

Annual Report & Accounts  
31 May 2003

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# Directors and Advisors

## **DIRECTORS**

### **Executive directors**

N B le Roux (chief executive)

P G Hetherington

T A Howkins

R A Mackay (appointed 8 September 2003)

### **Non-executive directors**

J S Wheeler (chairman; resigned 8 September 2003)

C M J Whittington (deputy chairman; resigned 8 September 2003)

R J Butler

T P A Norman (resigned 8 September 2003)

T J E Brereton (resigned 8 September 2003)

## **SECRETARY**

T A Howkins

## **AUDITORS**

Ernst & Young LLP

1 More London Place

London

SE1 2AF

## **BANKERS**

Bank of Scotland

New Uberior House

11 Earl Grey Street

Edinburgh

EH2 9BN

Lloyds TSB 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

## **REGISTERED OFFICE**

Friars House

157–168 Blackfriars Road

London

SE1 8EZ

# Chairman's Statement

For the year ended 31 May 2003

Profits before tax of IG Group for the year ended 31 May 2003 were £15,281,000 compared with £13,374,000 in the previous year. Turnover was up from £32,523,000 to £39,038,000. This improvement was achieved despite the increase in betting duty which was just under £2 million compared to £1 million the previous year. This was the first financial year in which the change in betting duty which came into effect from October 2001 affected the whole year. The government had undertaken to review the effect of the change in betting duty on the spread betting industry after the new regime had been in place for a year but, in the event, there was no change in the 2003 budget.

Expenses were somewhat higher than expected, mainly due to employee costs and expenditure on computer maintenance and development being over budget. There has been some reduction in the number of personnel over the last few months so that an improvement in this area of expenditure should come through in the year just beginning.

Another factor affecting profitability was, as I said in my interim statement, that the group has invested substantially in the start-up of its Australian operation and the development of our new on-line financial trading platform. There was initially some political opposition to our establishing our activities in Australia but that has, to a large extent, been overcome. The main difficulty we now face is that the tax status of any profits made by our clients is still uncertain. In spite of this we have, I am glad to say, managed to break even on an operational basis in Australia over the last few months.

Our new on-line financial trading platform has been a great success, so that more than 50% of our financial trades are now transacted over the internet. Some of this trading would previously, of course, have been done on the telephone but the indications are that we are gaining a significant amount of new business because of our improved platform and that some of this is coming from our competitors.

After an excellent first half of the financial year, driven largely by the huge excitement generated by the football World Cup, Sport had a disappointing second half year when the level of business declined. We are currently developing an on-line sports trading platform to mirror our on-line financial platform, and we hope this will lead to a significant increase in volumes.

## Current Trading

Volumes since 31 May have been strong but it is too early to predict whether these will be sustained.

In my chairman's statement last year, I pointed out that during the last two years financial markets had been exceptionally bleak. I am certainly not in the business of predicting market direction or market volume but certainly both have been encouraging over the last few weeks and months. Our executive directors and their teams have the skill and enthusiasm to combine innovation with prudence, which is reflected in the satisfactory level of profits realised over the last three years. In my view the company is very well placed to take advantage of a really strong market when this occurs. In the light of our results and our very comfortable cash position, we increased our interim dividend from 1.5p per share to 2.0p per share, and your board proposes that the final dividend should be increased from 3.5p to 4.5p making a total of 6.5p per share for the year, up from 5p in the previous year.

## Offer for the Company

It was announced in January that, for personal reasons, I wished to sell my entire shareholding in IG and that certain other long-standing shareholders were of like mind. On 21 May the independent non-executive directors of IG, Christopher Whittington, Torquil Norman, Toby Brereton and myself announced that, together with Investec Investment Banking, the company's financial adviser, we had held extensive discussions with a number of interested parties and that, based upon those discussions, the independent directors of IG had decided to enter into a period of exclusive discussions with the executive directors and CVC Capital Partners in connection with a possible management buy-out of IG, at a price valuing each IG share at 255p, inclusive of any final dividend or other distribution that would otherwise be payable to IG shareholders in respect of the year just ended. In this context, IG Group Holdings Limited (a company backed by CVC and the executive directors of IG) has today announced its firm intention to make an offer for the entire issued and to be issued share capital of IG at 255p per IG share (including the proposed final dividend of 4.5p per IG share). An offer document will be posted to IG shareholders in due course.

J S Wheeler  
Chairman

29 July 2003

# Operating and Financial Review

For the year ended 31 May 2003

## FIVE YEAR SUMMARY

	<b>2003</b>	2002	Year ended 31 May		
			2001	2000	1999
	<b>£000</b>	£000	£000	£000	£000
Turnover	39,038	32,523	33,392	23,644	12,164
Profit before tax and exceptional item	15,461	13,374	15,654	10,072	3,508
Exceptional items	180	-	269	-	-
Dividends	3,653	2,751	1,902	1,280	442
Earnings per share (basic)	18.73p	16.87p	20.29p	14.02p	4.6p

## TURNOVER

	<b>31 May</b>	31 May	Increase/ (Decrease)
	<b>£000</b>	£000	£000
Financial	32,973	25,840	7,133
Sports	6,065	6,683	(618)
	<b>39,038</b>	<b>32,523</b>	<b>6,515</b>

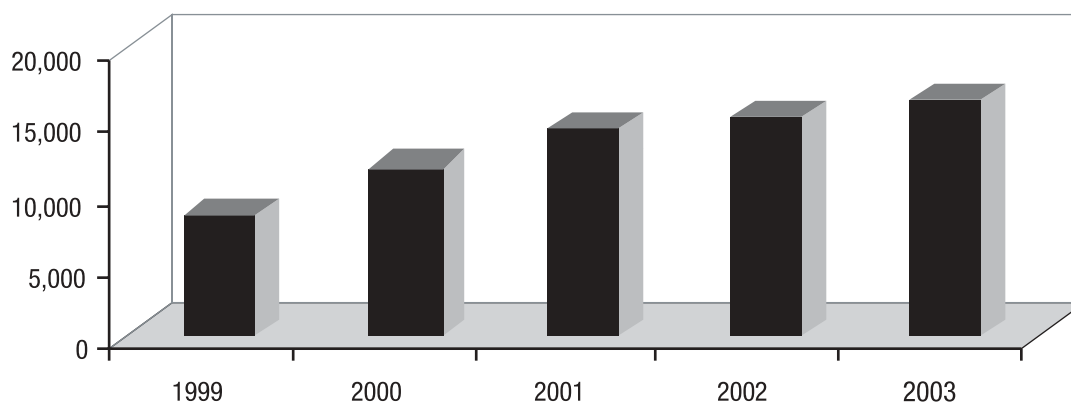
IG Group plc (the company) is a holding company which owns investments in the companies constituting the IG Group of companies (the group). Details of the group companies are listed in note 14.

The group's financial division showed impressive growth during the year with turnover 28% up on the previous year. The growth is partly attributable to the implementation of the new internet dealing system which went live during the year.

Turnover in the group's sports division reduced by 9% on the previous year. This is partly as a result of increased betting duties. These were introduced in October 2001 and therefore impact turnover for the full year for the first time.

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 2003

## TRADING INCOME

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

	31 May 2003 £000	% of segment trading income	31 May 2002 £000	% of segment trading income
Financial	24,188	73%	19,525	76%
Sports	1,401	23%	2,109	32%
	<hr/>		<hr/>	
	25,589		21,634	
	<hr/>		<hr/>	
Common costs	(10,308)		(8,260)	
	<hr/>		<hr/>	
Profit before taxation	15,281		13,374	
	<hr/>		<hr/>	

Each division 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.

Financials contribution percentage has fallen slightly this year because of an increased charge for bad debts. Sports overheads are largely unchanged for the year but increased betting duties have reduced the contribution percentage considerably.

## BAD DEBTS

There was a net charge this year for bad debts which is largely as a result of one significant debtor. The group is pursuing the collection of this debt vigorously.

## STAFFING

The average number of staff increased from 200 in the year ended 31 May 2002 to 243 in the year under review. Fixed employment costs have increased accordingly. A significant proportion of employment costs consists of performance related bonuses, which have increased as a result of improved profitability.

	2003 £000	2002 £000
Fixed employment costs	11,182	9,504
Performance related bonuses	2,697	1,917
	<hr/>	<hr/>
	13,879	11,421
	<hr/>	<hr/>

## TANGIBLE FIXED ASSETS

The group has continued to invest heavily in fixed assets this year. The most significant investment was a further £1.3m on the development of a new internet dealing system for its financial division which went live in January 2003.

# Operating and Financial Review

For the year ended 31 May 2003

## 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

	2003 £000	2002 £000
Amounts due from brokers	13,723	13,174
Amounts due from clients	3,052	5,425
Amounts due to clients	(16,473)	(13,804)
Total due to clients	(13,421)	(8,379)
Cash at bank and in hand	24,048	18,534
Short-term deposits	11,504	5,006
	35,552	23,540

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 Contracts For Differences (CFD) business, where the majority of clients are not segregated.

Cash and deposits have increased significantly during the year and at the year end the group had £35.6m. 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 £18m, all of which were undrawn. Facilities of £6m 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 2003 the two subsidiaries had regulatory capital which exceeded their regulatory capital requirement by a total of approximately £21m

# 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. 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, three executive directors and four independent non-executive directors. Brief biographies of the directors appear on page 42. 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 financial statements is set out on page 16 and a statement regarding the use of the going concern basis in preparing these financial statements is given on page 16.

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.

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

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

### 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 financial statements 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.

### Nominations committee

During the year the board established a Nominations committee. This committee is chaired by Stuart Wheeler and also comprises Christopher Whittington and Nat le Roux.

The committee is intended to consider possible appointments to the board and make recommendations on these to the board as a whole. The committee will meet on an ad hoc basis when there are appointments to consider.

### 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 chairman 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 set out in the Notice of the Meeting.

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

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

### **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 financial statements. 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.

The group operates 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.

#### ***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 £2.025 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 Nat le Roux, Tim Howkins and Peter Hetherington 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 of the growth in pre-tax profits of the group and in part to the level of contribution from the Sports division, for which he had operational responsibility until 31 December 2002.

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

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 produced an inappropriately large 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. 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.

The non executive directors are employed on fixed term contracts of one year duration.

Directors are subject to re-election every three years and Tim Howkins, Toby Brereton, Torquil Norman and Roger Butler will be subject to re-election at the AGM.

Biographical details of all directors can be found on page 42.

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

### Directors' remuneration

The analysis of directors' remuneration (including details of pension contributions, interests in options and interests in share capital) in the Report on Directors' Remuneration are subject to audit.

The remuneration of the directors was as follows:

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contribution £000	Total 2003 £000	Total 2002 £000
Executive directors:						
Nat le Roux	171	2	132	15	320	212
Tim Howkins	125	1	100	19	245	158
Peter Hetherington	113	–	90	13	216	–
	409	3	322	47	781	370
Non-executive directors:						
Stuart Wheeler	–	2	–	39	41	192
Toby Brereton*	92	–	72	7	171	200
Christopher Whittington	28	–	5	–	33	23
Roger Butler	20	–	–	–	20	18
Torquil Norman	20	–	–	–	20	18
	569	5	399	93	1,066	821

\*ceased being an executive director and became a non-executive director on 31 December 2002

Total pension contributions for the year were £93,000 (2002: £202,000).

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

	2003 £	2002 £
Nat Le Roux	16,467	–
Tim Howkins	12,475	–
Peter Hetherington	11,227	–
Toby Brereton	–	6,552

### 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. 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 beneficial interests of the directors were as follows:

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

	Exercise dates	Exercise price £	At 1 June 2002 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2003 No.
T J E Brereton	Sep 2001–Sep 2008	0.10	166,000	–	–	–	166,000
	July 2004–July 2011	5.27	21,397	–	–	–	21,397
	July 2005–July 2012	2.025	–	64,197	–	–	64,197
				187,397	64,197	–	–
P G Hetherington	June 2001–June 2008	0.10	108,000	–	(108,000)	–	–
	Feb 2001–Feb 2008	0.33	10,000	–	–	–	10,000
	Nov 2002–Nov 2009	0.33	36,000	–	(36,000)	–	–
	July 2003–July 2010	2.40	40,000	–	–	–	40,000
	July 2004–July 2011	5.27	13,270	–	–	–	13,270
	July 2005–July 2012	2.025	–	55,556	–	–	55,556
			207,270	55,556	(144,000)	–	118,826
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
	July 2005–July 2012	2.025	–	61,728	–	–	61,728
			319,360	61,728	(144,000)	–	237,088
N B le Roux	Sep 2001–Sep 2008	0.10	360,000	–	–	–	360,000
	July 2004–July 2011	5.27	25,983	–	–	–	25,983
	July 2005–July 2012	2.025	–	81,481	–	–	81,481
			385,983	81,481	–	–	467,464

The directors' aggregate notional gain on share options which were exercised during the year was £612,480 (2002: £5,308,900). The market price of the company's shares exercised during the year were £2.335 for 144,000 share options exercised on 19 August 2002 and £2.285 for 144,000 share options exercised on 5 November 2002.

The market price of the company's shares on 31 May 2003 was £2.465 per share and the high and low share prices during the year were £2.65 and £1.71 respectively.

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

### 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:

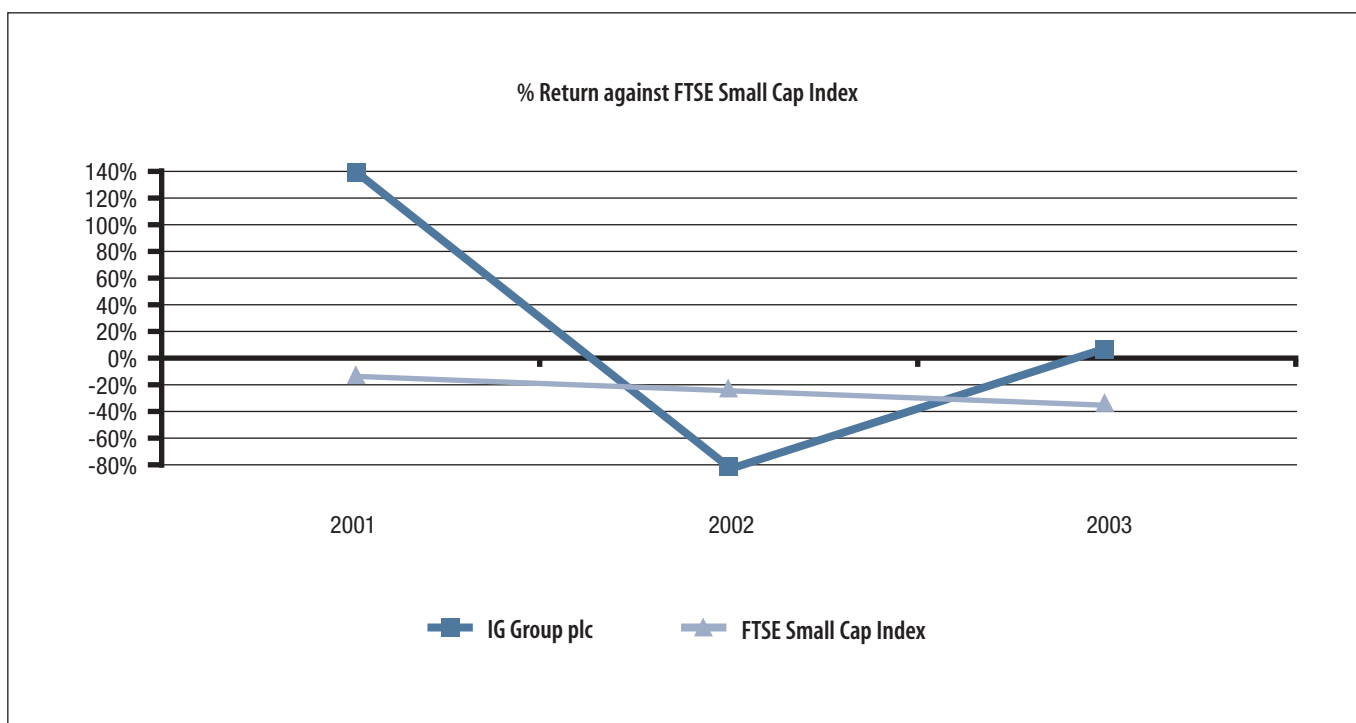
	2003 Ordinary shares	2002 Ordinary shares
J S Wheeler (chairman)	13,221,000	17,221,000
T J E Brereton	342,000	342,000
R J Butler	50,000	50,000
P G Hetherington (appointed 11 June 2002)	157,700	18,450
T A Howkins	174,833	20,833
N B le Roux	1,035,000	1,000,000
T P A Norman	240,000	240,000
C M J Whittington	25,000	12,500

The interests of the directors in the ordinary shares and options of the company have not changed since the year end.

### Shareholder Return Graph

The graph below shows the percentage change in the total shareholder return, being the percentage change in the share price over the period, for each of the last three financial years of a holding of the company's shares against the corresponding change in a hypothetical holding of shares in the FTSE Small Cap Index. The FTSE Small Cap Index was selected as it represents an equity market index in which the company is a constituent member.

The denominator used for the 2001 return is the share price upon listing on 19 July 2000, and consequently the graph starts with the return over the period ending 31 May 2001. This disclosure is required by the Companies Act 1985.



# Directors' Report

The directors have pleasure in submitting their report together with the financial statements of the group for the year ended 31 May 2003.

## 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 and by the Australian Securities and Investments Commission.

## RESULTS

The group's profit for the year, after taxation, amounted to £10,285,191 (2002: £9,069,042).

## DIVIDENDS

An interim dividend of 2.0p per share was paid during the year. A final dividend of 4.5p per share has been proposed, for approval by the shareholders at the AGM. In the previous year an interim dividend of 1.5p per share and a final dividend of 3.5p 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 2 and 3.

## TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year are set out in note 13 to the financial statements.

## 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 13.

## SHARE CAPITAL

Pursuant to Section 198 of the Companies Act 1985, notifications have been received by the company of the following shareholdings of three per cent or more of the issued ordinary share capital as at the date of the auditors' report.

	Number	%
Mr J S Wheeler	13,221,000	23.64
Deutsche Asset Management	6,160,155	11.02
Schroder Investment Management Limited	3,170,900	5.67
Mr R Sheehan	2,950,400	5.28
Miss E L Hayley	2,520,000	4.51

At the Annual General Meeting held on 11 September 2002 the company was given authority to purchase up to 5,488,810 of its ordinary shares. The authority will expire at the Annual General Meeting to be held in 2003.

## 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.

# Directors' Report

## **DONATIONS**

The group made charitable donations of £1,200 in the year (2002: £100).

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

Tim Howkins  
Director

29 July 2003

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, 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 which enable them to ensure that the financial statements 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 and detection of fraud and other irregularities.

### **GOING CONCERN**

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

# Group Profit and Loss Account

For the year ended 31 May 2003

	Notes	2003 £	2002 £
<b>TURNOVER</b>	2	39,037,531	32,523,490
Administrative expenses excluding exceptional item		25,902,842	21,143,127
Exceptional item	5	179,644	–
<b>OPERATING PROFIT</b>	3	12,955,045	11,380,363
Interest receivable		2,541,067	2,184,668
Interest payable	7	(215,015)	(190,777)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		15,281,097	13,374,254
Tax charge on profit on ordinary activities	8	4,995,906	4,305,212
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		10,285,191	9,069,042
Minority interests		123,168	69,174
<b>PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY</b>		10,408,359	9,138,216
Dividends	10	3,653,454	2,750,903
<b>RETAINED PROFIT FOR THE YEAR</b>		6,754,905	6,387,313
<b>EARNINGS PER SHARE</b>			
- Basic	11	18.73p	16.87p
- Diluted	11	18.29p	16.02p

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

# Group Reconciliation of Shareholders' Funds

For the year ended 31 May 2003

	2003 £	2002 £
Profit for the financial year	10,408,359	9,138,216
Dividends	(3,653,454)	(2,750,903)
	<hr/> 6,754,905	<hr/> 6,387,313
Issue of shares	193,850	251,758
<b>NET ADDITION TO SHAREHOLDERS' FUNDS</b>	<hr/> 6,948,755	<hr/> 6,639,071
Opening shareholders' funds	29,169,181	22,530,110
<b>CLOSING SHAREHOLDERS' FUNDS</b>	<hr/> 36,117,936	<hr/> 29,169,181

# Group Balance Sheet

At 31 May 2002

	Notes	2003 £	2002 £
<b>FIXED ASSETS</b>			
Intangible assets	12	646,398	866,398
Tangible assets	13	7,131,035	6,302,589
Investments	14	1,970	7,133
		<hr/>	
		7,779,403	7,176,120
<b>CURRENT ASSETS</b>			
Debtors	15	18,315,667	19,927,870
Cash at bank and in hand		35,551,680	23,540,040
		<hr/>	
		53,867,347	43,467,910
<b>CREDITORS:</b> amounts falling due within one year	16	25,675,745	21,498,612
		<hr/>	
<b>NET CURRENT ASSETS</b>		28,191,602	21,969,298
		<hr/>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		35,971,005	29,145,418
Minority interests		146,931	23,763
		<hr/>	
		36,117,936	29,169,181
		<hr/>	
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	5,592,313	5,488,813
Share premium account	19	1,468,968	1,378,618
Merger reserve	19	(4,360,508)	(4,360,508)
Profit and loss account	19	33,417,163	26,662,258
		<hr/>	
<b>TOTAL SHAREHOLDERS' FUNDS</b>		36,117,936	29,169,181
		<hr/>	

Tim Howkins  
Director

29 July 2003

# Company Balance Sheet

At 31 May 2003

	Notes	2003 £	2002 £
<b>FIXED ASSETS</b>			
Investments in subsidiaries	14	18,510,894	18,336,411
<b>CURRENT ASSETS</b>			
Debtors	15	2,600,000	3,372,000
Cash at bank and in hand		-	5,497
		<hr/>	<hr/>
		2,600,000	3,377,497
<b>CREDITORS: amounts falling due within one year</b>	16	5,772,151	13,335,352
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		3,172,151	9,957,855
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		15,338,743	8,378,556
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	5,592,313	5,488,813
Share premium account	19	1,468,968	1,378,618
Profit and loss account	19	8,277,462	1,511,125
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		15,338,743	8,378,556
		<hr/>	<hr/>

Tim Howkins  
Director

29 July 2003

# Statement of Cash Flow

At 31 May 2003

	Notes	2003 £	2002 £
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	20(a)	20,587,906	14,034,837
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		2,541,067	2,184,668
Interest paid		(215,015)	(190,777)
		2,326,052	1,993,891
<b>TAXATION</b>			
Corporation tax paid		(4,579,293)	(5,323,546)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets		(3,464,040)	(5,194,898)
Receipts from sales of fixed assets		–	34,750
Receipts from redemption of investments		5,163	4,007
		(3,458,877)	(5,156,141)
<b>EQUITY DIVIDENDS PAID</b>		(3,057,998)	(2,154,156)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Increase in short-term deposits		(6,498,412)	(2,988,672)
Sale of Treasury bills		–	3,328,286
		(6,498,412)	339,614
<b>FINANCING</b>			
Issue of ordinary shares		193,850	251,758
<b>INCREASE IN CASH</b>		5,513,228	3,986,257

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

	Notes	2003 £	2002 £
Increase in cash		5,513,228	3,986,257
Cash outflow from short-term deposits		6,498,412	2,988,672
Cash inflow from sale of treasury bills		–	(3,328,286)
Change in net funds resulting from cash flows		12,011,640	3,646,643
<b>NET FUNDS AT 1 JUNE</b>		23,540,040	19,893,397
<b>NET FUNDS AT 31 MAY</b>	20(b)	35,551,680	23,540,040

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

# Notes to the Financial Statements

At 31 May 2003

## 1. ACCOUNTING POLICIES

### Accounting convention

The financial statements 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 in IG Australia 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
Software development costs	-	over 3 years
Telephone equipment	-	over 3 years
Uninterruptible power supply and generator	-	over 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### 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. It is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

### 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 where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

# Notes to the Financial Statements

At 31 May 2003

## 1. ACCOUNTING POLICIES (continued)

### Deferred taxation (continued)

deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

### 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 and other bets where there is no underlying market, to the IG Index plc quote at the year end.

### 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.

### Cash flow statement

The analysis of cash and short-term deposits within the cash flow statement have been changed such that short-term deposits have been reclassified within the management of liquid resources in the cash flow statement and related notes.

### 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.

# Notes to the Financial Statements

At 31 May 2003

## 2. TURNOVER AND 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.

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.

	2003 £	2002 £
<b>TURNOVER</b>		
Financial	32,972,738	25,840,594
Sports	6,064,793	6,682,896
	<hr/> 39,037,531	<hr/> 32,523,490
	2003 £	2002 £
<b>PROFIT</b>		
<i>Segment profit</i>		
Financial	24,187,699	19,524,636
Sports	1,401,501	2,109,618
	<hr/> 25,589,200	<hr/> 21,634,254
Common costs	(10,308,103)	(8,260,000)
	<hr/> 15,281,097	<hr/> 13,374,254

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, house prices; 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.

# Notes to the Financial Statements

At 31 May 2003

## 2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

	2003 £	2002 £
<b>NET ASSETS</b>		
Financial	(334,604)	803,311
Sports	1,444,527	1,255,898
	1,109,923	2,059,209
Unallocated net assets	35,008,013	27,109,972
	36,117,936	29,169,181

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

	2003 £	2002 £
Tangible fixed assets	2,632,790	1,670,670
Fixed asset investments	1,970	7,133
Debtors and prepayments	1,340,737	1,179,076
Cash	35,551,680	23,540,040
Creditor balances	(3,495,739)	(1,804,304)
Dividends	(2,516,541)	(1,921,085)
Corporation tax	1,346,185	4,414,679
Minority interests	146,931	23,763
	35,008,013	27,109,972

## 3. OPERATING PROFIT

	2003 £	2002 £
This is stated after charging:		
Amortisation of goodwill	220,000	220,000
Depreciation of owned assets	2,474,446	1,555,822
Operating lease rentals for land and buildings	678,740	520,839
Foreign exchange differences	(219,556)	137,249
Loss/(profit) on sale of tangible fixed assets	161,148	(409)

## 4. AUDITORS' REMUNERATION

	2003 £	2002 £
Audit services	102,000	111,000
Non-audit services	35,898	42,630
	137,898	153,630

# Notes to the Financial Statements

At 31 May 2003

## 5. EXCEPTIONAL ITEM

	2003 £	2002 £
Exceptional item	179,644	–

The exceptional item charged relates to the professional fees incurred by the group as a result of the decision by a group of shareholders, holding in aggregate more than 30% of the issued share capital, to seek a buyer for their shares.

Total administrative expenses were £26,082,486 (2002: £21,143,127).

## 6. STAFF COSTS

	2003 £	2002 £
Wages and salaries	12,017,608	9,702,355
Social security costs	1,283,075	996,875
Other pension costs (note 22)	578,704	721,433
	<u>13,879,387</u>	<u>11,420,663</u>

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

	No.	No.
Dealing, sales and client support	155	124
Management and administration	88	76
	<u>243</u>	<u>200</u>

## 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Interest payable to clients and brokers	215,015	190,777

# Notes to the Financial Statements

At 31 May 2003

## 8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows:

	2003 £	2002 £
(Over)/underprovided in prior years	(131,210)	15,870
Corporation tax on profit for the year	5,127,116	4,289,342
	<hr/> 4,995,906	<hr/> 4,305,212
Profit on ordinary activities before tax	<hr/> 15,281,097	<hr/> 13,374,254
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	4,584,329	4,012,276
Effects of:		
Depreciation for period exceeding capital allowances	109,670	34,528
Overseas subsidiary losses	259,289	–
Expenses not deductible for tax purposes	173,828	242,538
Corporation tax charge for the year	<hr/> 5,127,116	<hr/> 4,289,342

A deferred tax asset of £259,289 arising from the losses made in IG Australia Pty Limited has not been recognised since there is insufficient evidence that the asset will be recoverable in the foreseeable future. It will be recoverable if the subsidiary becomes sufficiently profitable in the future.

## 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 financial statements of the parent company was £10,419,791 (2002: £4,242,968).

## 10. DIVIDENDS

	2003 £	2002 £
Ordinary		
- Interim paid (2.0p per share)	1,136,913	829,818
- Final proposed (4.5p per share)	2,516,541	1,921,085
	<hr/> 3,653,454	<hr/> 2,750,903

The directors have proposed a final dividend of 4.5p per share. This makes a total dividend for the year of 6.5p compared to 5.0p in the previous year.

# Notes to the Financial Statements

At 31 May 2003

## 11. EARNINGS PER ORDINARY SHARE

	Earnings per share pence	Earnings after taxation £	Weighted average number of shares No.
<i>Year ended 31 May 2003</i>			
Basic earnings per share	18.73	10,408,359	55,573,719
Effect of share options			1,343,891
Diluted earnings per share	18.29	10,408,359	56,917,610
<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

## 12. INTANGIBLE FIXED ASSETS

*Group*

	Goodwill £
Cost:	
At 1 June 2002 and 31 May 2003	1,100,000
Amortisation:	
At 1 June 2002	233,602
Charge for the year	220,000
At 31 May 2003	453,602
Net book value:	
At 31 May 2003	646,398
At 31 May 2002	866,398

# Notes to the Financial Statements

At 31 May 2003

## 13. TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £	Office equipment, fixtures and fittings £	Computer, telephone and electrical £	Total £
Cost:				
At 1 June 2002	1,792,340	483,589	7,217,047	9,492,976
Additions	106,160	33,089	3,324,791	3,464,040
Disposals	–	–	(161,148)	(161,148)
At 31 May 2003	1,898,500	516,678	10,380,690	12,795,868
Depreciation:				
At 1 June 2002	473,604	218,845	2,497,938	3,190,387
Charge for the year	216,661	83,055	2,174,730	2,474,446
Eliminated on disposal	–	–	–	–
At 31 May 2003	690,265	301,900	4,672,668	5,664,833
Net book value:				
At 31 May 2003	1,208,235	214,778	5,708,022	7,131,035
At 31 May 2002	1,318,736	264,744	4,719,109	6,302,589

## 14. FIXED ASSET INVESTMENTS

Group

	2003 £	2002 £	
Shares at cost (unlisted)	1,970	1,970	
Loans	–	5,163	
	1,970	7,133	
	Shares (unlisted) £	Loans £	Total £
Cost:			
At 1 June 2002	1,970	5,163	7,133
Redemption of loan	–	(5,163)	(5,163)
At 31 May 2003	1,970	–	1,970

# Notes to the Financial Statements

At 31 May 2003

## 14. FIXED ASSET INVESTMENTS (continued)

Company

Investments in subsidiaries

	£
Cost:	
At 1 June 2002	18,336,411
Additions	180,850
Exchange difference	(6,367)
	<hr/>
At 31 May 2003	18,510,894
	<hr/>

Subsidiary undertakings

Name of Company	Country of incorporation	Holding	Proportion of voting rights held	Nature of business
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	Unincorporated trust	Ordinary shares	100%	Employee benefit trust (not currently active)
IG Asia Limited	Hong Kong	Ordinary shares	100%	Dormant
Pay The Winners Limited	UK	Ordinary shares	100%	Dormant

## 15. DEBTORS

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Amounts due from brokers	13,722,907	13,173,941	–	–
Amounts due from clients	3,051,888	5,425,285	–	–
Dividends receivable	–	–	2,600,000	3,372,000
Other debtors	852,461	646,433	–	–
Prepayments and accrued income	688,411	682,211	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	18,315,667	19,927,870	2,600,000	3,372,000
	<hr/>	<hr/>	<hr/>	<hr/>

# Notes to the Financial Statements

At 31 May 2003

## 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Amounts due to clients	16,473,381	13,804,183	–	–
Amounts due to subsidiaries	–	–	3,187,582	11,413,934
Accruals and deferred income	3,799,975	3,475,880	68,028	333
Corporation tax	2,492,210	2,075,597	–	–
Other taxes and social security costs	393,638	221,867	–	–
Proposed dividend	2,516,541	1,921,085	2,516,541	1,921,085
	<u>25,675,745</u>	<u>21,498,612</u>	<u>5,772,151</u>	<u>13,335,352</u>

## 17. CLIENTS' MONEY

The group's two UK operating subsidiaries, IG Index plc and IG Markets Limited, hold client money on trust in client accounts at approved banks in accordance with the rules of the Financial Services Authority. 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:

	2003 £	2002 £
	<u>43,372,708</u>	<u>37,310,817</u>

## 18. SHARE CAPITAL

	2003 £	2002 £
<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>		
55,923,133 ordinary shares of 10p each (2002 - 54,888,133)	<u>5,592,313</u>	<u>5,488,813</u>

During the year the company allotted 1,035,000 shares at a total premium of £90,350 as a result of the exercise of options over shares in IG Group plc and IG Index plc. In the year ended 31 May 2003 options over 8,300 IG Index plc shares were exercised at a total premium of £172,550.

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 plc, 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 plc shares for every IG Index plc share. 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.

# Notes to the Financial Statements

At 31 May 2003

## 18. SHARE CAPITAL (continued)

Exercise Price £	Exercisable Dates	At 1 June 2002 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2003 No.
0.1000	Dec 2000–Sep 2008	892,000	–	(306,000)	–	586,000
0.1208	Jan 2002–Feb 2009	120,000	–	(120,000)	–	–
0.2083	Aug 2002–Sep 2009	669,600	–	(438,000)	–	231,600
0.3333	Feb 2001–Nov 2009	248,000	–	(165,000)	–	83,000
0.4167	Feb 2001–Dec 2009	31,000	–	(6,000)	–	25,000
1.0000	Mar 2003–Mar 2010	54,000	–	–	(3,000)	51,000
1.1667	May 2003–May 2010	203,880	–	–	(8,640)	195,240
2.4000	July 2003–July 2010	316,169	–	–	(59,500)	256,669
3.0900	Aug 2003–Aug 2010	13,031	–	–	–	13,031
5.0900	Feb 2004–Feb 2010	44,447	–	–	(11,000)	33,447
5.2750	July 2004–July 2011	345,676	–	–	(25,483)	320,193
3.725	Feb 2005–Feb 2012	46,685	–	–	(7,511)	39,174
2.0250	July 2005–July 2012	–	1,194,738	–	(169,837)	1,024,901
2.3000	March 2006–March 2013	–	193,904	–	(5,217)	188,687
		2,984,488	1,388,642	(1,035,000)	(290,188)	3,047,942

## 19. RESERVES

Group	Share premium account £	Merger reserve £	Profit and loss account £
At 31 May 2002	1,378,618	(4,360,508)	26,662,258
Premium on issue of shares	90,350	–	–
Retained profit for the year	–	–	6,754,905
At 31 May 2003	1,468,968	(4,360,508)	33,417,163

Company	Share premium account £	Profit and loss account £
At 31 May 2002	1,378,618	1,511,125
Premium on issue of shares	90,350	–
Retained profit for the year	–	6,766,337
At 31 May 2003	1,468,968	8,277,462

# Notes to the Financial Statements

At 31 May 2003

## 20. NOTES TO THE STATEMENT OF CASH FLOWS

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

	<b>2003</b>	2002
	£	£
Operating profit	12,955,045	11,380,363
Depreciation	2,474,446	1,555,822
Amortisation	220,000	220,000
Loss/(profit) on disposal of tangible fixed assets	161,148	(409)
Decrease/(increase) in debtors	1,612,203	(3,732,152)
Increase in creditors	3,165,064	4,611,213
Net cash inflow from operating activities	<u>20,587,906</u>	<u>14,034,837</u>

(b) Analysis of net funds:

	At 1 June 2002 £	Cash flow £	At 31 May 2003 £
Cash at bank and in hand	18,534,456	5,513,228	24,047,684
Short-term deposits*	5,005,584	6,498,412	11,503,996
	<u>23,540,040</u>	<u>12,011,640</u>	<u>35,551,680</u>

\*Short-term deposits are included within cash at bank and in hand in the balance sheet.

(c) Exceptional items

Cash flows relating to operating exceptional items:

Net cash inflow from operating activities in 2003 includes a cash outflow of £111,949 (2002 - £nil) in respect of the professional fees incurred by the group as a result of a decision by a group of shareholders, holding in aggregate more than 30% of the issued share capital, to seek a buyer for their shares (note 5).

## 21. OPERATING LEASES

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

	<b>2003</b>	2002
	£	£
Operating leases which expire:		
In less than one year	43,643	–
In over five years	645,960	558,460

## 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 pension schemes is a defined contribution scheme per FRS 17.

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

<b>2003</b>	2002
£	£
<u>578,704</u>	<u>721,433</u>

# Notes to the Financial Statements

At 31 May 2003

## 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 2002 and 31 May 2003 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.

### 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.

# Notes to the Financial Statements

At 31 May 2003

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

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>2003</b>					
Sterling	8,473	8,473	87,325	73,536	13,789
US dollars	4,895	4,895	5,791	2,691	3,100
Euro	787	787	1,268	574	694
Other currencies	2,576	2,576	4,383	2,117	2,266
	16,731	16,731	98,767	78,918	19,849
<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

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 £1,970 (2002: £7,133) in respect of an investment. The financial assets have been reconciled to the balance sheet in note 24(e).

### (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:

Asset/(liability)	2003 £000	2002 £000
Sterling	2,256	(1,043)
US dollars	(5,202)	(1,527)
Euro	30	182
Other currencies	(93)	421
	(3,009)	(1,967)

# Notes to the Financial Statements

At 31 May 2003

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

### 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>2003</b>	2002
	<b>£000</b>	£000
<i>Contracts based on short term interest rates</i>		
Sterling	64,490	(6,492)
US dollars	(32,950)	(6,905)
Euro	1,269	34,937
Yen	4,800	17,006
<i>Contracts based on long term interest rates</i>		
Sterling	770	(3,500)
US dollars	(2,143)	(641)
Euro	723	(1,169)
Yen	261	131
	37,220	33,367

### (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:

	<b>2003</b>	2002
	<b>£000</b>	£000
US dollars	(7,650)	247
Euro	(1,938)	(540)
Yen	631	702
Swiss franc	(2,224)	2,249
Other currencies	1,005	523

### (d) Maturity profile of financial liabilities

The group's financial liabilities at 31 May 2002 and 2003 were all due within one year or less, or on demand.

# Notes to the Financial Statements

At 31 May 2003

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

### (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 financial statements. The fair value of the group's financial assets and liabilities, excluding short term debtors and creditors, analysed into appropriate categories, is as follows:

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Assets</b>		
Financial assets other than financial instruments:		
Cash and money market deposits, including client money (see note 17)	78,925	60,851
Investments	2	7
	<hr/> 78,927	<hr/> 60,858
Financial instruments:		
Financial	19,149	15,985
Sport	47	312
Foreign exchange	644	1,171
	<hr/> 19,840	<hr/> 17,468
Total financial assets	<hr/> 98,767	<hr/> 78,326
	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Liabilities</b>		
Financial instruments		
Financial	(15,961)	(13,000)
Sport	(34)	(179)
Foreign exchange	(736)	(2,950)
	<hr/> (16,731)	<hr/> (16,129)
Total financial liabilities	<hr/> (16,731)	<hr/> (16,129)
Net financial assets	<hr/> 82,036	<hr/> 62,197

# Notes to the Financial Statements

At 31 May 2003

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

### *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.

	<b>2003</b>	2002
	<b>£000</b>	£000
<i>Reconciliation of financial assets</i>		
Financial instruments	19,840	17,468
Client debit balances	2,292	1,238
Cash held with brokers	13,022	20,391
Effect of netting	(18,379)	(20,498)
Total financial assets	16,775	18,599
As recorded in the financial statements		
Amounts due from brokers (note 15)	13,723	13,174
Amounts due from clients (note 15)	3,052	5,425
	16,775	18,599

# Notes to the Financial Statements

At 31 May 2003

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

	2003 £000	2002 £000
<i>Reconciliation of financial assets</i>		
Financial instruments	16,731	16,129
Client credit balances	24,736	55,484
Effect of netting	18,379	(20,498)
Segregated client net equity (note 17)	(43,373)	(37,311)
Total financial liabilities	16,473	13,804
<i>As recorded in the financial statements</i>		
Amounts due to clients (note 16)	16,473	13,804

### (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:

	2003 £000	2002 £000
Undrawn committed borrowing facilities	18,000	20,000

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

## 25. CONTINGENT LIABILITY

On 29 July 2003 IG Group Holdings Limited announced its firm intention to make a recommended offer for the company at 255p per share. IG Group Holdings Limited is controlled by CVC Capital Partners Limited. The company has entered into a break fee arrangement with CVC. A break fee of £1,425,000 is payable to CVC by the company in the event that the Independent Directors withdraw or adversely modify their recommendation of the offer or if an independent competing offer for the group is announced and is declared or becomes unconditional in all respects or is otherwise completed or in certain other circumstances.

The company has appointed Investec Investment Banking (Investec) to act for the company in relation to its conduct during the offer period and to advise on any offer that may be received. At 31 May 2003 a fee of £40,000 for Investec had been accrued. In the event that the offer is accepted a further fee of £1,564,295 will be payable to Investec.

# Independent Auditor's Report

*to the Members of IG Group plc*

We have audited the group's financial statements for the year ended 31 May 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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**

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 statements, 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 provisions 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 financial statements. This other information comprises the Directors' Report, Corporate Governance Statement including the unaudited part of the Directors' Remuneration Report, Chairman's Statement and Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

# Independent Auditor's Report

*to the Members of IG Group plc*

## **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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements and the part of the Directors' Remuneration Report to be audited 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 financial statements and the part of the Directors' Remuneration Report to be audited.

## **Opinion**

In our opinion:

the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 May 2003 and of the profit of the group for the year then ended; and

the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London  
29 July 2003

## Directors' Biographies

### **John Stuart Wheeler, chairman**

Aged 68. 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 46. 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, and chief executive in March 2002.

### **Timothy Alexander Howkins, finance director**

Aged 40. 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, non-executive director**

Aged 40. 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.

Toby was responsible for the sports spread betting division until 31 December 2002 when he became a non-executive director.

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

Aged 34. 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 64. 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 and is currently chairman of the Trustees of the Group Pension Fund. He was appointed a director of IG in June 2000.

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

Aged 56, 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 70. 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.