



Annual Report & Accounts  
31 May 2002

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# Directors and Advisors

## **DIRECTORS**

### **Executive directors**

N B le Roux (chief executive)

T J E Brereton

P G Hetherington

T A Howkins

### **Non-executive directors**

J S Wheeler (chairman)

C M J Whittington (deputy chairman)

R J Butler

T P A Norman

### **SECRETARY**

T A Howkins

### **AUDITORS**

Ernst & Young LLP

Rolls House

7 Rolls Buildings

Fetter Lane

London EC4A 1NH

### **BANKERS**

Lloyds TSB Bank plc

100 Lower Thames Street

London EC3R 6HX

### **SOLICITORS**

Osborne Clarke

Hillgate House

26 Old Bailey

London

EC4M 7HW

Clifford Chance Limited Liability Partnership

200 Aldersgate Street

London EC1A 4JJ

### **REGISTRARS**

Capita IRG Plc

Bourne House

34 Beckenham Road

Beckenham

Kent BR3 4TU

[www.capita-irg.com](http://www.capita-irg.com)

### **REGISTERED OFFICE**

Friars House

157–168 Blackfriars Road

London SE1 8EZ

# Chairman's Statement

For the year ended 31 May 2002

Profits before tax of IG Group for the year ended 31 May 2002 were £13,374,000 compared with £15,385,000 in the previous year. It is obviously a disappointment to be reporting a fall in our annual profits. There were two main reasons:

1. Turnover was down from £33,392,000 in the previous year to £32,523,000. September 11 had an effect on volume. The turn down did not last for very long and by the end of the company's year there were encouraging signs of an up turn.
2. Our gross profit per unit of volume was lower in the year just ended than in the previous year, mainly because luck was somewhat against us. The main reason why there is some element of luck in our trading profits is that it is not our policy to hedge completely all of the positions arising from our clients' transactions. Your board firmly believes this policy to be correct, because the cost of hedging is very significant in relation to our profits. It is therefore right in the medium and long term, within prudent limits very strictly applied, to stand the first part of the net position which arises from our client transactions. There is always room for debate on how large we should allow our unhedged positions to be and the matter is under constant review. Your board has, for example, recently decided to hedge a higher proportion of our net position.

Sports betting had an encouraging year. There are reasonable grounds for expecting this trend to continue, due to the enormous excitement and interest caused by the World Cup, which added significantly to our number of clients. Previous experience strongly suggests that once people deal with us, a significant proportion of them will do so again and again.

I should explain to you that the company's results for the year compared very favourably with those reported by our nearest peer group - stockbrokers. The financial side of our business is subject to much the same market influences. I therefore believe that our performance during the year gives good grounds for believing that we shall continue to attract further business and obtain as clients many of the increasing number of investors who require a more sophisticated approach than those provided by traditional dealing methods. Once markets move strongly, even downwards, we tend to see a sharp increase in business. So in spite of an inevitable increase in competition, we expect a resumption of the growth in turnover and profits which has characterised our performance over several years.

## Our activities outside the UK

This is the first year we have opened offices abroad. We started a sales operation in Pakistan. While this is a very small operation, it is encouraging to me that in spite of September 11 and the tensions on the India/ Pakistan border, the operation has been profitable for several months.

A very much bigger potential source of profit is Australia. Until March 2002 legislation prevented us from offering our services in that country. Once the law was changed we were able to apply for the licences we needed to operate there. We received them very recently and started our new business last week. The potential is great. While the population of Australia is around one third of the UK's, individual interest in share dealing is very much higher than here. Therefore the potential markets could be well over 50% of the total market in the UK. While it is plainly too early to be completely confident about the outcome, I believe the prospects are very exciting.

## Current trading

Volume since the end of our year has been strong in both financials and sport and both overall profitability and volume are substantially above the levels achieved in the corresponding period of last year.

During the last two years financial markets have been exceptionally bleak. They may get worse before they get better. In the longer term, however, with investors continuing to seek more sophisticated methods of financial betting and hedging, the growing interest in sports betting, the considerable potential of our overseas operations and our excellent management team I remain very confident about the future prospects of your company. We continue to generate large amounts of cash and accordingly I am pleased to announce an increase in the final dividend from 2.5p to 3.5p making a total of 5.0p for the year, up from 3.6p. We intend to seek authority from the shareholders at the AGM to buy back shares.

# Chairman's Statement

*For the year ended 31 May 2002*

## **Change of chief executive**

I want to end by making clear my reasons for standing down as chief executive in March, particularly as it had been my stated intention to continue for some years. The main reason was that it became clear to me that at the age of 67 I was beginning to lack the enthusiasm and energy which are essential for a chief executive of a company as complicated and IT-dependent as ours. I also had in mind that there is a feeling among some shareholders and commentators that the roles of chairman and chief executive should not be combined. The change was made entirely for these reasons, not because of any disagreement over policy or any other matter. Once I had made up my mind, I decided it would be best to act at once.

The company was fortunate in having a clear and obvious successor. Nat le Roux has been with IG for nine years and was deputy chief executive for two and a half years before the handover. During that time he had a very broad involvement in all aspects of our management and operations. He is extremely able and I am confident that he will do an excellent job for shareholders as chief executive. I remain an active, though non-executive, chairman with a great interest in the success of the company.

J S Wheeler  
Chairman

22 July 2002

# Operating and Financial Review

For the year ended 31 May 2002

## FIVE YEAR SUMMARY

	<b>2002</b>	Year ending 31 May			
		2001	2000	1999	1998
	<b>£000</b>	£000	£000	£000	£000
Turnover	32,523	33,392	23,644	12,164	5,926
Profit before tax and exceptional item	13,374	15,654	10,072	3,508	1,131
Exceptional item (flotation costs)	-	269	-	-	-
Dividends	2,751	1,902	1,280	442	271
Earnings per share (basic)	16.87p	20.29p	14.02p	4.6p	1.5p

## TURNOVER

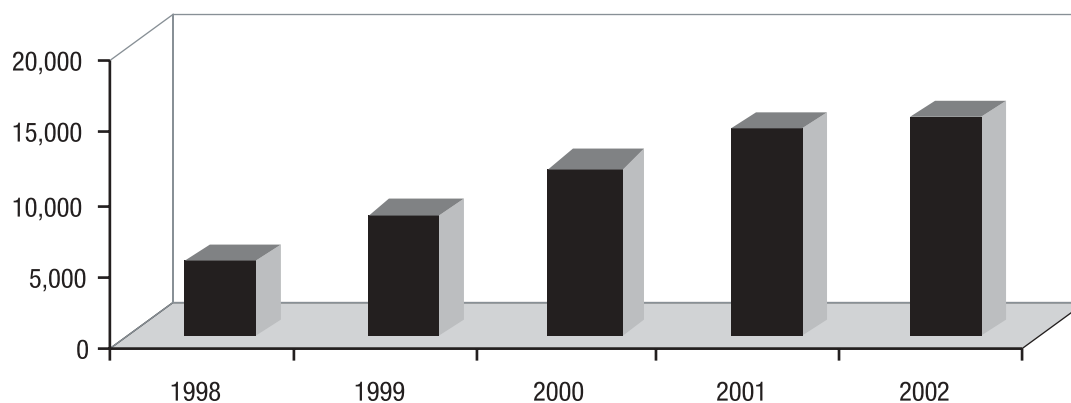
	<b>31 May</b>	31 May	Increase/
	<b>2002</b>	2001	(Decrease)
	<b>£000</b>	£000	£000
Financial	25,840	27,496	(1,656)
Sports	6,683	5,896	787
	<b>32,523</b>	<b>33,392</b>	<b>(869)</b>

The group's sports department achieved a 13% increase in turnover. This figure is net of betting duty, the level of which increased substantially following the reform of general betting duty in October 2001.

Conditions were difficult in the financial markets for much of the year. As a result there was a short-term reduction in the number of clients dealing and the size and frequency of their deals. Each of these figures began to improve again in the last few months of the year.

Despite the difficult market conditions, the number of active clients has continued to grow as illustrated by the following chart.

## NUMBER OF CLIENTS BETTING OR TRADING



# Operating and Financial Review

For the year ended 31 May 2002

## TRADING INCOME

The contribution of the group's divisions (after costs attributable to those divisions, but before common costs) were:

	31 May 2002 £000	% of segment trading income	31 May 2001 £000	% of segment trading income
Financial	19,525	76%	20,501	75%
Sports	2,109	32%	2,078	35%
	<hr/>		<hr/>	
	21,634		22,579	
	<hr/>		<hr/>	
Common costs	(8,260)		(7,194)	
	<hr/>		<hr/>	
Profit before taxation	13,374		15,385	
	<hr/>		<hr/>	

Each department has costs which are largely fixed, including the employment costs of the senior dealers who are responsible for setting prices and managing risk. Once these fixed costs are covered the incremental costs associated with additional income are lower and hence as income rises so does the percentage contribution. This explains why financials, which is the largest of the group's divisions, currently enjoys the highest percentage contribution.

The percentage contribution from the sports department reduced slightly due to the increase in betting duty.

## BAD DEBTS

The level of bad debts has continued to fall. During the year the group achieved a net recovery in bad debts.

This is partly attributed to continuing improvements in credit policy and collection procedures and partly due to a lack of volatility in the financial markets for most of the year.

## STAFFING

The average number of staff increased from 139 in the year ended 31 May 2001 to 200 in the year under review.

Fixed employment costs have increased accordingly. A significant proportion of employment costs consists of performance related bonuses, which are linked to profitability. Due to the reduction in profitability, bonuses have been substantially reduced.

	2002 £000	2001 £000
Fixed employment costs	9,504	7,976
Performance related bonuses	1,917	4,098
	<hr/>	<hr/>
	11,421	12,074
	<hr/>	<hr/>

## TANGIBLE FIXED ASSETS

The group has invested substantially in fixed assets. During the year the group invested approximately £3m on the development of a new internet dealing system and price distribution system for its financial division. The price distribution system is already in use and the dealing application is expected to go live in September 2002.

# Operating and Financial Review

For the year ended 31 May 2001

## GOODWILL

The group purchased the goodwill, trade and customer list of William Hill Index for £1.1 million during May 2001. The goodwill is being amortised over five years, £220,000 being charged in the year under review.

## WORKING CAPITAL AND CASH

	2002 £000	2001 £000
Amounts due from brokers	13,174	11,925
Treasury bills	-	3,328
Total with brokers	13,174	15,253
Amounts due from clients	5,425	3,389
Amounts due to clients	(13,804)	(6,791)
Total due to clients	(8,379)	(3,402)
Cash	23,540	16,565

One of the main elements of working capital is amounts due from the brokers and other counterparties with whom the group hedges its financial business. The group places cash or treasury bills with these brokers in order to provide initial and variation margin to support its positions.

Amounts due to and from clients include unrealised profits and losses on clients' open positions as well as the result of closed positions. The amount due from clients therefore fluctuates according to the movement in markets.

Amounts due to clients relates to clients who have agreed not to have their money segregated in accordance with the FSA's client money rules. The increase in amounts due to clients is due to the increase in CFD business, where the majority of clients are not segregated.

Cash has increased significantly during the year and at the year end the group had £23.5m, all of which was on money market deposit. Cash is typically at or near its maximum at the year end and then falls in the first few months of the following financial year as the group pays bonuses, dividends and taxation.

At the year end the group had total bank facilities of £20m, all of which were undrawn. Facilities of £8m are to provide the short term liquidity which may be necessary to meet payments to market counterparties before payment is received from clients in the event of a large market movement. Facilities of £12m provide the ability for IG Markets Limited to settle share transactions in CREST.

## REGULATORY CAPITAL

The group's two UK operating subsidiaries are both regulated by the FSA. The FSA imposes a minimum level of regulatory capital which must be retained by each company. At 31 May 2002 the two subsidiaries had regulatory capital which exceeded their regulatory capital requirement by a total of approximately £14m.

# Corporate Governance

The group is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

## **STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE**

The group has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year, except that the roles of the chairman and chief executive were combined until 12 March 2002. From that date the roles were split. The Board considers that there is sufficient balance of power and authority in the composition of the Board to ensure that no one individual has unfettered powers of decision. Christopher Whittington is Deputy Chairman and is the senior independent director.

## **THE WORKINGS OF THE BOARD AND ITS COMMITTEES**

### **The Board**

The board currently comprises the Chairman, four executive directors and three independent non-executive directors. Brief biographies of the directors appear on page 38. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the group. The board is responsible to shareholders for the proper management of the group. A statement of the directors' responsibilities in respect of the accounts is set out on page 14 and a statement regarding the use of the going concern basis in preparing these account is given on page 14.

The board has a formal schedule of matters specifically reserved to it for decision. 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. The appointment and removal of the company secretary is a matter for the board as a whole.

The board meets regularly at least six times a year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. In addition to its regular meetings the board meets when necessary to discuss specific opportunities such as acquisitions. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are 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. The Chairman ensures that the directors take independent professional advice as required.

Appointment of directors is a matter for the Board as a whole. The Board considers that it is not of sufficient size to warrant the establishment of a separate nomination committee.

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

### **Remuneration committee**

The group's remuneration committee is chaired by Christopher Whittington and also comprises Roger Butler and Torquil Norman. The committee 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 share options. The board itself determines the remuneration of the non-executive directors.

### **Audit committee**

The audit committee is chaired by Roger Butler, and also comprises Christopher Whittington and Torquil Norman. It meets not less than three times annually. The committee provides a forum for reporting by the group's external and internal auditors. Meetings are also attended, by invitation, by the chief executive and the finance director.

The audit committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the board and monitoring the controls which are in force. The audit committee advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external and internal auditors. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

## **Relations with shareholders**

The board recognises the importance of communications with shareholders. The chairman's statement and operational and financial review include a detailed review of the business and future developments. There is regular dialogue with institutional shareholders including presentations around the time of the company's preliminary announcement of the year end results and at the half year.

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 on 11 September 2002 can be found in the Notice of the Meeting.

The group has established an investor relations website, [www.iggroup.com](http://www.iggroup.com), which provides information to shareholders and prospective shareholders.

## **Internal control**

The directors acknowledge that they are responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The directors have reviewed the effectiveness of the group's systems of internal control, covering all controls, including financial, operational and compliance controls and risk management, as operated during the year.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the group. 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 board regularly reviews the process.

The group has risk management, compliance and credit control departments, which are responsible to the board for the operation of the group's controls in these areas. In each case the head of the department reports to a member of the group board. Key elements of the group's control environment are its written policies on market risk management, credit risk management and various aspects of compliance. All changes to the group's risk management policies are approved by the chief executive and the finance director. The group also operates comprehensive financial control and budgeting processes.

During the year the group established an internal audit function, which is responsible for reviewing and testing the group's control environment. The internal audit function is independent of the management of the group and reports regularly to the audit committee.

## **Report on Directors' Remuneration**

This report has been prepared by the board following the provisions in Schedule B to the Combined Code and gives details of the remuneration and service contracts of the directors.

### ***Basic salary:***

Salary is reviewed annually at the start of the financial year.

### ***Benefits:***

The group provides a range of benefits to all of its employees, including private health cover and health club membership. The executive directors are entitled to participate in these benefits on equal terms with all other staff. Two of the directors had the use of company cars for most of the year, but gave them up prior to the year end.

### ***Share options:***

The group operates a share option scheme for all of its staff including the executive directors. The remuneration committee determines the award of options for the executive directors and other senior members of staff, after taking into account their existing option entitlements, their performance and market forces. During the year, three of the executive directors were granted options at a strike price of £5.27 over shares with a value equal to their respective basic salaries. Details of their options are set out below.

### **Performance related bonuses:**

Executive directors bonuses are, subject to the discretion of the remuneration committee, based on fixed formulae which are determined in advance of each year by the remuneration committee. The formula for each of Stuart Wheeler, Nat le Roux and Tim Howkins was linked to the rate of growth in pre-tax profits of the group as a whole. The formula for Toby Brereton was linked in part to the growth in pre-tax profits of the group and in part to the level of contribution from the Sports department, for which he has operational responsibility.

No upper limit has been imposed on the bonuses that these formulae can produce, as the remuneration committee considers that it is in the shareholders' interests for the directors to be motivated to achieve as high a rate of growth as possible in pre-tax profits.

A proportion of the annual bonus in excess of a set proportion of basic salary is deferred and paid over three years. Payment is only made if the director remains with the group.

The remuneration committee retains the right to vary the bonuses payable if it considers that the formulae have not produced an appropriate result. All bonuses are discretionary and the directors have no contractual entitlement to them.

### **Pensions:**

The group contributes 15% of basic salary to personal pensions for each of the executive directors, subject to Inland Revenue limits.

The group contributes to a money purchase occupational pension scheme for Stuart Wheeler. Subject to the rules of the pension scheme and Inland Revenue limits, the group may elect to pay part of his remuneration, that is basic salary and bonus, as a company contribution to the pension scheme.

### **Fees:**

The fees for non-executive directors are determined by the board within the limits stipulated in the Articles of Association. The non-executive directors are not involved in any discussions or decision by the board about their own remuneration.

### **Service contracts:**

Each of the executive directors is employed under a service contract, which can be terminated on six months notice by either the company or the executive. The non-executive directors are employed for a fixed term of one year expiring on 7 June 2003. 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.

Directors are subject to re-election every three years and Stuart Wheeler, Nat le Roux and Christopher Whittington will be subject to re-election at the AGM. Subsequent to the year end Peter Hetherington was appointed a director. A resolution to elect him will be proposed at the AGM.

Biographical details of all directors can be found on page 38.

## THE WORKINGS OF THE BOARD AND ITS COMMITTEES (continued)

### Directors' remuneration

The remuneration of the directors was as follows:

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contribution £000	<b>Total 2002 £000</b>	Total 2001 £000
Executive directors:						
Stuart Wheeler	-	22	-	170	192	504
Nat le Roux	149	16	38	9	212	461
Tim Howkins	102	1	41	14	158	287
Toby Brereton	113	-	78	9	200	396
	364	39	157	202	762	1,648
Non-executive directors:						
Christopher Whittington	23	-	-	-	23	22
Roger Butler	18	-	-	-	18	17
Torquil Norman	18	-	-	-	18	17
	423	39	157	202	821	1,704

Total pension contributions for the year were £202,000 (2001: £443,000). The pension contribution for the year in respect of the highest paid director was £170,000 (2001: £420,000).

Included within performance related bonuses are the following amounts payable after more than one year:

	<b>2002</b> £	2001 £
Stuart Wheeler	-	41,960
Nat le Roux	-	35,666
Tim Howkins	-	16,240
Toby Brereton	6,552	33,057

## Interests in options

The group has two share option schemes through which directors are able to subscribe for ordinary shares in IG Group plc or IG Index plc. Under the provisions of the Articles of Association of IG Index plc, any shares in IG Index plc can be exchanged for shares in IG Group plc on the basis of 120 IG Group plc shares for every IG Index plc share. This was the basis of the group reconstruction. So for the purposes of the table below options over IG Index plc shares have been shown as if they were options over 120 IG Group plc shares. The interests of the directors were as follows:

	Exercise dates	Exercise price £	At 1 June 2001 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2002 No.
T J E Brereton	Sep 2001 - Sep 2008	0.10	1,158,000	-	(992,000)	-	166,000
	July 2004 - July 2011	5.27	-	21,397	-	-	21,397
			1,158,000	21,397	(992,000)	-	187,397
T A Howkins	Aug 2002 - Aug 2009	0.2083	144,000	-	-	-	144,000
	Sep 2002 - Sep 2009	0.2083	156,000	-	-	-	156,000
	July 2004 - July 2011	5.27	-	19,360	-	-	19,360
			300,000	19,360	-	-	319,360
N B le Roux	Sep 2001 - Sep 2005	0.10	360,000	-	-	-	360,000
	July 2004 - July 2011	5.27	-	25,983	-	-	25,983
			360,000	25,983	-	-	385,983

The directors' aggregate notional gain on share options which were exercised during the year was £5,308,900 (2001: £786,600). The market price of the company's shares exercised during the year were £5.40 for 650,000 share options exercised on 3 October 2001 and £5.55 for 342,000 share options exercised on 4 October 2001.

The market price of the company's shares on 31 May 2002 was £2.24 per share and the high and low share prices during the year were £6.51 and £2.10 respectively.

## Interests in share capital

The directors who served during the year and their interests in the share capital of the Group at 31 May were as follows:

	2002 Ordinary shares	2001 Ordinary shares
J S Wheeler (Chairman)	17,221,000	18,221,000
T J E Brereton	342,000	-
R J Butler	50,000	50,000
T A Howkins	20,833	20,833
N B le Roux	1,000,000	1,980,000
T P A Norman	240,000	240,000
C M J Whittington	12,500	12,500

# Directors' Report

The directors have pleasure in submitting their report together with the accounts of the Group for the year ended 31 May 2002.

## PRINCIPAL ACTIVITIES

The principal activities of the Group throughout the year have been that of running a betting market on commodities, financial futures, traded options, individual shares and stock indices and a wide range of sporting events, trading as a principal and market maker to its clients in the foreign exchange market and in contracts for differences on shares. The Group hedges, as considered appropriate, unmatched bets and trades in futures, traded options, individual shares and foreign exchange to ensure that it is not unacceptably exposed to material losses. The Group's two UK operating subsidiaries are both authorised by the Financial Services Authority.

## RESULTS

The Group's profit for the year, after taxation, amounted to £9,069,042 (2001: £10,627,485).

## DIVIDENDS

An interim dividend of 1.5p per share was paid during the year. A final dividend of 3.5p per share has been proposed. In the previous year a first interim dividend of 1.1p per share and a final dividend of 2.5p per share were paid.

## 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 chairman's statement on pages 3 and 4.

During the year the company established subsidiaries for operations in Pakistan and Australia. The operation in Pakistan commenced trading during the year and the Australian operation has commenced trading subsequent to the year end.

## FIXED ASSETS

The movements in fixed assets during the year are set out in note 13 to the accounts.

## 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 report of the remuneration committee on pages 9 to 12.

## CREDITORS PAYMENT POLICY

The Group pays creditors on demand, except where fixed dates of payment have been agreed in advance. On average creditors' invoices remained outstanding for less than thirty days throughout the year.

## DONATIONS

The Group made charitable donations of £100 in the year (2001: £2,712).

The Group made no political donations.

## AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Group's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

T A Howkins  
Director

22nd July 2002

## Statement of Directors' Responsibilities in respect of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

### **GOING CONCERN**

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue trading for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

# Group Profit and Loss Account

For the year ended 31 May 2002

	Notes	2002 £	2001 £
<b>TURNOVER</b>	2	32,523,490	33,391,521
Administrative expenses excluding exceptional costs		21,143,127	19,887,828
Exceptional costs of flotation	5	-	269,130
<b>OPERATING PROFIT</b>		11,380,363	13,234,563
Interest receivable		2,184,668	2,383,946
Interest payable	7	(190,777)	(233,946)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	13,374,254	15,384,563
Tax charge on profit on ordinary activities	8	4,305,212	4,757,078
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		9,069,042	10,627,485
Minority interests		69,174	-
<b>PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY</b>		9,138,216	10,627,485
Dividends	10	2,750,903	1,902,331
<b>RETAINED PROFIT FOR THE YEAR</b>		6,387,313	8,725,154
<b>EARNINGS PER SHARE</b>			
- Basic	11	16.87p	20.29p
- Diluted	11	16.02p	18.78p

There were no recognised gains and losses other than the profit for the financial year

# Group Reconciliation of Shareholders' Funds

For the year ended 31 May 2002

	2002 £	2001 £
Profit for the financial year	9,138,216	10,627,485
Dividends	(2,750,903)	(1,902,331)
	<hr/> 6,387,313	<hr/> 8,725,154
Issue of shares	251,758	2,175,294
Costs of share issue	-	(679,354)
	<hr/> 6,639,071	<hr/> 10,221,094
<b>NET ADDITION TO SHAREHOLDERS' FUNDS</b>	<b>6,639,071</b>	<b>10,221,094</b>
Opening shareholders' funds	22,530,110	12,309,016
	<hr/> 29,169,181	<hr/> 22,530,110
<b>CLOSING SHAREHOLDERS' FUNDS</b>	<b>29,169,181</b>	<b>22,530,110</b>

# Group Balance Sheet

At 31 May 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Intangible assets	12	866,398	1,086,398
Tangible assets	13	6,302,589	2,697,854
Investments	14	7,133	11,140
		<hr/>	
		7,176,120	3,795,392
<b>CURRENT ASSETS</b>			
Debtors	15	19,927,870	16,150,306
Treasury bills		-	3,328,286
Cash at bank and in hand		23,540,040	16,565,111
		<hr/>	
		43,467,910	36,043,703
<b>CREDITORS: amounts falling due within one year</b>	16	21,498,612	17,308,985
		<hr/>	
<b>NET CURRENT ASSETS</b>		21,969,298	18,734,718
		<hr/>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		29,145,418	22,530,110
Minority interests		23,763	-
		<hr/>	
		29,169,181	22,530,110
		<hr/>	
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	5,488,813	5,296,853
Share premium account	19	1,378,618	1,313,945
Merger reserve	19	(4,360,508)	(4,355,633)
Profit and loss account	19	26,662,258	20,274,945
		<hr/>	
<b>TOTAL SHAREHOLDERS' FUNDS</b>		29,169,181	22,530,110
		<hr/>	

N B le Roux Director

T A Howkins Director

22nd July 2002

# Company Balance Sheet

At 31 May 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Investments in subsidiaries	14	18,336,411	18,146,620
<b>CURRENT ASSETS</b>			
Debtors	15	3,372,000	1,329,544
Cash at bank and in hand		5,497	48,800
		<hr/> 3,377,497	<hr/> 1,378,344
<b>CREDITORS:</b> amounts falling due within one year	16	13,335,352	12,895,106
		<hr/> 9,957,855	<hr/> 11,516,762
<b>NET CURRENT LIABILITIES</b>			
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> 8,378,556	<hr/> 6,629,858
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	5,488,813	5,296,853
Share premium account	19	1,378,618	1,313,945
Profit and loss account	19	1,511,125	19,060
		<hr/> 8,378,556	<hr/> 6,629,858
<b>TOTAL SHAREHOLDERS' FUNDS</b>			

N B le Roux Director

T A Howkins Director

22nd July 2002

# Statement of Cash Flow

At 31 May 2002

	Notes	2002 £	2001 £
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	20(a)	14,034,837	16,821,779
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		2,184,668	2,383,946
Interest paid		(190,777)	(233,946)
		1,993,891	2,150,000
<b>TAXATION</b>			
Corporation tax paid		(5,323,546)	(4,013,247)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets		(5,194,898)	(2,376,339)
Receipts from sales of fixed assets		34,750	1,302
Receipts from redemption of investments		4,007	10,198
		(5,156,141)	(2,364,839)
<b>ACQUISITIONS AND DISPOSALS</b>			
Payments for goodwill		-	(1,100,000)
<b>EQUITY DIVIDENDS PAID</b>		(2,154,156)	(1,430,688)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Sale of Treasury bills		3,328,286	1,137,913
<b>FINANCING</b>			
Issue of ordinary shares		251,758	1,495,940
<b>INCREASE IN CASH</b>		6,974,929	12,696,858

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2002 £	2001 £
Increase in cash		6,974,929	12,696,858
Cash inflow from sale of treasury bills		(3,328,286)	(1,137,913)
Change in net funds resulting from cash flows		3,646,643	11,558,945
<b>NET FUNDS AT 1 JUNE</b>		19,893,397	8,334,452
<b>NET FUNDS AT 31 MAY</b>	20(b)	23,540,040	19,893,397

Net funds include cash at bank and in hand and Treasury bills.

# Notes to the Accounts

At 31 May 2002

## 1. ACCOUNTING POLICIES

### Accounting convention

The accounts are prepared under the historical cost convention, modified for the revaluation of bets and derivative transactions, and in accordance with applicable United Kingdom accounting standards.

### Consolidation

IG Group plc was incorporated on 1 June 2000 and on 9 June 2000 it acquired the entire issued share capital of IG Index plc in exchange for the issue of shares in IG Group plc. This group reconstruction was accounted for using merger accounting. In addition investments during the period in IG Markets (South Asia) Limited and IG Australian Pty Limited have given rise to a minority interest in the Profit and Loss Account and the Balance Sheet.

### Depreciation

Fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Leasehold improvements	over the lease term
Fixtures and fittings	over 5 years
Motor vehicles	over 4 years
Computer equipment	over 2 or 3 years
Telephone equipment	over 3 years
Uninterruptible power supply and generator	over 5 years

### Goodwill

The goodwill arising on the purchase of the goodwill and trade of William Hill Index has been capitalised and is being amortised over the estimated useful life of 5 years.

### Fixed asset investments

Fixed asset investments are stated at cost, unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured at a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

### Foreign currencies

Assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate prevailing on the date of the transaction. Differences arising are taken to the profit and loss account.

# Notes to the Accounts

At 31 May 2002

## 1. ACCOUNTING POLICIES (continued)

### Bets and derivative financial instruments

Bets and derivative financial instruments are carried at fair market value and the resultant profits and losses are included in trading income. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients and brokers, reduced by the effect of other assets or liabilities with a counterparty where a qualifying netting agreement is in place. Fair value is determined by reference to third party market values or, in the case of sports bets, to the IG Index plc quote at the year end.

### Treasury bills

Treasury bills are included at historical cost plus income accrued to the balance sheet date.

### Pensions

The Group operates a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable and in accordance with the rules of schemes. For one director, the Group also operates an individual scheme into which contributions are discretionary.

### Operating leases

Rentals payable in respect of operating leases are charged in the profit and loss account on a straight line basis over the term of the lease.

## 2. SEGMENTAL ANALYSIS

Turnover represents profits and losses on the running of a betting market in commodities, financial futures, traded options, stock indices and individual shares and a wide range of sporting events, and trading in foreign exchange and contracts for differences together with the net result of hedging client positions, less betting duty and commissions paid.

The Group operates in two principal areas of activity, financial and sport. During the previous period, segmental analysis was presented for three areas of activity, financial betting, financial non-betting and sports betting. Following management changes shortly before 31 May 2001 financial betting and financial non-betting have operated as one department and accordingly their results are presented as one area of activity.

The Group trades global financial markets from its London base and hedges its exposures with market counterparties based in the UK and overseas. The choice of counterparty for hedging transactions is based on operational considerations at the time of the transaction. In order to provide an analysis by location it would be necessary to match bets with their hedges. The directors consider this is not feasible as the Group hedges on a portfolio basis and counterparties to trades may not be in the same location. Accordingly, no geographical split of results is given.

	2002 £	2001 £
<b>TURNOVER</b>		
Financial	25,840,594	27,495,158
Sports	6,682,896	5,896,363
	<hr/> 32,523,490	<hr/> 33,391,521
<b>PROFIT</b>		
Segment profit		
Financial	19,524,636	20,500,818
Sports	2,109,618	2,077,724
	<hr/> 21,634,254	<hr/> 22,578,542
Common costs	(8,260,000)	(7,193,979)
	<hr/> 13,374,254	<hr/> 15,384,563

# Notes to the Accounts

At 31 May 2001

## 2. SEGMENTAL ANALYSIS (continued)

Turnover for financial betting was £19,775,679 (2001: £22,362,547) and for financial non-betting was £6,064,915 (2001: £5,132,611). Profit for financial betting was £15,620,150 (2001: £18,085,578) and for financial non-betting was £3,904,486 (2001: £2,415,240).

The types of financial instrument included within each of the above categories are:

### Financial

Bets on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates; bets on options on certain of these products; exchange traded futures and options. Spot and forward contracts for foreign exchange and contracts for differences on shares, indices and other financial instruments.

### Sports

Bets on sporting and political events.

	2002 £	2001 £
<b>NET ASSETS</b>		
Financial	803,311	3,522,428
Sports	1,255,898	785,948
	2,059,209	4,308,376
Unallocated net assets	27,109,972	18,221,734
	26,169,181	22,530,110

Unallocated net assets comprises the following items which do not relate to specific business segments:

	2002 £	2001 £
Tangible fixed assets	1,670,670	1,055,076
Fixed asset investments	7,133	11,140
Debtors and prepayments	1,179,076	430,575
Cash	23,540,040	16,565,111
Creditor balances	(1,804,304)	(2,421,223)
Dividends	(1,921,085)	(1,324,363)
Corporation tax	4,414,679	3,905,418
Minority interests	23,763	-
	27,109,972	18,221,734

## 3. OPERATING PROFIT

	2002 £	2001 £
This is stated after charging:		
Amortisation of goodwill	220,000	13,602
Depreciation of owned assets	1,555,822	612,132
Operating lease rentals for land and buildings	520,839	335,231

# Notes to the Accounts

At 31 May 2001

## 4. AUDITORS' REMUNERATION

	2002 £	2001 £
Audit services	111,000	75,000
Non-audit services	42,630	144,110
	<hr/> 153,630	<hr/> 219,110

The majority of non-audit services in the previous year relate to the admission of the group to the official list of the London Stock Exchange.

## 5. EXCEPTIONAL ITEM

The exceptional item charged in the previous year comprises certain of the costs of the admission of the group to the official list of the London Stock Exchange. Those costs that related to the issue of new shares were charged to the share premium account.

Total administrative expenses were £21,143,127 (2001: £20,156,958).

## 6. STAFF COSTS

	2002 £	2001 £
Wages and salaries	9,702,355	10,103,478
Social security costs	996,875	1,112,105
Other pension costs (note 22)	721,433	858,284
	<hr/> 11,420,663	<hr/> 12,073,867

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

	No.	No.
Dealing, sales and client support	124	82
Management and administration	76	57
	<hr/> 200	<hr/> 139

## 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Interest payable to clients and brokers	190,777	233,946

# Notes to the Accounts

At 31 May 2001

## 8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows:

	2002 £	2001 £
Underprovided in prior years	15,870	-
Corporation tax on profit for the year	4,289,342	4,757,078
	<hr/> 4,305,212	<hr/> 4,757,078
Profit on ordinary activities before tax	<hr/> 13,374,254	<hr/> 15,384,563
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	4,012,276	4,615,369
Effects of:		
Depreciation for period exceeding capital allowances	34,528	(45,064)
Expenses not deductible for tax purposes	242,538	186,773
Corporation tax charge for the year	<hr/> 4,289,342	<hr/> 4,757,078

## 9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

IG Group has taken advantage of the exemption from publication of the company's own profit and loss account. The profit dealt with in the accounts of the parent company was £4,242,968 (2001: £2,201,803).

## 10. DIVIDENDS

	2002 £	2001 £
Ordinary		
- Interim paid (1.5p per share)	829,818	577,968
- Final proposed (3.5p per share)	1,921,085	1,324,363
	<hr/> 2,750,903	<hr/> 1,902,331

The directors have proposed a final dividend of 3.5p per share which, subject to the approval of the shareholders at the AGM, will be paid on 27 September 2002 to those members on the register at the close of business on 30 August 2002. This makes a total dividend for the year of 5.0p compared to 3.6p in the previous year.

# Notes to the Accounts

At 31 May 2001

## 11. EARNINGS PER ORDINARY SHARE

	Earnings per share pence	Earnings after taxation £	Weighted average number of shares No.
<i>Year ended 31 May 2002</i>			
Basic earnings per share	16.87	9,138,216	54,153,875
Effect of share options			2,891,106
Diluted earnings per share	16.02	9,138,216	57,044,981
<i>Year ended 31 May 2001</i>			
Basic earnings per share	20.29	10,627,845	52,381,950
Effect of share options			4,219,889
Diluted earnings per share	18.78	10,627,845	56,601,839

## 12. INTANGIBLE FIXED ASSETS

*Group*

	Goodwill £
Cost:	
At 1 June 2001 and 31 May 2002	1,100,000
Amortisation:	
At 1 June 2001	13,602
Charge for the year	220,000
At 31 May 2002	233,602
Net book value:	
At 31 May 2002	866,398
At 31 May 2001	1,086,398

# Notes to the Accounts

At 31 May 2001

## 13. TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £	Office equipment, fixtures and fittings £	Motor Vehicles £	Computer, telephone and electrical £	Total £
Cost:					
At 1 June 2001	1,155,231	327,033	66,890	2,817,450	4,366,604
Additions	637,109	157,252	-	4,400,537	5,194,898
Disposals	-	(696)	(66,890)	(940)	(68,526)
At 31 May 2002	1,792,340	483,589	-	7,217,047	9,492,976
Depreciation:					
At 1 June 2001	302,626	152,208	21,569	1,192,347	1,668,750
Charge for the year	170,978	66,881	12,138	1,305,825	1,555,822
Eliminated on disposal	-	(244)	(33,707)	(234)	(34,185)
At 31 May 2002	473,604	218,845	-	2,497,938	3,190,387
Net book value:					
At 31 May 2002	1,318,736	264,744	-	4,719,109	6,302,589
At 31 May 2001	852,605	174,825	45,321	1,625,103	2,697,854

# Notes to the Accounts

At 31 May 2001

## 14. FIXED ASSET INVESTMENTS

<i>Group</i>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Shares at cost (unlisted)	1,970	1,970
Loans	5,163	9,170
	<hr/> 7,133	<hr/> 11,140
	Shares (unlisted) £	Loans £
Cost:		Total £
At 1 June 2001	1,970	11,140
Redemption of loan	-	(4,007)
	<hr/> 1,970	<hr/> 7,133

<i>Company</i>	<b>£</b>
Investments in subsidiaries	
Cost:	
At 1 June 2001	18,146,620
Additions	189,791
	<hr/> 18,336,411

Subsidiary undertakings	Country of incorporation	Holding	Proportion of voting rights held	Nature of business
Name of Company				
IG Index Plc	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
IG Markets (South Asia) Limited	Cayman Islands	Ordinary shares	100%	South Asia sales and marketing office
IG Australia Pty Limited	Australia	Ordinary shares	83%	Australia sales and marketing office
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
IG Group Plc Employee Benefit Trust	UK	Ordinary shares	100%	Employee benefit trust

# Notes to the Accounts

At 31 May 2001

## 15. DEBTORS

	<b>Group 2002</b>	Group 2001	<b>Company 2002</b>	Company 2001
	£	£	£	£
Amounts due from brokers	13,173,941	11,925,270	-	-
Amounts due from clients	5,425,285	3,389,407	-	-
Dividends receivable	-	-	3,372,000	1,329,544
Other debtors	646,433	296,904	-	-
Prepayments and accrued income	682,211	538,725	-	-
	<b>19,927,870</b>	<b>16,150,306</b>	<b>3,372,000</b>	<b>1,329,544</b>

## 16. CREDITORS: amounts falling due within one year

	<b>Group 2002</b>	Group 2001	<b>Company 2002</b>	Company 2001
	£	£	£	£
Amounts due to clients	13,804,183	6,790,999	-	-
Amounts due to subsidiaries	-	-	11,413,934	11,570,743
Accruals and deferred income	3,475,880	5,601,908	333	-
Corporation tax	2,075,597	3,093,931	-	-
Other taxes and social security costs	221,867	497,784	-	-
Proposed dividend	1,921,085	1,324,363	1,921,085	1,324,363
	<b>21,498,612</b>	<b>17,308,985</b>	<b>13,335,352</b>	<b>12,895,106</b>

## 17. CLIENTS' MONEY

The group's two operating subsidiaries, IG Index plc and IG Markets Limited, hold client money on trust in client accounts at approved banks in accordance with the Financial Services (Client Money) Regulations 1991, as required by the rules of the FSA. Clients' money held and the corresponding liability to clients are not included in the balance sheet. The amount held at the balance sheet date was:

<b>2002</b>	2001
£	£
<b>37,310,817</b>	<b>29,521,862</b>

# Notes to the Accounts

At 31 May 2001

## 18. SHARE CAPITAL

	2002 £	2001 £
<i>Authorised:</i>		
100,000,000 ordinary shares of 10p each	10,000,000	10,000,000
<i>Allotted, called up and fully paid:</i>		
54,888,133 ordinary shares of 10p each (2001 - 52,968,533)	5,488,813	5,296,853

During the year the company allotted 1,919,600 shares at a total premium of £64,673 as a result of the exercise of options over shares in IG Group and IG Index plc. In the year ending 31 May 2002 options over 9,505 IG Index plc shares were exercised at a total premium of £115,225.

The movement in options, including those held by directors and disclosed separately in the remuneration committee's report, carrying the rights of holders to subscribe for shares are set out below.

Prior to the incorporation of IG Group, share options were granted over shares in IG Index plc. Under the provisions of the Articles of Association of IG Index plc, any shares in IG Index plc can be exchanged for shares in IG Group plc on the basis of 120 IG Group shares for every IG Index plc share. So for the purposes of the table below options over IG Index shares have been shown as if they were options over 120 IG Group shares.

Exercise Price £	Exercisable Dates	At 1 June 2001 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2002 No.
0.0875	May 1999 - Sep 2008	306,000	-	(306,000)	-	-
0.1000	Dec 2000 - Sep 2008	2,082,000	-	(1,190,000)	-	892,000
0.1208	Jan 2002 - Feb 2009	396,000	-	(276,000)	-	120,000
0.2083	Aug 2002 - Sep 2009	681,600	-	(9,960)	(2,040)	669,600
0.3333	Feb 2001 - Nov 2009	373,000	-	(119,000)	(6,000)	248,000
0.4167	Feb 2001 - Dec 2009	32,000	-	(1,000)	-	31,000
1.0000	Mar 2003 - Mar 2010	63,000	-	(3,000)	(6,000)	54,000
1.1667	May 2003 - May 2010	247,920	-	(5,640)	(38,400)	203,880
2.4000	July 2003 - July 2010	348,669	-	(8,500)	(24,500)	315,669
3.0900	Aug 2003 - Aug 2010	14,031	-	(500)	-	13,531
5.0900	Feb 2004 - Feb 2010	136,710	-	-	(92,263)	44,447
5.2750	July 2004 - July 2011	-	373,883	-	(28,207)	345,676
3.725	Feb 2005 - Feb 2012	-	48,831	-	(2,146)	46,685
		4,680,930	422,714	(1,919,600)	(199,556)	2,984,488

# Notes to the Accounts

At 31 May 2001

## 19. RESERVES

### Group

	Share premium account £	Merger reserve £	Profit and loss account £
At 31 May 2001	1,313,945	(4,355,633)	20,274,945
Premium on issue of shares	64,673	-	-
Retained profit for the year	-	-	6,387,313
Arising on the exchange of IG Index shares for IG Group shares	-	(4,875)	-
At 31 May 2002	1,378,618	(4,360,508)	26,662,258

### Company

	Share premium account £	Profit and loss account £
At 31 May 2001	1,313,945	19,060
Premium on issue of shares	64,673	-
Retained profit for the year	-	1,492,065
At 31 May 2002	1,378,618	1,511,125

## 20. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2002 £	2001 £
Operating profit	11,380,363	13,234,563
Depreciation	1,555,822	612,132
Amortisation	220,000	13,602
(Profit)/loss on sale of tangible fixed assets	(409)	56,375
Increase in debtors	(3,732,152)	(3,911,988)
Increase in creditors	4,611,213	6,817,095
Net cash inflow from operating activities	14,034,837	16,821,779

(b) Analysis of net funds:

	At 31 May 2001 £	Cash flow £	At 31 May 2002 £
Cash at bank and in hand	16,565,111	6,974,929	23,540,040
Treasury bills	3,328,286	(3,328,286)	-
	19,893,397	3,646,643	23,540,040

# Notes to the Accounts

At 31 May 2001

## 21. OPERATING LEASES

The Group had annual commitments under operating leases on its premises as set out below:

	2002	2001
	£	£
Operating leases which expire: In over five years	558,460	338,290

## 22. PENSION CONTRIBUTIONS

The Group operates a pension scheme for one of its directors; contributions into this scheme are discretionary. For the remaining directors and certain employees the Group makes contributions into individual personal schemes based upon a percentage of the salary of the personnel involved. The Group's obligation to these individual pensions schemes is a defined contribution scheme per SSAP 24.

The pension cost charge represents contributions payable by the Group to all the schemes and amounted to:

	2002	2001
	£	£
	721,433	858,284

## 23. TRANSACTION WITH DIRECTORS

Christopher Whittington and Roger Butler are clients of IG Index plc and IG Markets Limited which enter into transactions with them on normal client terms.

In the years ended 31 May 2001 and 31 May 2002 the Group had no other transactions with its directors other than in relation to the management of the Group.

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES

The following disclosures are required by FRS 13 "Derivatives and Other Financial Instruments"

The Group's principal financial instruments, other than derivative transactions, comprise cash balances with brokers, clients and other debtors or creditors that arise through the normal course of business, other cash and short-term deposits and treasury bills. Derivative transactions with brokers are entered into in the normal course of business in order to hedge market exposures resulting from derivative transactions placed by clients.

In accordance with FRS 13, the Group has taken advantage of the exemption permitting the exclusion of short-term debtors and creditors from the following disclosures except for the currency risk disclosures.

### Risk management

Limits as to the acceptable level of risk are established and regularly reviewed by the Board.

The Group's principal business activities give rise to market risk, which includes the risks arising from equity, foreign currency and interest rate derivatives and sports bets. The Group also faces other interest rate and currency risks which include those arising from certain assets or liabilities being denominated in foreign currencies or where interest is payable.

Separate market risk exposure limits are established for each individual product traded by the Group. Limits are also set for groups of products and for markets where it is considered that their market price movements are likely to be positively correlated. The Group's computerised trading systems enable exposure to market risk to be monitored in real time and management take action to manage these exposures as limits are approached.

Financial instruments used to reduce the Group's exposure to market risk include exchange traded futures and options and contracts for differences on individual shares. The management of foreign currency and interest rate risks is discussed in more detail below.

# Notes to the Accounts

At 31 May 2001

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES (continued)

### Foreign currency risk

The Group trades in major currencies as principal with its clients. Limits on the exposures which the Group will accept in each currency are set by the Board and the Group hedges its exposure as necessary with market counterparties.

The Group's exposure to foreign exchange risks arising on assets and liabilities denominated in foreign currencies is managed by the foreign exchange department in conjunction with the group's overall foreign currency exposures. Differences arising on the retranslation of foreign currency net assets and liabilities, after taking account of corresponding hedges, are not material.

### Interest rate risk

The Group offers bets on interest rate derivatives and hedges its exposure using exchange traded futures and options. Exposure limits are set for each product, and also for groups of products where it is considered that their price movements are likely to be positively correlated.

#### (a) Interest rate risk profile of financial assets and liabilities

Financial assets on which no interest is earned and financial liabilities on which no interest is paid comprise, predominantly, open positions with clients and brokers, and have been marked to market in accordance with the accounting policy set out in note 1. The majority of positions have an expiry date, but clients are able to close their positions with the Group at any time up to the expiry date. The directors therefore consider that a maturity analysis based on expiry date would not provide a meaningful representation as to the maturity of open positions and hence no maturity analysis is provided.

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

	Total financial liabilities £000	Financial liabilities on which no interest is paid £000	Total financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
<b>2002</b>					
Sterling	8,607	8,607	64,628	52,560	12,068
US dollars	4,132	4,132	7,190	4,830	2,360
Euro	409	409	2,057	1,831	226
Other currencies	2,981	2,981	4,451	1,622	2,829
	16,129	16,129	78,326	60,843	17,483
<b>2001</b>					
Sterling	4,953	4,953	49,040	38,838	10,202
US dollars	5,387	5,387	13,373	10,092	3,281
Euro	1,063	1,063	618	367	251
Other currencies	28	28	753	114	639
	11,431	11,431	63,784	49,411	14,373

The table above includes clients' money and the corresponding liability to clients, except insofar as they are short term creditors. This has been reconciled to the balance sheet in note 24(e).

The Group has no fixed rate or floating rate financial liabilities. Floating rate financial assets comprise money market deposits at call rates, including segregated client money which is not included in the balance sheet, and treasury bills placed with brokers as collateral. Financial assets, on which no interest is earned, include £7,133 (2001: £11,400) in respect of an investment. The financial assets have been reconciled to the balance sheet in note 24(e).

# Notes to the Accounts

At 31 May 2001

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES (continued)

### (b) Other interest rate risks

Financial assets and liabilities have been included in the analysis at their mark to market value. Certain additional information on interest rate risks arising on these assets and liabilities are described below.

#### Funding of contracts for differences

The Group uses contracts for differences with various financial institutions to hedge its market risk in respect of equity derivatives traded with clients. It also offers similar contracts for differences to certain of its clients. The net equity derivatives position gives rise to a funding liability or asset which bears or earns interest at rates linked to inter-bank rates on the gross value of the underlying equities. The amounts involved were as follows:

<i>Asset/(liability)</i>	<b>2002</b> <b>£000</b>	2001 £000
Sterling	(1,043)	(3,730)
US dollars	(1,527)	(2,490)
Euro	182	-
Other currencies	421	(31)
	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (1,967)	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (6,251)

#### Interest rate futures

The Group offers bets to its clients on the prices of interest rate futures and options contracts and hedges its exposure using underlying exchange traded futures and options. The overall interest rate risk is to floating rates and is shown in the following table which shows the net notional principal of client positions and hedges.

	<i>Notional principal</i>	
	<b>2002</b> <b>£000</b>	2001 £000
<b>Contracts based on short term interest rates</b>		
Sterling	(6,492)	14,001
US dollars	(6,905)	(6,764)
Euro (including legacy currencies)	34,937	(1,111)
Yen	17,006	2,808
<b>Contracts based on long term interest rates</b>		
Sterling	(3,500)	(430)
US dollars	(641)	(417)
Euro	(1,169)	1,984
Yen	131	1,027
	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 33,367	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 11,098

# Notes to the Accounts

At 31 May 2001

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES (continued)

### (c) Currency risk

The functional currency of the Group is sterling. The net monetary assets and liabilities in currencies other than sterling at the balance sheet dates were as follows:

	2002 £000	2001 £000
US dollars	247	10,808
Euro	(540)	(716)
Yen	702	(361)
Swiss franc	2,249	472
Other currencies	523	569

### (d) Maturity profile of financial liabilities

The Group's financial liabilities at 31 May 2001 and 2002 were all due within one year or less, or on demand.

### (e) Fair values

There are no significant differences between the fair value of the Group's financial assets and liabilities and their carrying values in the accounts. The fair value of the Group's financial assets and liabilities, excluding short term debtors and creditors, analysed into appropriate categories, is as follows:

	2002 £000	2001 £000
<i>Financial Assets</i>		
Financial assets other than financial instruments:		
Cash and money market deposits, including client money (see note 17)	60,851	46,083
Investments	7	11
Treasury bills (carrying value £nil; 2001: £3,328,286)	-	3,329
	60,858	49,423
Financial instruments:		
Financial	15,985	12,941
Sport	312	433
Foreign exchange	1,171	988
	17,468	14,362
Total financial assets	78,326	63,785

# Notes to the Accounts

At 31 May 2001

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES (continued)

	2002 £000	2001 £000
<i>Financial Liabilities</i>		
Financial instruments		
Financial	(13,000)	(10,021)
Sport	(179)	(275)
Foreign exchange	(2,950)	(1,135)
	(16,129)	(11,431)
Total financial liabilities	(16,129)	(11,431)
Net financial assets	62,197	52,354

### **Reconciliation of financial assets and liabilities to amounts included in the balance sheet**

The table above includes clients' money and the corresponding liability to clients, except insofar as they are short term creditors. As explained in note 17, these amounts are not included in the balance sheet.

In order to reconcile the amounts shown for financial instruments above to the amounts included in the balance sheet, it is necessary to add back short term debtors and creditors with clients and brokers and, after appropriately netting gross debit and credit balances, deduct the liability corresponding to clients' money held by the group. Gross balances are netted only where a legally binding and enforceable netting agreement is in place.

	2002 £000	2001 £000
<i>Reconciliation of financial assets</i>		
Financial instruments	17,468	14,362
Client debit balances	1,238	1,597
Cash held with brokers	20,391	20,617
Effect of netting	(20,498)	(21,262)
Total financial assets	18,599	15,314
<i>As recorded in the accounts</i>		
Amounts due from brokers (note 15)	13,174	11,925
Amounts due from clients (note 15)	5,425	3,389
	18,599	15,314
<i>Reconciliation of financial liabilities</i>		
Financial instruments	16,129	11,431
Client credit balances	55,484	46,144
Effect of netting	(20,498)	(21,262)
Segregated client net equity (note 17)	(37,311)	(29,522)
Total financial liabilities	13,804	6,791
<i>As recorded in the accounts</i>		
Amounts due to clients (note 16)	13,804	6,791

# Notes to the Accounts

At 31 May 2001

## 24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - FRS 13 DISCLOSURES (continued)

### (f) *Gains and losses on financial assets and liabilities*

Gains and losses from trading in financial assets and liabilities are provided in the segmental analysis in note 2. The types of financial instrument included within each of the categories for which gains and losses are shown are also provided.

### (g) *Undrawn committed borrowing facilities*

The Group had the following undrawn committed borrowing facilities at each balance sheet date, each of which expired within one year of the balance sheet date:

	<b>2002</b>	2001
	<b>£000</b>	£000
Undrawn committed borrowing facilities	20,000	23,000

All conditions precedent had been met at the balance sheet date.

## 25. INTERIM DIVIDEND

Certain statutory procedures, including the filing of interim accounts, were not complied with when the interim dividend was announced and paid by IG Group plc. The company has taken legal advice and appropriate resolutions will be put to the forthcoming AGM to resolve this situation.

# Independent Auditor's Report

to the Members of IG Group plc

We have audited the group's accounts for the year ended 31 May 2002 which comprise the Group Profit and Loss Account, Reconciliation of Shareholders' Funds, Group Balance Sheet, Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 25. These accounts have been prepared on the basis of the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirement, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statement, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provision of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's Statement, information on Directors, Operating and Financial Review, Corporate Governance Statement, Report on Directors' Remuneration, Directors' Report and Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatement of material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 May 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London

## Directors' Biographies

### **John Stuart Wheeler, Chairman**

Aged 67. Stuart read Law at Christ Church, Oxford after which he practised as a barrister for three years before spending six years with Hill Samuel & Co. Limited in corporate finance. Stuart founded IG Index in 1974.

### **Nathaniel Bernard le Roux, Chief Executive**

Aged 45. Nat read Law at St Catherine's College, Cambridge. He spent ten years in futures broking and stockbroking before joining IG Index as dealing director in 1992. Nat became Deputy managing director of IG Index in August 1999.

### **Timothy Alexander Howkins, Finance director**

Aged 39. Tim has a first class degree in Mathematics and Computer Science from Reading. He trained with Ernst & Young and is a chartered accountant and member of the Chartered Institute of Taxation. Prior to joining IG Index in July 1999, Tim was a partner in Rees Pollock for seven years where he was the partner responsible for IG Index's audit.

### **Toby Justin Edward Brereton, Sports director**

Aged 39. Toby read Politics, Philosophy and Economics at Merton College, Oxford. Toby was a journalist and an assistant editor of *The Sporting Life* before joining IG Index in February 1994. He was appointed a director of IG Index in May 1996 and is responsible for the sports spread betting department.

### **Peter Geoffrey Hetherington, Chief operating officer**

Aged 33. Peter read Economics at Nottingham and has a Masters in Finance from London Business School. Peter was an Officer in the Royal Navy before joining IG Index, as a trainee dealer, in February 1994. Peter ran the financial dealing operation from June 1999. He was appointed a director of IG Group in June 2002 and is the Chief Operating Officer.

### **Christopher Mark John Whittington, Non-executive deputy chairman**

Aged 63, Christopher read Greats at Trinity College, Oxford and qualified as a chartered accountant with Cooper Brothers & Co. Christopher spent 21 years at Morgan Grenfell & Co. Limited, rising to the position of Deputy Chairman of the Group. After taking early retirement in 1989 he became non-executive director of a number of limited companies. He returned to Morgan Grenfell Group (now Deutsche Bank) in 1996 on a part-time basis. He now holds a number of non-executive positions there, including that of Chairman of the UK regional Audit Committee and Chairman of the Trustees of the Group Pension Fund. He was appointed a director of IG in June 2001.

### **Roger John Butler, Non-executive director**

Aged 55. Roger is Chairman or non-executive director of several private companies in varied industries. Between 1996 and 1998 he was Chief Executive of Newton Investment Management, a major UK fund management house. Previously he was a senior adviser to Morgan Stanley, where he was involved in advising both the firm and its investment banking clients on corporate structuring and taxation matters. Prior to this, he was Ernst & Young International's regional managing partner in London and previously national director of taxation. He was appointed a non-executive director of IG Index in January 1990.

### **Torquil Patrick Alexander Norman, Non-executive director**

Aged 69. Torquil read Economics and Law at Trinity College, Cambridge and spent nine years in corporate finance at J.P. Morgan & Co and Hill Samuel & Co. He was Chief Executive of Berwick Timpo Limited and in 1980 founded Bluebird Toys PLC, where he served as Chairman and Chief Executive before retiring in 1996. He was appointed non-executive director of IG Index in March 1988.



