values of awards made in the year ended 31 May 2009 and to Australian employees for earlier years are calculated using the Black-Scholes option pricing model.



## 25. Employee share plans (continued)

### LTIP awards (continued)

LTIPs vest if specific performance targets are achieved and are conditional upon continued employment at the vesting date. Performance is measured as the compound annual growth rate in diluted adjusted earnings per share over the three-year vesting period and also share price growth over the same period for awards made in the year ended 31 May 2009. For each award a minimum performance target must be achieved before any shares vest and the awards vest fully once the maximum performance target is achieved. Further information on the Company's LTIPs is given in the Directors' Remuneration Report on pages 35 to 41.

On 16 May 2005, when the share price was 112.25p awards were made to staff, conditional upon growth in normalised earnings per share in the three years to 31 May 2008. The vesting date of these awards was upon publication of the Group's results for the year ended 31 May 2009 which was on 21 July 2009.

On 7 August 2006, when the share price was 217.0p awards were made to staff, conditional upon growth in diluted adjusted earnings per share in the three years to 31 May 2009. Further awards were made on 4 October 2006, when the share price was 261.75p. The vesting date of these awards is upon publication of the Group's results for the year ended 31 May 2009 which was on 21 July 2009.

On 23 July 2007, when the share price was 312.25p awards were made to staff, conditional upon growth in diluted adjusted earnings per share in the three years to 31 May 2010 and upon growth in the IG Group Holdings plc share price between the average over the six weeks ending 31 May 2007 and the average over the six weeks ending 31 May 2010. Further awards were made on 14 August 2007, 21 August 2007, 22 October 2007 and 31 January 2008, when the share prices were 311.00p, 304.00p, 398.00p and 364.00p respectively. The vesting date of these awards is three years from the date of grant.

On 30 September 2008, when the share price was 313.75p awards were made to staff, conditional upon growth in diluted adjusted earnings per share in the three years to 31 May 2011 and upon growth in the IG Group Holdings plc share price between the average over the six weeks ending 21 October 2008 and the average over the six weeks ending 31 May 2011. The vesting date of these awards is three years from the date of grant.

The maximum numbers of shares that vest based on the awards made are as follows:

Type of award	Award date	Share price at award	Expected vesting date	At the start of the year No.	Awarded during the year No.	Lapsed during the year No.	Exercised during the year No.	At the end of the year No.
SIP	4 May 2005	120.0p	3 May 2008	233,662	–	–	(34,611)	199,051
LTIP	16 May 2005	112.25p	21 Jul 2008	5,645,205	–	(662,818)	(4,218,969)	763,418
Shadow SIP	9 Dec 2005	183.0p	31 May 2008	37,500	–	–	(37,500)	–
LTIP	7 Aug 2006	217.0p	7 Aug 2009	1,104,530	–	(67,800)	–	1,036,730
SIP	24 Aug 2006	237.61p	23 Aug 2009	185,452	–	(12,620)	–	172,832
LTIP	4 Oct 2006	261.75p	4 Oct 2009	427,143	–	–	–	427,143
SIP	23 Jul 2007	336.09p	22 Jul 2010	56,642	–	(2,676)	–	53,966
LTIP	23 Jul 2007	312.25p	26 Jul 2010	2,366,165	–	(28,823)	–	2,337,342
LTIP	14 Aug 2007	311.0p	14 Aug 2010	30,547	–	–	–	30,547
LTIP	21 Aug 2007	304.0p	21 Aug 2010	100,428	–	–	–	100,428
LTIP	22 Oct 2007	398.0p	22 Oct 2010	12,563	–	(12,563)	–	–
LTIP	31 Jan 2008	364.0p	31 Jan 2011	45,610	–	–	–	45,610
SIP	22 Jul 2008	328.0p	21 Jul 2011	–	76,179	(914)	–	75,265
LTIP	30 Sept 2008	313.75p	30 Sept 2011	–	3,132,290	–	–	3,132,290
SIP	27 Jan 2009	284.0p	27 Jan 2012	–	3,166	–	–	3,166
Year ended 31 May 2009				10,245,447	3,211,635	(788,214)	(4,291,080)	8,377,788
Year ended 31 May 2008				7,898,832	2,615,077	(175,093)	(93,369)	10,245,447

The weighted average fair values of the awards made were as follows:

	At the beginning of the year	Awarded during the year	Lapsed during the year	Exercised during the year	At the end of the year
Year ended 31 May 2009	167.94p	182.36p	123.14p	100.47p	212.24p
Year ended 31 May 2008	126.66p	288.64p	134.49p	120.00p	167.94p

## 25. Employee share plans (continued)

### Liability for cash-settled awards

The carrying amount of the liability for the cash-settled Shadow SIP scheme at 31 May 2009 is £nil (2008: £143,344). The amount of cash-settled awards which were exercised in the year to 31 May 2009 was £143,344 (2008: £nil). No awards were granted in the year (2008: nil). The following table lists the inputs to a Black-Scholes option pricing model used in calculating the liability:

Balance sheet date	31 May 2008
Underlying share price (pence)	382.25
Expected volatility (%)	48
Risk-free interest rate (%)	5.00
Expected life of awards (years)	0.00

The expected life of the awards is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the awards were incorporated into the measurement of fair value.

### Fair value of equity-settled awards

The fair value of equity-settled share-based payments to employees is determined at the grant date. The weighted average fair value of the equity-settled awards granted during the year was £5,856,709 (2008: £7,548,086) at the grant date. For SIP awards, the fair value is determined to be the share price at the grant date without making an adjustment for expected dividends as awardees are entitled to dividends over the vesting period. For LTIP awards made to UK staff in the years ended 31 May 2005 and 31 May 2007, the fair value is determined to be the share price at the grant date after a deduction for the expected present value of future dividends over the vesting period. LTIP awards made to Australian staff for these periods, and awards made in the year ended 31 May 2008 and subsequent periods, are legally categorised as options and the fair value was calculated using a Black-Scholes option pricing model (Monte Carlo for year ended 31 May 2009), using the following inputs:

Grant date	16 May 2005	7 Aug 2006	23 July 2007	30 Sept 2008
Share price at grant date (pence)	112.25p	217.00p	312.25p	313.75p
Expected life of awards (years)	3.18	2.97	3.00	3.00
Risk-free interest rate (%)	5.00	5.00	5.75	4.06
Expected volatility (%)	34	32	32	40
Expected dividend yield (%)	3.73	3.04	3.42	5.50

## 26. Net funds/(debt)

### Group

	At 1 June 2007 £000	Cash flow £000	At 1 June 2008 £000	Cash flow £000	At 31 May 2009 £000
Cash at bank and in hand	92,116	7,295	99,411	(3,851)	95,560
Short-term deposits	1,167	2,181	3,348	499	3,847
Client money held	391,273	(22,310)	368,963	52,051	421,014
Redeemable preference shares	(40)	–	(40)	–	(40)
	484,516	(12,834)	471,682	48,699	520,381

## 27. Obligations under leases

### Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties. The lessee has options of renewal on each of these leases with a notice period of three months. There were no restrictions placed upon the lessee by entering into these leases. Future minimum rentals payable under non-cancellable operating leases are as follows:

	2009 £000	2008 £000
<i>Future minimum payments due:</i>		
Not later than one year	2,739	1,855
After one year but not more than five years	8,168	8,147
After more than five years	5,653	7,144
	16,560	17,146

## 28. Transactions with directors

The Group had no transactions with its directors other than those disclosed in the directors' remuneration report on pages 39 to 41.

## 29. Related party transactions

### 29a) Group

During the year, fees amounting to £30,000 (2008: £30,000) were paid to CVC Capital Partners Limited relating to the services of Robert Lucas as a director of IG Group Holdings plc. Funds managed or advised by CVC Capital Partners Limited or its affiliates held 8.4% of the ordinary share capital of the Company at 31 May 2009 (2008: 7.7% of the ordinary share capital).

The directors are considered to be the key management personnel of the Group in accordance with IAS 24. The directors' remuneration report on pages 39 to 41 discloses all benefits and share-based payments made during the year and the preceding year to the directors. The total compensation for key management personnel was as follows:

	2009 £000	2008 £000
Salaries and other short-term employee benefits	1,551	2,109
Post-employment benefits	188	725
Share-based payments	940	1,467
	2,679	4,301

There were no further related party transactions during the year or the preceding year.

## 29. Related party transactions (continued)

### 29b) Company

The Company entered into the following related party transactions during the year as part of the funding mechanism for the acquisition of FXOnline and the management of the resulting entity exchange rate exposures:

- The £82.2 million share placement undertaken to part fund the acquisition of FXOnline was facilitated via IG Jersey Cashbox Limited. All amounts payable were settled as at the balance sheet date.
- A ¥12.2 billion (£79.3 million) loan from IG Finance 5 Ltd and an equivalent loan to Fox Japan Holdings, both of which remain outstanding at the year end.
- A swap contract with IG Finance 5 Ltd (pay ¥12.2 billion, receive £84.1 million) and a forward contract with Fox Japan Holdings Ltd (pay £85.3 million, receive ¥12.2 billion). Both these contracts were cash settled on 29 May 2009 resulting in a net gain of £154,000 for the Company.

The Company also pays for certain expenses incurred by subsidiaries and received dividends from IG Group Limited of £54 million (2008: £38 million).

The company had the following amounts outstanding with subsidiaries at the year end:

	2009 £000	2008 £000
Loans to related parties	96,569	–
Loans from related parties	119,077	–

All amounts remain outstanding at the balance sheet date and are repayable on demand.

## 30. Financial instruments

### Accounting classifications and fair values

The table below sets out the classification of each class of financial assets and liabilities and their fair values, valued using direct market quotes where applicable (excluding accrued interest):

#### Group

	Held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
<b>As at 31 May 2009</b>					
<i>Financial assets</i>					
Cash and cash equivalents	–	520,421	–	520,421	520,421
Trade receivables – due from brokers	178,261	–	–	178,261	178,261
Trade receivables – due from clients	4,824	–	–	4,824	4,824
	183,085	520,421	–	703,506	703,506
<i>Financial liabilities</i>					
Trade payables – due to clients	511,656	–	–	511,656	511,656
Redeemable preference shares	–	–	40	40	40
	511,656	–	40	511,696	511,696

### 30. Financial instruments (continued)

#### Accounting classifications and fair values (continued)

##### Group

	Held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
<b>As at 31 May 2008</b>					
<i>Financial assets</i>					
Cash and cash equivalents	–	471,722	–	471,722	471,722
Trade receivables – due from brokers	252,522	–	–	252,522	252,522
Trade receivables – due from clients	10,801	–	–	10,801	10,801
	263,323	471,722	–	735,045	735,045
<i>Financial liabilities</i>					
Trade payables – due to clients	582,689	–	–	582,689	582,689
Redeemable preference shares	–	–	40	40	40
	582,689	–	40	582,729	582,729

##### Company

	Held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
<b>As at 31 May 2009</b>					
<i>Financial assets</i>					
Cash and cash equivalents	–	122	–	122	122
<i>Financial liabilities</i>					
Redeemable preference shares	–	–	40	40	40
<b>As at 31 May 2008</b>					
<i>Financial assets</i>					
Cash and cash equivalents	–	46	–	46	46
<i>Financial liabilities</i>					
Redeemable preference shares	–	–	40	40	40

#### Broker margin

Amounts due from brokers, included in trade receivables, represent balances with counterparties where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group. The cash held on account with counterparties comprises margin and surplus funds which mitigate each counterparty's credit risk exposure to the Group, and amounted to £178,261,000 at 31 May 2009 (2008: £252,522,000). These transactions are conducted under terms that are usual and customary to standard margin trading activities.

## 30. Financial instruments (continued)

### Items of income, expense, gains or losses

Gains and losses arising from financial assets and liabilities classified as held for trading amounted to net gains of £257,089,000 (2008: £184,008,000).

Finance revenue (see note 8) totalled £15,775,000 (2008: £30,609,000). The entire amount represents interest income on financial assets not at fair value through profit or loss and includes interest receivable in respect of segregated and non-segregated client balances of £12,888,000 (2008: £26,562,000), part of which is held with brokers.

Finance costs (see note 9) totalled £6,966,000 (2008: £16,969,000) which includes interest payable on client balances of £5,288,000 (2008: £16,341,000). An amount of £6,039,000 represents interest expense on financial liabilities not at fair value through profit or loss (2008: £16,673,000). The remainder, £927,000 (2008: £296,000) represents fee expense arising from maintaining the Group's committed bank facilities.

### Nature and extent of risks arising from financial instruments

The principal activities of the Group outlined in the Directors' Report give rise to exposure to financial risks in the ordinary course of business.

The Board is responsible for reviewing the Group's system of internal control and risk management and approving any changes to the Group's risk management policy which materially increases the risk profile of the Group. Limits as to the acceptable level of risk are established and regularly reviewed by the Board. Under authority delegated by the Board, the Executive Directors develop and implement risk management systems, policies and procedures.

The Group's finance and risk departments report to the Finance Director and Chief Operating Officer respectively, who are responsible to the Board. These departments comprise risk management, financial planning, financial control and credit control. The risk management department reports daily to the Group's senior management. The objective of the risk department is to manage the Group's financial risk and to minimise the effects of fluctuations in financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group.

The Group has exposure to the following risks from its use of financial instruments:

- Market risk;
- Credit risk;
- Liquidity risk; and
- Operational risk.

### Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments.

### Management of market risk

Market risk is managed on a Group-wide basis. The Group's products can be divided into two groups: those which relate to a liquid financial market in which it is normally easy for the Group to hedge and those for which there is not an easily accessible and cost-effective hedge. The Group's revenue model for each of these product groups is set out below.

The Group does not take proprietary positions based on an expectation of market movements. However, not all client transactions are hedged and as a result the Group may have a net position in any of the markets on which it offers products.

The Group has a formal risk policy which includes limits, or a methodology for setting limits, for every single financial market which the Group trades, as well as certain groups of markets which the directors consider to be correlated. These limits determine the net exposure arising from client activity and hedging which the Group is prepared to carry. The Group's exposure monitor allows it to continually monitor its exposure against these limits. If the Group's exposure exceeds these limits, the policy requires that sufficient hedging is carried out to bring the exposure back within the defined limit or, if the market is closed, as soon as it re-opens.

Changes to the market risk policy require approval by the Group's Risk Committee, which comprises the Chief Executive Officer, Chief Operating Officer and the Finance Director, as well as the dealing, credit and risk directors. Changes to the market risk policy which may result in a significant increase in market risk require approval of the Board.

Where the Group has positions in markets for which it has not been possible or cost-effective to hedge, the Group's Risk Committee determines the appropriate action and reviews these exposures regularly.

Sports spread bets and binary bets are difficult or not cost-effective to hedge and there is often no direct underlying market which can be utilised in setting the price which the Group quotes. The Group normally undertakes no hedging for these markets but can lay off large positions if considered necessary. The directors aim to reduce the volatility of revenue from these markets by offering a large number of different betting opportunities, the results of which should, to some extent, offset each other irrespective of the underlying market outcome. The overwhelmingly short-term nature of these bets means that risk on these markets at any point in time is not considered to be significant.

## 30. Financial instruments (continued)

### Market risk (continued)

#### Exposure to market risk

The Group has exposure to market risk to the extent that it has a residual un-hedged position.

The Group's exposure to market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day. The exposure at each balance sheet date is therefore not considered representative of the market risk exposure faced by the Group over the year. The Group's exposure to market risk is determined by the exposure limits described above which change from time to time.

The most significant market risk faced by the Group is on equity positions including shares and indices which are highly correlated and managed on a portfolio basis. Other exposures, including foreign exchange, commodities and interest rates, do not give rise to significant market risk. The equity exposure at the balance sheet date and details of the exposure limit at the year end and for the year then ended is as follows:

	2009 £000	2008 £000
Equity exposure at year end	8,868	12,920
Equity exposure limit at year end	15,000	15,000
Average equity exposure limit for the year	15,000	15,000

The Group has no significant concentration of market risk.

#### Sensitivity analysis

The following sensitivity analysis shows the potential impact of large moves in equity markets on revenue. The percentage applied is based upon the Group's assessment of movements in equity markets and is considered to represent a single day market fall that is reasonably possible.

	Equity exposures 2009 £000	Market movement applied %	Potential revenue impact £000
Equities	8,868	10%	887

The Group's average daily gain from financial instruments classified as held for trading was £989,000 (2008: £708,000) and therefore the potential revenue impact shown above represents 0.9 days trading (2008: 0.9).

Reasonably possible movements in other markets have no significant impact on the Group's revenue.

Changes in risk variables have no direct impact on the Group's equity as the Group has no financial instruments classified as available for sale, or designated in hedging relationships.



## 30. Financial instruments (continued)

### Market risk (continued)

#### Foreign currency risk

Foreign currency exposures arise in the normal course of business and the management of this risk forms part of the risk policies outlined above. Limits on the exposures which the Group will accept in each currency are set by the Risk Committee and the Group hedges its exposures as necessary with market counterparties. Foreign currency risk is managed on a Group-wide basis, while the Company's exposure to foreign currency risk is not considered by the directors to be significant.

The functional currency of each company in the Group is that denominated by the country of incorporation as disclosed in note 15. The Group's currency exposures are measured and managed in Sterling.

The Group's exposure monitor measures foreign currency risks including currency balance sheet exposures, equity, commodity, interest and other positions denominated in foreign currencies and bets and trades on foreign currencies. The Group's net exposure to foreign exchange risk based on notional amounts at each balance sheet date was as follows:

	2009 £000	2008 £000
US Dollar	(2,095)	12,548
Euro	(98)	8,074
Australian Dollar	237	(313)
Yen	(209)	(1,497)
Other	1,068	(6,009)

No sensitivity analysis is presented for foreign exchange risk as the impact of reasonably possible market movements on the Group's revenue and equity are not significant.

#### Interest rate risk

The Group has interest rate risk arising from its trading activities which is hedged as part of the overall market risk management.

The Group offers bets and contracts for difference (CFDs) on interest rate derivatives and hedges its exposure using exchange-traded futures and options. Exposure limits are set by the Risk Committee for each product, and also for groups of products where it is considered that their price movements are likely to be positively correlated. Interest rate risk arising from trading activities is not considered by the directors to be significant and is measured by the Group's exposure monitor on a Group-wide basis.

The Group also has interest rate risk relating to financial instruments not at fair value through profit and loss such as cash held with banks which are not included in the Group's exposure monitor. These exposures are not significant and are not hedged.

The interest rate risk profile of the Group's financial assets and liabilities as at the balance sheet date was as follows:

#### Group

	Within 1 year		More than 5 years		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
<i>Fixed rate</i>						
Redeemable preference shares (8%)	–	–	(40)	(40)	(40)	(40)
<i>Floating rate</i>						
Trade receivables	183,085	263,323	–	–	183,085	263,323
Trade payables	(511,656)	(582,689)	–	–	(511,656)	(582,689)
Cash and cash equivalents	520,421	471,722	–	–	520,421	471,722
	191,850	152,356	(40)	(40)	191,810	152,316

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

### 30. Financial instruments (continued)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Trade receivables and payables include client and broker balances upon which interest is paid or received based upon market rates. Cash and cash equivalents includes client money equivalent to the amount included with trade payables. Other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

No sensitivity analysis is presented for interest rate risk as the impact of reasonably possible market movements on the Group's revenue and equity are not significant.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

#### Management of credit risk

Credit risk is managed on a Group-wide basis. The Group has credit exposure to the banks with which it deposits funds and the market counterparties with which it hedges. The Group sets limits for its maximum exposure to each market counterparty and bank to which it has credit exposure. Certain balances with brokers are held in segregated accounts with banks. The pricing of credit default swaps and / or credit ratings of both the banks and market counterparties are monitored on a monthly basis, or more frequently if required.

The principal credit risk in respect of clients arises from a client's trading position going into deficit through incurring a loss in excess of the required margin deposit. The Group has no credit risk exposure to clients with Limited Risk accounts, which require each position to have a guaranteed stop such that the client's maximum loss is covered by the required deposit. Other types of accounts are permitted to deal in circumstances where they may be capable of suffering losses greater than the funds they have on their account, or in limited circumstances are allowed credit. The Group has a formal credit policy which determines the financial and experience criteria which a client must satisfy before being given an account which exposes the Group to credit risk, including trading limits for each client and strict margining rules.

In order to mitigate credit risk the Group continually monitors credit exposures and the margin situation on all client accounts. Since October 2008, the Group has made changes to credit risk management and monitoring processes which have significantly reduced the level of bad debt experienced by the Group. For the majority of clients this is achieved via an automated margin calling and close-out process whereby a client's trading positions are trimmed to prevent the account going into deficit. The remaining minority of clients are not subject to automatic close-out, however these clients have a maximum period of 24 hours to provide additional margin once their account has moved into deficit.

The Group also accepts collateral from clients in the form of shares or other securities which mitigate credit risk and all such assets are individually assessed and discounted for expected market risk.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure without taking account of any collateral held or other credit enhancements such as personal guarantees. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash and cash equivalents	520,421	471,722	122	46
Trade receivables – due from brokers	178,261	252,522	–	–
Trade receivables - due from clients	4,824	10,801	–	–
	703,506	735,045	122	46

The fair value of collateral held at 31 May 2009 against amounts due from clients was £595,000 (2008: £4,521,000).

The Group's largest credit exposure to any one individual broker at 31 May 2009 was £49,529,000 or 27% of the exposure to all brokers (2008: £71,614,000, 28%). Included in cash and cash equivalents, the Group's largest credit exposure to any bank at 31 May 2009 was £126,920,000 or 24% of the exposure to all banks (2008: £125,189,000, 27%). The Group has no significant exposure to any one particular client.

## 30. Financial instruments (continued)

### Credit risk (continued)

The balance of cash and cash equivalents and trade receivables – due from brokers, will fluctuate over the course of the reporting period.

The tables below present further detail on the Group's and the Company's exposure to credit risk. External credit ratings (Standard and Poor's long term ratings or equivalent) are available for exposures to brokers and banks, and these are shown below. No external credit rating of clients is available and therefore the balances are unrated.

Amounts due from clients are considered past due from the date that positions are closed and are aged from that date. If debtors arise on open positions the amounts due from clients are considered neither past due nor impaired unless impairment is provided.

### Group

	Trade receivables – due from brokers		Trade receivables – due from clients		Cash and cash equivalents		Collateral held at fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Individually impaired</b>								
Gross exposure	–	–	26,458	7,036	–	–	12	15
Allowance for impairment	–	–	(23,897)	(5,864)	–	–	–	–
	–	–	2,561	1,172	–	–	12	15
<b>Past due but not impaired</b>								
Ageing profile:								
0-3 months	–	–	695	4,993	–	–	–	3,118
4-6 months	–	–	7	14	–	–	–	–
7-9 months	–	–	65	–	–	–	–	–
10-12 months	–	–	–	17	–	–	–	–
More than 12 months	–	–	30	–	–	–	–	–
	–	–	797	5,024	–	–	–	3,118
<b>Neither past due nor impaired</b>								
Credit rating:								
AA+	–	–	–	–	–	5,838	–	–
AA to AA-	87,264	164,256	–	–	212,423	351,920	–	–
A+ to A-	88,054	71,547	–	–	307,367	113,790	–	–
BBB+ to BBB-	1,078	12,253	–	–	182	26	–	–
Unrated	1,865	4,466	1,466	4,605	449	148	583	1,388
	178,261	252,522	1,466	4,605	520,421	471,722	583	1,388
Total carrying amount	178,261	252,522	4,824	10,801	520,421	471,722	595	4,521

### Company

	Cash and cash equivalents	
	2009	2008
	£000	£000
<b>Neither past due nor impaired</b>		
Credit rating:		
AA- to A+	122	46
	122	46

## 30. Financial instruments (continued)

### Credit risk (continued)

The Group records specific impairments of trade receivables due from clients in a separate allowance account. Impairments are recorded where the Group determines that it is probable that it will be unable to collect all amounts owing according to the contractual terms of the agreement. There are no collective impairments taken, and no other assets are considered impaired. Below is a reconciliation of changes in the separate allowance account during the period:

	2009 £000	2008 £000
Balance at 1 June	5,864	2,849
Impairment loss for the year		
- gross charge for the year	22,544	4,510
- recoveries	(4,376)	(453)
Write-offs	(438)	(1,010)
Foreign exchange	303	(32)
Balance at 31 May	23,897	5,864

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial liabilities.

#### Management of liquidity risk

Liquidity risk is managed centrally for the whole Group by the Risk department. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its broker margin requirements and liabilities when due, under both normal circumstances and stressed conditions.

In order to monitor and manage this risk, the Group's Risk department records the available funds daily and undertakes monthly liquidity stress testing. The liquidity testing simulates what would happen to the Group's cash resources should there be a large single market fall and a sequential three-day market fall. This testing requires a number of assumptions regarding the impact of large market moves on client and broker positions and balances and the resulting behaviour of clients and brokers in terms of maintaining or closing positions and settling margin requirements.

There were no changes in the management of liquidity risk during the year.

#### Exposure to liquidity risk

Positions can be closed at any time by clients and can also be closed by the Group, in accordance with the Group's margining rules. If after closing a position a client is in surplus, then the amount owing is repayable on demand by the Group. When client positions are closed, corresponding positions relating to the hedged position are closed with brokers. Accordingly the Group releases cash margin, which is repaid by brokers to the Group on demand.

In the event of a significant movement in world markets, IG could have a short-term funding requirement to meet its payment obligations to market counterparties and/or winning clients before payment would be received from losing clients and/or from market counterparties. Any failure by IG to meet its payment obligations could result in market counterparties closing IG's hedge positions which would have materially adverse consequences for the Group's business.

The key measure used by the Group for managing liquidity risk is the level of working capital. For this purpose working capital is the net of all trade receivables, cash and cash equivalents and trade payables.

## 30. Financial instruments (continued)

### Liquidity risk (continued)

Working capital at the balance sheet date was as follows:

	2009 £000	2008 £000
Amounts due from brokers	178,261	252,522
Amounts due from clients	4,824	10,801
Cash and cash equivalents	520,421	471,722
Trade payables	(511,656)	(582,689)
	191,850	152,356

The Group's liquidity risk under stressed conditions is mitigated by its committed bank facilities which amounted to £120.0m (2008: £160.0m) at the year end.

Extraordinary movements in world markets during October 2008 resulted in a short-term funding requirement coinciding with large cash payments in respect of the interim dividend and acquisition of FXOnline and consequently the Group utilised its committed bank facilities for a period of 18 days, which were drawn to a peak of £88 million of an available £160 million.

In the directors' opinion the Group has sufficient funds available to meet all operational requirements in the event of a large market movement. Liquidity management is also dependent on credit risk management described above.

### Residual contractual maturities of financial liabilities

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. Given the nature of trade payables (representing liabilities to clients in respect of trading margin deposited, unrealised profits on open positions and surpluses held on account) and the fact that open positions can be closed immediately, trade payables are presented in the table below as on demand.

	On demand		Over 5 years		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
<b>Group</b>						
Trade payables – due to clients	511,656	582,689	–	–	511,656	582,689
Redeemable preference shares	–	–	40	40	40	40
	511,656	582,689	40	40	511,696	582,729
<b>Company</b>						
Redeemable preference shares	–	–	40	40	40	40
	–	–	40	40	40	40

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above. The directors are responsible for managing operational risk and have identified the following risks which are considered significant to the Group.

## 30. Financial instruments (continued)

### Technology

The Group's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Group to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Group has business continuity procedures and policies in place which are designed to allow the Group to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Group is dependent upon providers of data, market information, telephone and internet connectivity, the Group mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilised.

To remain competitive, the Group must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

### Regulation

The Group's spread betting, CFD and foreign exchange businesses are regulated in a number of jurisdictions. In addition, three of the Group's subsidiaries are subject to regulation as licensed bookmakers by the Gambling Commission. The Group is also subject to various regulation and legislation relating to technology, the provision of internet services and the use of the internet. These regulatory frameworks impose restrictions on certain of the Group's activities and resources which place constraints on the Group operations and development.

The regulatory environment is regularly changing and imposes significant demands on the resources of the Group. As the Group's activities expand, offering new products and penetrating new markets, these regulatory demands will inevitably increase. The increasing complexity of the Group's operations require training and recruitment be tailored to meet these regulatory demands and the costs of compliance are expected to increase.

## Capital management

### Regulatory capital

The Group's lead regulator is the Financial Services Authority (FSA). Three of the Group's UK operating subsidiaries are regulated by the FSA which imposes a minimum level of regulatory capital which must be retained by each company and also an overall level of regulatory capital which must be maintained by the Group.

Given the Group's recent strong growth, profits have been and continue to be the primary source of new capital. The Group is highly cash generative and plans to maintain a dividend payout ratio of approximately 60% of earnings.

Capital resources are largely comprised of share capital and reserves, net of intangible assets and treasury shares. Capital requirements are derived from credit risk, operational risk, counterparty risk and market risk considerations. Capital resources, capital requirements and surplus capital at the balance sheet dates were as follows:

	2009 £000	2008 £000
<b>Group</b>		
Capital resources	147,263	127,480
Capital requirements	65,992	60,893
Surplus capital resources	81,271	66,587

The Group undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs. The outcome of the ICAAP is reviewed by the Audit Committee and subsequently approved by the Board. The FSA periodically reviews the adequacy of the ICAAP and may set individual capital guidance resulting in additional capital requirements for the Group.

The regulatory capital requirements for credit risk and market risk are also calculated daily (or intra-daily if required) and monitored against expected ranges and available resources. The regulatory capital resources and net surplus are recalculated monthly and reported to the board of directors.

The Group's subsidiaries in the United States, Singapore, Australia and Japan are also regulated by applicable regulators in the overseas jurisdiction. Individual capital requirements in these jurisdictions are taken into account when managing the Group's capital resources.

There have been no material changes in the Group's management of capital during the year.

# Independent auditor's report to the members of IG Group Holdings plc

We have audited the financial statements of IG Group Holdings plc for the year ended 31 May 2009 which comprise the Group Income Statement, the Group and Company Statements of Changes in Equity, the Group and Company Balance Sheet, the Group and Company Cash Flow Statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's 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.

## Opinion on financial statements

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 May 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

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

In our opinion:

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



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

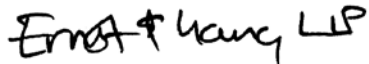
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company's financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 47, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2006 Combined Code specified for our review.



**Ernst & Young LLP**, Statutory Auditor

London  
21 July 2009

# Company Information

## Executive Directors

T A Howkins (Chief Executive)  
S Clutton  
P G Hetherington  
A R MacKay

## Non-executive Directors

J R Davie (Chairman)  
Sir Alan Budd  
D M Jackson  
R R Lucas  
N B le Roux (Deputy Chairman)  
R P Yates (Senior Independent Director)

## Secretary

G Abbi

## Auditors

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## Bankers

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## Solicitors

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