



Report and Financial Statements  
31 May 2005

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# IG Group Holdings plc

Registered No: 04677092

## **DIRECTORS**

### **Executive directors**

N B le Roux (chief executive)

P G Hetherington

T A Howkins

A R MacKay

### **Non-executive directors**

J R Davie (chairman)

Sir Alan Budd (senior independent director)

D M Jackson

R R Lucas

## **SECRETARY**

A R MacKay

## **AUDITORS**

Ernst & Young LLP

1 More London Place

London SE1 2AF

## **BANKERS**

Bank of Scotland

Citymark

150 Fountainbridge

Edinburgh EH3 9DE

## **SOLICITORS**

Linklaters

One Silk Street

London EC2Y 8HQ

## **REGISTRARS**

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

## **BROKERS**

UBS Limited

1 Finsbury Avenue

London EC2M 2PP

## **REGISTERED OFFICE**

Friars House

157–168 Blackfriars Road

London SE1 8EZ

# Chairman's statement

*For the year ended 31 May 2005*

It is my pleasure to be making my first annual statement following the return of IG Group<sup>1</sup> to the London Stock Exchange (LSE) in May this year. The period prior to listing has been one of significant change and growth at IG Group driven by the success of our internet platform, our product offerings and the performance of our Australian activities.

The listing of IG Group has allowed the company to pay down its outstanding debt thus strengthening the group's balance sheet and positioning it for further growth. In addition, the listing has also enhanced the group's profile. We are pleased to have become a constituent of the FTSE 250 index in June.

The flotation also provided the opportunity for IG to welcome two new non-executive directors; Sir Alan Budd and Martin Jackson. Sir Alan was chief economic advisor to the Treasury and head of the Government Economic Service between 1991–1997. He also served as a member of the Monetary Policy Committee at the Bank of England between 1997 and 1999. Prior to 1991 he was group economic advisor for Barclays Bank and Professor of Economics at The London Business School. He also chaired the recent Gambling Review Body and is currently Provost of The Queens College Oxford. Sir Alan's extensive experience on economic, government and business matters, together with his experience as chairman of the Gambling Review Body makes him a valuable addition to the board.

Martin Jackson is chairman of our audit committee. He is also a non-executive director and chairman of the audit committee of Admiral Group plc and is a fellow of the Institute of Chartered Accountants. Martin was group finance director of Friends Provident between 2001 and 2003 and Friends Provident Life Office between 1999 and 2001. Prior to this he was the group finance director of London and Manchester Group from 1992-1998 before the company was acquired by the Friends Provident Life Office. Martin has great experience in all aspects of company finance.

We are in the process of seeking additional non-executive directors who we feel will further enhance the development of IG Group.

I would like to thank CVC for its unstinting support during the recent period when IG Group was a private company. CVC's advice helped to develop the strategy, discipline and business initiatives which are contributing to our present success. Following the listing CVC continues to be a significant and supportive shareholder.

As stated at the time of the listing, the company will not be paying a final dividend in respect of financial year 2005. It is intended that the first dividend to be paid will be an interim dividend paid in February 2006 in respect of the financial year ending 31 May 2006.

The year to 31 May 2005 was another successful year for our business and the current financial year has started well. I would like to close by thanking all the group employees for their dedicated services. Their hard work, motivation, skill and commitment continue to be essential to the group's development. Nat le Roux, our Chief Executive, and his team have managed the firm through another year of change and growth, not to mention the successful listing on the LSE. None of this would have been achieved without their leadership working together with a dedicated and enthusiastic team of colleagues. I am grateful to all of them for their support.

Together with all my colleagues at IG, I look forward to working towards another successful year in 2005/6.

J R Davie  
Chairman

18 July 2005

<sup>1</sup> 'IG', 'IG Group', 'the company' and 'the group' refer to IG Group Holdings plc and its subsidiary undertakings throughout these financial statements.

# Chief executive's report

For the year ended 31 May 2005

This has been a busy year for the group, particularly in the months preceding the listing and I am proud of the performance of the business during this period.

For the third consecutive year, the group delivered growth in turnover and EBITDA<sup>2</sup>. Group turnover was £62.3 million, up 25% over the preceding year and EBITDA was £35.1 million, up 40%. The main contributors to this growth were the continued strong rate of client acquisition in the UK, the increasing diversity of our product range (including our rapidly growing binary business) and particularly strong growth from our Australian business.

## Financial businesses

All of the financial businesses performed strongly. Excluding binaries, turnover was up 23.5% to £50.5m, reflecting continued healthy growth in account numbers. Over 85% of all financial deals are now transacted on one of our two electronic platforms, as against 20% at the beginning of 2003. On-line clients are easier to recruit and trade more frequently. IG's transformation into a true internet business is the most significant reason behind our continued strong performance in indifferent financial markets.

### Spread Betting

Spread betting volumes are vulnerable to lack of volatility in financial markets, and for much of the past year world stock indices have been relatively subdued. As a consequence, the balance of the core UK spread betting business has continued to shift away from stock indices into individual shares, currencies and commodity markets, for example, in some recent months we have seen more business in crude oil than in FTSE.

Over the year, the dealing spreads offered by UK financial spread betting firms on some markets narrowed, but this trend has not affected the turnover or profitability of the group adversely.

Price competition has largely focused on the most short-term and speculative instruments such as foreign exchange and 'daily' stock index bets; in these markets, price cuts and special offers, if positioned intelligently, can result in an overall increase in turnover. In addition, our uniquely wide product range means that a significant proportion of our turnover is derived from business lines where there is less price competition.

### CFDs

Our CFD (contracts for differences) business also performed strongly, particularly in individual shares. The continued development of L2™, our direct market access platform, has helped us to win a larger share of the professional end of the CFD market, where we can offer stockbrokers and fund managers significantly better dealing technology than most of our competitors. At the same time improvements in our own terms of business have allowed us to quote very competitive commission rates.

In recent months we have developed the technology to allow other financial service providers to white-label our CFD service to their clients and we are now able to tailor these deals very quickly by applying a generic contractual and technology structure. I expect the proportion of our business which derives from white-label and other introductory arrangements to increase over the next year.

### Financial binaries

Turnover in financial binaries increased by 130% to £5.0m. Since the launch of our binary product in 2003, IG has dominated this fastest growing sector of the financial betting business and there is as yet no effective competition. While this cannot remain the case indefinitely, we are very strongly positioned in an interesting business which is capable of significant further growth.

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<sup>2</sup> EBITDA represents earnings before exceptional administrative costs, depreciation, amortisation charges, taxation, interest payable on debt and interest receivable on corporate cash balances and includes interest receivable on clients' money net of interest payable to clients.

# Chief executive's report

For the year ended 31 May 2005

Over the past few months we have developed the technology to act as a market-maker on electronic exchanges, and have so far signed market-making agreements with two such exchanges. Binary bets of the type which we offer our clients are, from the clients' perspective, no different from the back-and-lay fixed odds markets offered by betting exchanges. By acting as a liquidity provider to these exchanges, we hope to attract significant additional business in both financial and sports binary markets.

## Australia

Our Australian operation, whose main business is in CFDs on local and international shares, performed impressively. Turnover of £3.8m was more than 150% higher than in the previous year, and this growth rate has been maintained since the end of the period under review, June being easily a record month.

The Melbourne office now employs over 20 people, and in addition to locally sourced clients handles overnight business for the whole financial dealing operation, allowing us to dispense with the night shift in London.

Less than three years after its launch, our Australian operation has a turnover larger than the whole of IG in 1996. This remains an immature market capable of significant further growth.

In the year ahead, we also intend to establish at least one sales office in Asia. This operation will market our foreign exchange and CFD products to the Chinese speaking market, with dealing and risk management handled in Melbourne.

## Sports businesses

The sports businesses delivered turnover of £6.8m, a slight increase on 2004.

### Spread betting

Sports spread betting volumes were significantly higher than in the previous year. As the number of clients betting was little changed, this increase in volume mainly reflects greater activity from existing clients. As most sports clients have accounts with more than one firm, it is reasonable to conclude that it also represents a transfer of business from competitors in response to the various service enhancements which we have implemented over the last year. As sports spread betting is a mature sector any significant future increase in volumes is likely to be at the expense of competitors rather than the result of fresh client recruitment.

### Binary betting

In contrast, sports binary volumes, while still small in absolute terms, grew very rapidly in the second half of the year. We believe this business is capable of significant further development. Uniquely, our binary product offers clients the ability to back or lay fixed-odds propositions, and thus to close bets before settlement, without the liquidity constraints encountered on betting exchanges. We also have significantly better pricing technology than most conventional bookmakers, and this allows us to provide simultaneous automated prices on large numbers of in-running markets. In the months ahead we intend to simplify and re-brand the sports binary offering to widen its appeal to a mass audience, both in the UK and internationally. We are currently test marketing a full Chinese-language version of our binary website. This will be followed by versions targeted at other non-English speaking markets in the coming year.

Relative to volume, both sports businesses performed poorly especially in the second half of the year, with a long run of results which favoured clients rather than bookmakers. Despite this there is no reason to believe that the margins in these businesses have fundamentally changed, and indeed their performance has seen a material improvement since the end of the year under review.

# Chief executive's report

*For the year ended 31 May 2005*

## **Systems and organisation**

Technology is a key component of our business and we place a major emphasis on the reliability of our systems and the enhancement of our clients' on-line experience. We have continued to expand system capacity, and have progressively reduced the average deal time which is now under one second. On-line trading volumes and client log-ons continued to grow very rapidly throughout the year. Our overall up-time statistics have also improved significantly, although we still have further to go in this direction. Over the next year we intend to further enhance our systems resilience as we move towards operating on a true 24/7 basis.

During the year we successfully tested our disaster recovery and continuity management plan, with the whole company working from the back-up site for a day. We have also recently appointed a new chief technology officer with overall responsibility for systems integrity and development.

In the business generally, reporting lines have been re-organised and simplified and some senior managers' roles redefined to reflect changes in the underlying business. I believe we have the right people in the right jobs and a rational organisational structure.

## **Current trading and outlook**

The year to 31 May 2005 was a year of continuing success at IG. Since the end of the financial year all parts of the business have performed well and our volumes have been strong. I remain confident about IG's prospects and believe the group is well placed to make further progress during the coming year.

Nat le Roux  
Chief executive

18 July 2005

# Operating and financial review

For the year ended 31 May 2005

As explained in note 1 of the financial statements, the group profit and loss account and statement of cashflows for the prior period includes the results of the group from 5 September 2003 (the date of the acquisition of the group) to 31 May 2004. The operating and financial review presents the group results for the full year ended 31 May 2004 and for each preceding twelve month period as if IG Group Limited (formerly IG Group plc) was a member of the group throughout.

## Five year summary

	Year ended 31 May				
	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Turnover	62,298	49,839	40,996	33,573	34,056
EBITDA <sup>1</sup>	35,083	25,128	17,188	14,628	15,881
EBITDA margin	56.3%	50.4%	41.9%	43.6%	46.6%
Exceptional administrative costs	889	267	180	-	269
Profit before tax	13,999	7,920	15,281	13,375	15,385
Earnings per share (normalised <sup>2</sup> )	6.84p	4.94p	3.30p	2.86p	3.33p
Basic earnings per share <sup>3</sup>	2.27p	1.55p	-	-	-
Diluted earnings per share <sup>3</sup>	2.10p	1.43p	-	-	-

<sup>1</sup> EBITDA represents earnings before exceptional administrative costs, depreciation, amortisation charges, taxation, interest payable on debt and interest receivable on corporate cash balances and includes interest receivable on clients' money net of interest payable to clients.

<sup>2</sup> As set out in note 11 to the financial statements, normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue at 31 May 2005. Normalising items comprise the impact, net of tax, of exceptional administrative costs, amortisation charges, debt interest, preference dividends and non-recurring tax items. The calculation is not intended to comply with FRS14.

<sup>3</sup> Basic and diluted earnings per share are presented for the full year ended 31 May 2005 and for the period from 5 September 2003 to 31 May 2004. Comparatives are not available for the preceding years as IG Group Holdings plc was not in existence.

## Financial highlights

For the third consecutive year the group achieved substantial growth in turnover and EBITDA.

Turnover increased by 25.0%. The main contributor to this growth was continued strong client acquisition by the group's UK financial business.

The group's Australian operation and the binary betting business both contributed to the overall growth in turnover, but while they have exhibited strong growth, still remain a relatively small portion of the group's overall income.

EBITDA grew by 39.6% and the EBITDA margin showed further expansion up to 56.3% from 50.4% in the previous year.

During the year the company repaid all of its outstanding debt and at the year end the group had net cash of £20.8m.

The group had a consolidated regulatory capital surplus of approximately £7m at the year end.

# Operating and financial review

For the year ended 31 May 2005

## Turnover by business segment

	2005 £000	2004 £000	Increase £000
Financial	50,512	40,895	9,617
Financial binaries	4,950	2,153	2,797
Sports	6,836	6,791	45
	<hr/>	<hr/>	<hr/>
	62,298	49,839	12,459

The group's financial segment showed significant growth during the year with turnover 23.5% up on the previous year. Part of this growth is attributable to the success of the group's Australian operation.

Financial binaries have grown impressively since their introduction in May 2003 with turnover increasing 129.9% on the previous year. This business line contributed 7.9% of the group's turnover in the year compared to 4.3% in the previous year.

Turnover in the group's sports segment increased by 0.7% on the previous year.

## Turnover by geographical segment

	2005 £000	2004 £000	Increase £000
United Kingdom	58,522	48,412	10,110
Australia	3,776	1,427	2,349
	<hr/>	<hr/>	<hr/>
	62,298	49,839	12,459

Turnover generated in the United Kingdom increased 20.9% compared with the previous year, while turnover generated in Australia increased 164.6% compared with the previous year.

Turnover generated by Australia increased as a percentage of the group's total turnover from 2.9% in the previous year to 6.1% in the year under review.

## Number of clients dealing and new accounts

Turnover is determined to a significant extent by the number of clients dealing which in turn is heavily influenced by the number of accounts opened and the number of accounts betting or trading for the first time.

	2005	2004	2003	2002	2001
Number of clients dealing	26,102	21,263	16,700	15,678	15,214
Average turnover per client (£)	2,387	2,344	2,455	2,141	2,238
Number of accounts opened	18,747	15,992	7,736	6,644	7,755
Number of accounts betting or trading for the first time	11,297	9,376	5,240	5,005	7,194

The introduction of online account opening in June 2003 has made it significantly easier to open accounts as immediate identity checks, performed for regulatory purposes, have reduced the requirement for documentary proof of identity.

The group's unregulated business, binarybet.com, has contributed to the growth in the number of clients dealing. These clients tend to bet more regularly than regulated clients but these transactions are typically for a smaller amount. This explains the fall in average turnover per client between 2003 and 2004.

# Operating and financial review

For the year ended 31 May 2005

Compared with the previous year, the number of clients dealing has increased by 22.8%, the number of accounts opened has increased 17.2% and the number of accounts betting or trading for the first time has increased by 20.5%.

The average turnover per client has also improved from £2,344 for the previous year to £2,387 for the year under review.

## Segmental profit

The profit of the group's segments (after attributable costs, but before common costs) were:

	31 May 2005 £000	% of segment turnover	31 May 2004 £000	% of segment turnover
Financial	39,744	78.7%	31,121	76.1%
Financial binaries	3,474	70.2%	1,419	65.9%
Sports	921	13.5%	1,449	21.3%
	<hr/>		<hr/>	
Common costs	44,139 (30,140)		33,989 (26,069)	
	<hr/>		<hr/>	
Profit before taxation	13,999		7,920	

Each segment 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 profit. This explains why financials, which is the largest of the group's segments, currently enjoys the highest percentage profit.

## Staff costs

The average number of staff increased from 243 in the year ended 31 May 2004 to 267 in the year under review and fixed employment costs have increased accordingly. A significant proportion of the employment cost consists of performance related bonuses which vary according to profitability and increased by 3.4% compared with the previous year.

	2005 £000	2004 £000
Fixed employment costs	12,770	11,538
Performance related bonuses	5,255	5,081
	<hr/>	<hr/>
	18,025	16,619

## Bad debts

The charge for bad and doubtful debts for the year was approximately 0.5% of revenue. The company continues to pursue outstanding debts vigorously.

## Tangible fixed assets

The group continues to invest heavily in technology in order to enhance the capacity and resilience of its systems which are critical to the success of the business. Fixed asset additions during the year amounted to £2.7m compared with £2.6m in the previous year. Depreciation charged in the year amounted to £3.9m compared with £3.3m in the previous year.

# Operating and financial review

For the year ended 31 May 2005

## Goodwill

The goodwill arising on the acquisition of the group amounting to £109.8m has been capitalised and is being amortised over the estimated useful life of 20 years. In the year under review the amortisation charge amounted to £5.7m compared with £4.2m in the previous year.

## Working capital and liquidity

	2005 £000	2004 £000
Amounts due from brokers	40,262	31,474
Amounts due from clients	3,735	2,173
Amounts due to clients	(26,934)	(19,920)
Net amounts due to clients	(23,199)	(17,747)
Cash at bank and in hand	20,832	23,076
Loan notes	(167)	(570)
Bank loans and interest payable	-	(101,113)
Net funds/(debt)	20,665	(78,607)

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. This has increased significantly in the year under review as the level and volume of client positions have increased.

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 Financial Services Authority's (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 at bank and in hand has reduced from the previous year primarily because of the utilisation of surplus cash, together with the proceeds of listing on the London Stock Exchange to repay debt.

Operating activities generated £25.4m of cash, interest received amounted to £6.0m and the finance raised on the flotation of the company amounted to £131.7m. These funds were used to repay debt amounting to £102.1m, preference shares of £35.7m, debt interest of £11.9m and to pay professional fees arising in the year on the flotation of £5.8m. In addition expenditure on fixed assets amounted to £2.7m.

The group holds client money on account in segregated bank accounts which at the year end amounted to £99.7m compared with £66.3m in the previous year.

At the year end the group had total bank facilities of £25.0m, all of which were undrawn. Facilities of £12.0m 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 £13.0m provide the ability for paperless settlement of share transactions (CREST).

# Operating and financial review

*For the year ended 31 May 2005*

## **Regulatory capital**

Two of the group's UK operating subsidiaries are regulated by the FSA. The FSA imposes a minimum level of regulatory capital which must be retained by each company and also an overall level of regulatory capital which must be maintained by the group. At 31 May 2005 the two subsidiaries had regulatory capital which exceeded their regulatory capital requirement by a total of approximately £24m. The group had an overall consolidated regulatory capital surplus of approximately £7m.

# Corporate governance

## Introduction

In the period leading up to the company's listing on the London Stock Exchange on 4 May 2005 the board implemented a number of changes to its governance environment. These changes were implemented in order to achieve a governance structure that ensured that the interests of all shareholders were best served following the listing and to ensure that the code provisions set out in section 1 of the Combined Code are complied with.

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

The changes primarily involved some restructuring of the board and its sub-committees. The board is satisfied that the group complied with the provisions of the Combined Code on corporate governance, issued by the Financial Reporting Council in July 2003, from the date of listing, with the exception of paragraphs A.3.2, B.2.1 and C.3.1.

Paragraph A.3.2 of the Combined Code requires that at least half of the board, excluding the chairman, are independent non-executive directors. There are currently four executive directors and four non-executive directors, including the non-executive chairman who, at the time of appointment was considered to be independent. However, Robert Lucas, a non-executive director, represents funds managed or advised by CVC Capital Partners Limited or its associates, which at 31 May 2005 held 22.7% of the ordinary share capital of the company. He is therefore not considered to be independent as he represents a substantial shareholder. All other non-executive directors are considered to be independent. The independent directors are of sufficient calibre and number that their views carry significant weight in the board's decision making. Brief biographies of the directors appear on page 60.

Paragraph B.2.1 of the Combined Code requires that the remuneration committee comprise only independent non-executive directors. The company's remuneration committee includes Robert Lucas, who is not an independent director as he represents a substantial shareholder. The board considers that Robert Lucas' membership of the remuneration committee is not inconsistent with the principles underlying the Combined Code as his views on directors' remuneration, as a representative of a substantial shareholder, are likely to be closely aligned to the interests of other shareholders.

Paragraph C.3.1 of the Combined Code requires that the audit committee should comprise at least three independent non-executive directors, except in the case of smaller companies. The company's audit committee currently comprises two independent non-executive directors.

The board intends to take steps to ensure that the company complies fully with the Combined Code in due course. The nomination committee is currently seeking an additional independent non-executive director with sufficient skill and experience to add value to the board. If a suitable candidate is appointed it is expected that he or she will join the audit committee.

## The workings of the board and its committees

### The board

The division of responsibilities between the chairman and the chief executive is clearly defined in writing and has been approved by the board.

The board is responsible to shareholders for the proper management of the group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 23 and a statement regarding the use of the going concern basis in preparing these financial statements is given on page 23.

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

- Setting group strategy
- Approving annual budgets
- Reviewing operational and financial performance
- Approving major acquisitions, divestments and capital expenditure
- Approval of extension of the group's activities into new business or geographic areas

## Corporate governance

- Reviewing the group's systems of financial control and risk management
- Approving board, board committee and company secretarial appointments
- Ensuring adequate succession planning for the board and senior management
- Approving policies relating to directors' remuneration and the severance of directors' contracts
- Approving any changes to the group's risk management policy which materially increases the risk profile of the group
- Receiving reports on the views of the company's shareholders

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Directors receive appropriate training as necessary when they are appointed. Training on the duties and responsibilities of directors is provided by the group's legal advisers. The 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. In addition to its regular meetings the board meets when necessary to discuss strategic 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 and financial information is distributed monthly. The chairman ensures that the directors take independent professional advice as required.

The board is aware of its responsibilities to carry out performance evaluation on itself, its committees and individual directors and is committed to undertaking each on an annual basis. The first such evaluation will take place at the end of the year ending 31 May 2006.

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

### **Remuneration committee**

The group's remuneration committee is chaired by Jonathan Davie and also comprises Sir Alan Budd, Robert Lucas and Martin Jackson. 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 contingent share awards. The board itself determines the remuneration of the non-executive directors.

### **Audit committee**

The audit committee is chaired by Martin Jackson, who has recent and relevant financial experience, and also comprises Sir Alan Budd. 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, the finance director, the head of internal audit, the compliance officer and the external auditors.

The terms of reference sets out the roles, responsibilities and objectives of the audit committee. The committee's key activities include monitoring the integrity of the half year interim report and annual financial statements before their submission to the board and reviewing the effectiveness of the internal control and risk management systems. The audit committee monitors and reviews the effectiveness of internal audit and advises the board on the appointment of external auditors and on their remuneration, and discusses the nature, scope and results of their work. The audit committee keeps under review the level of fees and the independence and objectivity of the external auditors and regularly monitors the non-audit services being provided. The external auditors provide an annual report to the audit committee confirming the procedures they have undertaken to confirm their independence.

# Corporate governance

## **Nomination committee**

The nomination committee is chaired by Jonathan Davie, and also comprises Sir Alan Budd, Martin Jackson and Robert Lucas. The nomination committee will consider appointments to the board and will meet as necessary. The nomination committee is responsible for nominating candidates to fill board vacancies and for making recommendations on board composition and balance.

Copies of the terms of reference of these committees can be obtained from the company secretary on request and will be made available on the group's investor relations website in due course.

## **Relations with shareholders**

The board recognises the importance of communications with shareholders. The chairman's statement, chief executive's report and operating and financial review include a detailed review of the business and future developments. There is regular dialogue with institutional shareholders including presentations by management around the time of the company's preliminary announcement of the year end results and at the half year. These presentations will be available from the group's investor relations website at [www.iggroup.com](http://www.iggroup.com). Feedback is provided to the board following these investor presentations of any views or concerns expressed by shareholders.

The board uses the annual general meeting to communicate with private and institutional investors and welcomes their participation. The chairman aims to ensure that all of the directors, including the chairmen of the remuneration and audit committees, are available at annual general meetings to answer questions.

Details of resolutions to be proposed at the annual general meeting will be contained in the notice of the meeting.

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

The board has appointed Sir Alan Budd as the senior independent director. He is available to meet shareholders on request and to ensure that the board is aware of shareholder concerns not resolved through other mechanisms for shareholder communication.

The chairman and the senior independent director provide feedback to the board of any views or concerns expressed to them by shareholders.

## **Internal control**

The directors acknowledge that they have overall responsibility for risk management and are responsible for the group's systems of internal control and for reviewing their effectiveness. The systems are 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 key 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. 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.

## Corporate governance

### Attendance at board and committee meetings

The number of full board meetings and committee meetings attended by each director during the year was as set out below. The figures in brackets indicate the maximum number of meetings during the year for which each individual was a director or committee member. The nomination committee was first constituted in April 2005 and has not yet met.

	Full board meetings	Audit committee	Remuneration committee
Jonathan Davie (chairman)	8 (8)	1 (1)	1 (1)
Nat le Roux (chief executive)	8 (8)		
Tim Howkins	8 (8)		
Peter Hetherington	8 (8)		
Andrew Mackay	7 (8)		
Martin Jackson	2 (2)	0 (0)	1 (0*)
Sir Alan Budd	1 (2)	0 (0)	0 (0)
Robert Lucas	8 (8)	1 (1)	1 (1)
Jonathan Kaye	8 (8)	0 (1)	1 (1)

\* attended meeting prior to formal appointment to committee

# Directors' remuneration report

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.

## Information not subject to audit

The remuneration committee, whose composition is set out on page 13, determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights, compensation payments and contingent awards. The board itself determines the remuneration of the non-executive directors.

### Basic salary

Salary is normally reviewed annually at the start of the financial year. Salaries for the executive directors were increased with effect from 1 April 2005 and will next be reviewed with effect from 1 June 2006.

### Performance related bonuses

Executive directors' bonuses are based on a fixed formula which is determined in advance of each year by the remuneration committee. The formula for the year ended 31 May 2005 was linked to growth in EBITDA and the formula for the year ending 31 May 2006 to growth in normalised earnings per share. Normalised earnings per share as set out in note 11 to the financial statements represents earnings per share adjusted to reflect the difference in capital structure of the group between the two years and also excludes goodwill amortisation, exceptional administrative costs and non-recurring tax adjustments.

The formulae produce bonuses for both years equal to 20% of basic salary at no growth, 100% of basic salary at 20% growth and a maximum of 150% of basic salary, which is achieved at 31.1% growth.

The remuneration committee retains the right to vary the bonuses payable if it considers that the formula has not produced an appropriate result.

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

### Long term incentive plan

The group operates a long term incentive plan (LTIP) for management, including the executive directors. Contingent share awards were made under the LTIP during the year which vest on publication of the results for the financial year to 31 May 2008 according to compound annual growth in normalised earnings per share for the three years ending 31 May 2008.

The executive directors were made awards under two IPO-related schemes, the vesting criteria for which are as follows:

#### *Senior Management IPO high growth awards:*

- No vesting at 20% compound annual growth or less
- Full vesting at 50% compound annual growth

#### *Senior Management IPO basic awards:*

- No vesting at 15% compound annual growth
- Full vesting at 25% compound annual growth

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

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

# Directors' remuneration report

## Information not subject to audit (continued)

### 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.

### Pensions

The group contributes 15% of basic salary to personal pensions for each of the executive directors, subject to HM Revenue and Customs limits. As an alternative to the payment of part of a performance related bonus directors may elect to receive an equivalent contribution to their pension.

### 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 decisions by the board about their own remuneration.

### Service contracts

Each of the executive directors is employed under a service contract, entered into on 12 April 2005 which can be terminated on six months' notice by either the company or the executive directors.

The non-executive directors were each appointed for an initial term of 12 months with appointment continuing indefinitely thereafter subject to re-election, but capable of being terminated on 3 months' notice. The letters of appointment for the non-executive directors were effective from the following dates:

Jonathan Davie	1 January 2004
Sir Alan Budd	6 April 2005
Martin Jackson	6 April 2005
Robert Lucas	12 April 2005

Under the terms of the relationship agreement between the company and funds managed or advised by CVC Capital Partners Limited or its associates, these funds are entitled to appoint one director to the board for so long as these funds hold in aggregate 15% of the ordinary share capital of the company. Robert Lucas has been appointed as this director.

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.

All directors are subject to re-election every three years and Nat le Roux and Jonathan Davie will be subject to re-election at the forthcoming annual general meeting.

### Interests in share capital

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

	2005 Ordinary Shares	2005 Preference Shares	2004 A Ordinary Shares	2004 Preference Shares
J R Davie	1,790,800	-	8,954	32,314
N B le Roux	15,122,200	10,000	100,814	1,324,239
T A Howkins	5,781,800	10,000	38,212	245,472
P G Hetherington	5,709,900	10,000	38,066	238,759
A R MacKay	2,952,450	10,000	19,683	124,387
Sir Alan Budd (appointed 6 April 2005)	16,667	-	-	-
D M Jackson (appointed 6 April 2005)	-	-	-	-
R R Lucas	137,395	-	1,091	-
J R Kaye (resigned 12 April 2005)	91,681	-	728	-

On 31 March 2005 each A ordinary share of 1p each was subdivided and re-designated as 200 ordinary shares of 0.005p each.

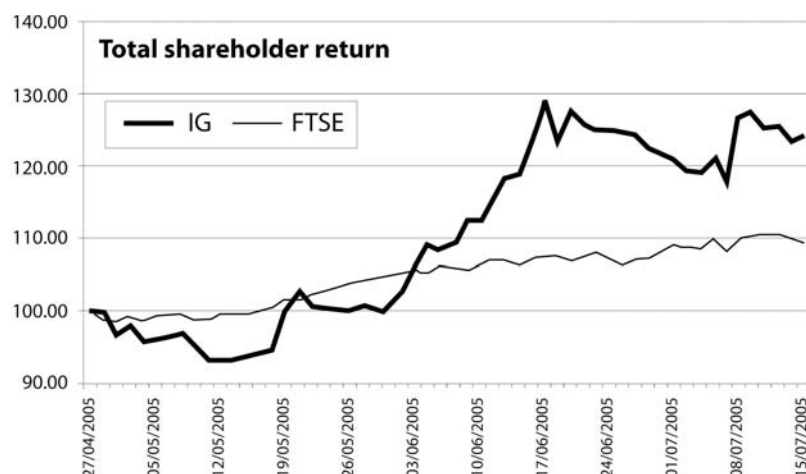
# Directors' remuneration report

## Information not subject to audit (continued)

The market price of the company's ordinary shares on 31 May 2005 was £1.20 and the high and low share prices in the period were £1.235 and £1.12 respectively.

### Performance graph

The following graph illustrates the performance of IG Group Holdings plc ordinary shares measured by total shareholder return (share price growth plus dividends paid) in the period since conditional dealings commenced on the London Stock Exchange on 27 April 2005. The most appropriate benchmark is considered by the directors to be the FTSE 250 index. The figures have been based to 100 as at 27 April 2005 in order to aid comparison and are presented to 15 July 2005.



## Information subject to audit

### Directors' remuneration

This section of the report sets out the remuneration of the directors for the year ended 31 May 2005.

The remuneration of the directors who served during the year was as follows:

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Year ended 2005 £000	Period ended 2004 £000
Executive directors:					
N B le Roux	192	2	270	464	410
T A Howkins	141	1	203	345	307
P G Hetherington	121	1	119	241	307
A R MacKay	113	4	118	235	227
	567	8	710	1,285	1,251
Non-executive directors:					
J R Davie	51	-	-	51	21
Sir Alan Budd (appointed 6 April 2005)	5	-	-	5	-
D M Jackson (appointed 6 April 2005)	5	-	-	5	-
R R Lucas	26	-	-	26	18
J R Kaye (resigned 12 April 2005)	22	-	-	22	18
	676	8	710	1,394	1,308

Directors' benefits comprise professional subscriptions, private health cover and health club membership.

There was no compensation for loss of office paid during the year (2004: £ nil).

# Directors' remuneration report

## Information subject to audit (continued)

### Pension entitlements

The group contributed to personal pensions for each of the executive directors as follows:

	Year ended 2005 £000	Period ended 2004 £000
N B le Roux	24	11
T A Howkins	23	14
P A Hetherington	134	15
A R MacKay	97	7
	278	47

There were no contributions made for the non-executive directors.

### Interests in long term incentive plans

Contingent share awards were made to each of the executive directors as follows:

	Senior management IPO basic award	Senior management IPO high growth award	Total number of shares awarded
N B le Roux	183,333	550,000	733,333
T A Howkins	141,666	425,000	566,666
P G Hetherington	125,000	375,000	500,000
A R MacKay	112,500	337,500	450,000

The awards were made on 16 May 2005 when the market price of the company's shares was 112.5p.

### Interests in loans

Certain directors or their associates made loans to the company. These loans were 11% subordinated loans which were all repaid on 4 May 2005 as follows:

	2004 £000	Principal outstanding Repaid £000	2005 £000	Unpaid interest 2004 £000	2005 £000
J R Davie (chairman)	20	(20)	-	-	-
N B le Roux	805	(805)	-	65	-
T A Howkins	149	(149)	-	12	-
P G Hetherington	145	(145)	-	12	-
A R MacKay	76	(76)	-	6	-

### Interests in loan notes

The following directors held loan notes bearing interest at LIBOR minus 1% all of which were redeemed during the year as follows:

	2004 £000	Principal outstanding Repaid £000	2005 £000	Unpaid interest 2004 £000	2005 £000
T A Howkins	190	(190)	-	2	-
P G Hetherington	76	(76)	-	1	-

# Directors' report

The directors have pleasure in submitting their report together with the financial statements of the group for the year ended 31 May 2005.

## 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. The group hedges, unmatched bets and trades, as considered appropriate, in futures, traded options, individual shares and foreign exchange to ensure that it is not unacceptably exposed to material losses. Two of the group's operating subsidiaries are authorised by the Financial Services Authority.

## Results

The group's profit for the year, after taxation and minority interests, amounted to £9,515,794 (period ended 31 May 2004: £3,104,284).

## Dividends

Interim preference dividends amounting to £4,748,366 (2004: £nil) were paid during the year and final preference dividends of £237 (2004: £nil) were declared as set out in note 10 to the financial statements.

## Review of business and future developments

The company re-registered as a plc on 31 March 2005 and listed on the London Stock Exchange on 4 May 2005.

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 and chief executive's report on pages 3 to 6.

## 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 directors' remuneration report on pages 16 to 19.

# Directors' report

## 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 15 July 2005		As at 31 May 2005	
	No.	percentage	No.	percentage
CVC European Equity Partners III LP	62,882,377	19.2%	67,502,209	20.6%
Prudential plc	20,491,803	6.3%	20,491,803	6.3%
Brahman Capital Corp	18,300,000	5.6%	18,300,000	5.6%
N B le Roux	15,122,100	4.6%	15,122,100	4.6%
Janus Capital Management LLC	10,000,000	3.1%	10,000,000	3.1%
Capital Group of Companies	9,351,802	2.9%	10,991,900	3.4%
UBS AG	-	-%	15,159,563	4.6%

## Creditors payment policy

The group does not follow any stated code on payment practice. It is the group's policy to agree terms of payment with suppliers when agreeing the terms for each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice except where different terms have been agreed with the supplier at the outset. There are 8 creditor days of suppliers' invoices outstanding at the year end (2004: 8).

## Donations

The group made charitable donations of £1,908 in the year (2004: £ nil).

The group made no political donations.

## Disabled employees

The group gives full consideration to applications for employment from disabled persons and to continuing employment to existing employees who become disabled, where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

## Employee involvement

During the year, the policy of providing employees with information about the group continued through monthly management forums where line managers were informed of current developments and were encouraged to present suggestions and views of the group's performance, development and policies. Line management communicate the points raised in the forum with their departments.

A weekly update on developments is sent to all staff by e-mail.

Employees participate directly in the success of the business through the group's performance related bonus schemes and employee share plans.

## Annual general meeting

The group's annual general meeting will be held on 29 September 2005.

# Directors' report

## **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

18 July 2005

## Statement of directors' responsibilities in respect of the financial statements

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 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 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 financial statements.

# Group profit and loss account

For the year ended 31 May 2005

	Notes	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
<b>TURNOVER</b>	2	62,298	38,997
Cost of sales		(2,528)	(1,527)
<b>GROSS PROFIT</b>		59,770	37,470
Administrative expenses excluding exceptional administrative costs		(37,900)	(25,696)
Exceptional administrative costs	5	(889)	(267)
		(38,789)	(25,963)
<b>OPERATING PROFIT</b>	3	20,981	11,507
Interest receivable	7	6,013	2,908
Interest payable	8	(12,995)	(10,706)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		13,999	3,709
Tax charge on profit on ordinary activities	9	(4,538)	(614)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		9,461	3,095
Minority interests – equity		55	9
<b>PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY</b>		9,516	3,104
Dividends	10	(4,749)	-
<b>RETAINED PROFIT FOR THE YEAR</b>		4,767	3,104
<b>EARNINGS PER SHARE</b>			
– Basic	11	2.27p	1.55p
– Diluted	11	2.10p	1.43p
– Normalised	11	6.84p	4.05p

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

The group profit and loss account for the period ended 31 May 2004 includes the results from 5 September 2003, the date of acquisition of the group.

All results relate to continuing operations.

# Group reconciliation of shareholders' funds

For the year ended 31 May 2005

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Profit for the financial year	9,516	3,104
Dividends	(4,749)	-
	<hr/>	
	4,767	3,104
Issue of ordinary share capital	131,731	10
Issue of preference share capital	-	35,700
Redemption of preference share capital	(35,660)	-
Costs of share issue	(6,528)	-
Issue costs of preference share capital	-	(792)
Amortisation of preference share capital issue costs	480	312
	<hr/>	
<b>NET ADDITION TO SHAREHOLDERS' FUNDS</b>	<b>94,790</b>	<b>38,334</b>
Opening shareholders' funds	38,334	-
	<hr/>	
<b>CLOSING SHAREHOLDERS' FUNDS</b>	<b>133,124</b>	<b>38,334</b>
	<hr/>	

# Group balance sheet

At 31 May 2005

	Notes	2005 £000	2004 £000
<b>FIXED ASSETS</b>			
Intangible assets	12	100,542	105,541
Tangible assets	13	5,160	6,347
Investments	14	-	2
		<hr/>	<hr/>
		105,702	111,890
<b>CURRENT ASSETS</b>			
Debtors	15	47,291	35,618
Cash at bank and in hand		20,832	23,076
		<hr/>	<hr/>
		68,123	58,694
<b>CREDITORS: amounts falling due within one year</b>	16	(40,161)	(31,303)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		27,962	27,391
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		133,664	139,281
<b>CREDITORS: amounts falling due after more than one year</b>	17	(500)	(101,113)
Minority interests – equity		(40)	166
		<hr/>	<hr/>
		133,124	38,334
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Ordinary share capital	19	16	10
Preference share capital	19	40	35,220
Share premium account	22	125,197	-
Profit and loss account	22	7,871	3,104
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS:</b>			
Equity		133,084	3,114
Non-Equity		40	35,220
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		133,124	38,334
		<hr/>	<hr/>

N B le Roux      Director

T A Howkins      Director

18 July 2005

# Company balance sheet

At 31 May 2005

	Notes	2005 £000	2004 £000
<b>FIXED ASSETS</b>			
Investments in subsidiaries	14	301,471	301,584
<b>CURRENT ASSETS</b>			
Debtors	15	129	112
Cash at bank and in hand		112	130
		<hr/>	<hr/>
		241	242
<b>CREDITORS: amounts falling due within one year</b>	16	(45,100)	(160,282)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(44,859)	(160,040)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		256,612	141,544
<b>CREDITORS: amounts falling due after more than one year</b>	17	-	(101,113)
		<hr/>	<hr/>
<b>NET ASSETS</b>		256,612	40,431
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Ordinary share capital	19	16	10
Preference share capital	19	40	35,220
Share premium account	22	125,197	-
Profit and loss account	22	131,359	5,201
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS:</b>			
Equity		256,572	5,211
Non-equity		40	35,220
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		256,612	40,431
		<hr/>	<hr/>

N B le Roux      Director

T A Howkins      Director

18 July 2005

# Group statement of cash flow

For the year ended 31 May 2005

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	23(a) 25,412	21,686
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	6,013	2,908
Interest paid	(11,934)	(3,358)
Issue costs of new long term finance	-	(6,544)
	(5,921)	(6,994)
<b>TAXATION</b>		
Corporation tax paid	(2,480)	(2,805)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Payments to acquire tangible fixed assets	(2,680)	(1,885)
Receipts from sales of fixed assets	-	3
	(2,680)	(1,882)
<b>DIVIDENDS PAID</b>	(4,749)	-
<b>ACQUISITIONS AND DISPOSALS</b>		
Investments in subsidiary undertakings	(21)	(151,229)
Net cash acquired with subsidiary undertaking	-	27,464
	(21)	(123,765)
<b>FINANCING</b>		
Loans advanced	-	116,256
Loans repaid	(101,694)	(15,700)
Loan notes issued	-	1,138
Loan notes repaid	(403)	(568)
Issue of ordinary shares	131,731	10
Issue of preference shares	-	35,700
Redemption of preference shares	(35,660)	-
Costs of share issue	(5,779)	-
	(11,805)	136,836
(Decrease)/increase in cash	(2,244)	23,076

The group statement of cash flow for the period ended 31 May 2004 includes the cashflows from 5 September 2003, the date of acquisition of the group.

## Reconciliation of net cash flow to movement in net funds

For the year ended 31 May 2005

	Note	2005 £000	2004 £000
(Decrease)/increase in cash		(2,244)	23,076
Cash inflow from increase in loans		-	(117,394)
Cash outflow from repayment of loans		101,694	15,700
Accrued interest		1,765	(1,765)
Net cash outflow/(inflow) from loan notes		403	(570)
Change in net funds resulting from cash flows		101,618	(80,953)
Issue costs of new long term loans		(2,346)	2,346
<b>CHANGE IN NET FUNDS</b>		99,272	(78,607)
<b>OPENING NET DEBT</b>		(78,607)	-
<b>CLOSING NET FUNDS/(DEBT)</b>	23(b)	20,665	(78,607)

Net funds/(debt) include cash at bank and in hand, bank loans and loan notes.

# Notes to the financial statements

At 31 May 2005

## 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.

### Basis of consolidation

The group financial statements consolidate the financial statements of IG Group Holdings plc and its subsidiary undertakings drawn up to 31 May 2005. No profit and loss account is presented for IG Group Holdings plc as permitted by section 230 of the Companies Act 1985.

IG Group Holdings plc was incorporated on 25 February 2003 and between 5 September 2003 and 20 November 2003 acquired the entire issued share capital of IG Group Limited (formerly IG Group plc). This has been accounted for using acquisition accounting. Accordingly the group profit and loss account and statement of cash flows for the prior period includes the results of IG Group Limited and its subsidiaries for the 269 day period since 5 September 2003.

Investments in IG Australia Pty Limited and ITS Market Solutions Limited have given rise to a minority interest in the profit and loss account. The minority interest in IG Australia Pty Limited was purchased during the year. At the balance sheet date the minority interest related to ITS Market Solutions Limited.

### 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
Computer equipment	–	over 2 or 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 IG Group Limited has been capitalised and is being amortised over the estimated useful life of 20 years.

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.

The goodwill arising on the purchase of minority shares in IG Australia Pty Limited is capitalised and is being amortised over the estimated useful life of 20 years.

Goodwill 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.

# Notes to the financial statements

At 31 May 2005

## 1. ACCOUNTING POLICIES (CONTINUED)

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date 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;
- 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 on 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.

### Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

#### *Turnover*

Turnover includes gains and losses on the running of a betting market and trading in financial markets. Open positions are carried at fair market value and gains and losses arising on this valuation are recognised in turnover as well as gains and losses realised on positions that have closed.

#### *Interest*

Revenue is recognised as the interest accrues.

#### *Dividends*

Revenue is recognised when the shareholder's right to receive the payment is established.

### Foreign currencies

Assets and liabilities denominated in foreign currencies are re-translated 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.

Assets and liabilities in overseas subsidiaries for consolidation purposes are re-translated at the rate of exchange ruling at the balance sheet date. Gains and losses, net of any effects of hedging, are taken to retained earnings.

# Notes to the financial statements

At 31 May 2005

## 1. ACCOUNTING POLICIES (CONTINUED)

### **Bets and derivative financial instruments**

The group uses derivative transactions with brokers in order to hedge exposures resulting from derivative transactions placed by clients.

Bets and derivative financial instruments are carried at fair market value and the resultant profits and losses are included in turnover. 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 group's quote at the year end. In the case of long term bets where there is no underlying market, consideration is given to the impact of post year end settlement prices.

### **Employee share plans**

Shares held in trust for the purposes of employee share plans are deducted from shareholders' funds until the shares vest unconditionally with the employee.

The estimated cost of the shares awarded under employee share plans are charged to the profit and loss account on a straight line basis over the performance period to which the shares relate.

### **Pensions**

The group operates defined contribution schemes. Contributions are charged in the profit and loss account as they become payable and in accordance with the rules of schemes.

### **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.

### **Capital instruments**

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the expected term of the instrument at a constant rate on the carrying amount.

## 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 commissions paid.

### **Business segments**

The group operates in three principal areas of activity; financial, financial binaries and sports.

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

#### *Financial*

Spread 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.

#### *Financial binaries*

Fixed odds bets on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial instruments.

#### *Sports*

Spread bets and fixed odds bets on sporting and political events.

# Notes to the financial statements

At 31 May 2005

## 2. SEGMENTAL ANALYSIS (CONTINUED)

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
<b>TURNOVER</b>		
Financial	50,512	31,680
Financial binaries	4,950	1,769
Sports	6,836	5,548
	<hr/> 62,298	<hr/> 38,997
<b>PROFIT</b>		
<i>Segment profit</i>		
Financial	39,744	24,954
Financial binaries	3,474	1,142
Sports	921	1,447
	<hr/> 44,139	<hr/> 27,543
Common costs	(30,140)	(23,834)
	<hr/> 13,999	<hr/> 3,709
	<hr/> 2005 £000	<hr/> 2004 £000
<b>NET ASSETS</b>		
Financial	12,652	11,943
Financial binaries	(675)	(367)
Sports	520	372
	<hr/> 12,497	<hr/> 11,948
Unallocated net assets	120,627	26,386
	<hr/> 133,124	<hr/> 38,334

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

	2005 £000	2004 £000
Goodwill	100,336	105,115
Tangible fixed assets	1,326	1,378
Fixed asset investments	-	2
Debtors and prepayments	3,125	1,761
Cash	20,163	22,416
Creditor balances	(7,176)	(7,403)
Corporation tax	2,893	4,064
Minority interests	(40)	166
Loans	-	(101,113)
	<hr/> 120,627	<hr/> 26,386

# Notes to the financial statements

At 31 May 2005

## 2. SEGMENTAL ANALYSIS (CONTINUED)

### Geographical segments

The group has offices in the United Kingdom and in Australia. Clients of the Australian office deal with two of the UK operating subsidiaries, but under customer agreements which are specific to the Australian office. Clients of the London office may be situated anywhere in the world other than in Australia. Accordingly the group provides a geographical analysis based on the division of clients between the UK and Australian offices.

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
<b>TURNOVER</b>		
UK	58,522	37,726
Australia	3,776	1,271
	<hr/> 62,298	<hr/> 38,997
<b>PROFIT</b>		
<i>Segment profit</i>		
UK	30,540	17,859
Australia	1,638	419
	<hr/> 32,178	<hr/> 18,278
Common costs	(18,179)	(14,569)
	<hr/> 13,999	<hr/> 3,709
	<hr/> 2005 £000	<hr/> 2004 £000
<b>NET ASSETS</b>		
UK	31,136	33,654
Australia	1,652	1,178
	<hr/> 32,788	<hr/> 34,832
Unallocated net assets	100,336	3,502
	<hr/> 133,124	<hr/> 38,334

Unallocated net assets comprise the following items which do not relate to specific geographical segments:

	2005 £000	2004 £000
Goodwill	100,336	105,115
Loans	-	(101,613)
	<hr/> 100,336	<hr/> 3,502

# Notes to the financial statements

At 31 May 2005

## 3. OPERATING PROFIT

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
This is stated after charging:		
Amortisation of goodwill	5,670	4,183
Depreciation of owned assets	3,869	2,468
Operating lease rentals for land and buildings	763	536
Foreign exchange differences	607	(813)
Loss on sale of tangible fixed assets	-	26

## 4. AUDITORS' REMUNERATION

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Charged to the profit and loss account:		
Audit services	156	70
Non-audit services	114	22
Charged to the share premium account:		
Non-audit services – costs of share issue	1,010	-
	<hr/> 1,280	<hr/> 92

Non-audit services in the year to 31 May 2005 primarily relates to work undertaken in connection with the company's flotation and issue of shares.

## 5. EXCEPTIONAL ADMINISTRATIVE COSTS

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Exceptional administrative costs	889	267

The exceptional administrative costs charged in 2005 relate to professional fees payable as a result of listing the company on the London Stock Exchange. The amount charged in the period ended 31 May 2004 relates to the professional fees incurred as a result of a restructuring of the group and fees associated with directors' employment and service contracts.

Total administrative expenses: £38.8m (2004: £26.0m).

# Notes to the financial statements

At 31 May 2005

## 6. STAFF COSTS

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

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Wages and salaries	15,093	11,055
Social security costs	1,829	1,376
Other pension costs (note 25)	1,103	439
	<hr/>	<hr/>
	18,025	12,870

Wages and salaries include the following amounts in respect of performance related bonuses:

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Performance related bonuses	5,255	4,337
	<hr/>	<hr/>

The directors' emoluments for the year ended 31 May 2005 and the comparative period can be found in the directors' remuneration report on pages 16 to 19.

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

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Dealing, sales and client support	173	158
Management and administration	94	85
	<hr/>	<hr/>
	267	243

## 7. INTEREST RECEIVABLE

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Interest receivable from brokers	1,132	602
Bank interest receivable	4,881	2,306
	<hr/>	<hr/>
	6,013	2,908

# Notes to the financial statements

At 31 May 2005

## 8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Interest payable to clients and brokers	1,144	425
Interest payable on loan finance	8,815	6,461
Issue costs amortised on loan finance	2,826	3,717
Other charges on loan finance	210	103
	<hr/>	<hr/>
	12,995	10,706

## 9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

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

The tax charge is made up as follows:

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Current tax:		
Corporation tax on profit for the year	4,979	641
Underprovided in prior years	42	-
	<hr/>	<hr/>
Total current tax (note 9(b))	5,021	641
Deferred tax:		
Origination and reversal of timing differences	(483)	(27)
	<hr/>	<hr/>
Tax on profit on ordinary activities	4,538	614

# Notes to the financial statements

At 31 May 2005

## 9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

### (b) Factors affecting current tax charge:

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Profit on ordinary activities before tax	13,999	3,709
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	4,200	1,113
Effects of:		
Corporation tax relief in respect of options exercised	-	(930)
Depreciation for period exceeding capital allowances	359	251
Overseas subsidiary losses	124	109
Expenses not deductible for tax purposes	2,300	638
Non taxable income	(2,004)	(540)
Tax underprovided in prior years	42	-
Corporation tax charge for the period	5,021	641

The effective corporation tax rate is 35.9% (2004: 17.3%).

### (c) Deferred tax asset

The deferred tax included in the balance sheet is as follows:

	2005 £000	2004 £000
Included in debtors (note 15)	1,171	688
This is provided at 30% as follows:		
Decelerated capital allowances	702	343
Tax losses carried forward	469	345
Deferred tax asset	1,171	688
		£000
As at 1 June 2004		688
Decelerated capital allowances		359
Tax losses carried forward		124
As at 31 May 2005		1,171

The tax losses carried forward relate to operating losses arising in IG Australia Pty Limited, the recoverability of which is dependent on future operating profits in that entity. It is anticipated that future operating profits will exceed the losses that have arisen to date.

# Notes to the financial statements

At 31 May 2005

## 10. DIVIDENDS

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Preference dividends		
– Interim paid (13.3p per share)	4,749	-
– Final proposed (0.6p per share)	-	-
	4,749	-

The directors did not propose an ordinary dividend for the period ended 31 May 2004 or for the year ended 31 May 2005.

An interim dividend on the non-cumulative preference shares was paid during the year for the period from 5 September 2003 to 4 May 2005 when 35,660,000 of the company's preference shares were redeemed and restrictions on the payment of preference dividends ceased. This amounted to 13.3p per share at the rate of 8% per annum.

A final preference dividend at 0.6p per share was declared for the remaining 40,000 preference shares which amounted to £237.

B shares carry no entitlement to dividends.

## 11. EARNINGS PER ORDINARY SHARE

	Year ended 31 May 2005 £000	Period ended 31 May 2004 £000
Basic earnings attributable to ordinary shareholders	4,767	3,104
Effects of dilution	-	-
Diluted earnings attributable to ordinary shareholders	4,767	3,104
Weighted average number of ordinary shares	209,780,895	200,000,000
Effect of warrants	16,365,331	17,702,322
Effect of LTIP awards	315,553	-
Diluted weighted average number of ordinary shares	226,461,779	217,702,322
Basic earnings per share	2.27p	1.55p
Diluted earnings per share	2.10p	1.43p

In the period ended 31 May 2004 there were 1,000,000 A ordinary shares in issue. Each of these shares was re-designated and subdivided into 200 ordinary shares on 31 March 2005. The weighted average numbers of shares have been shown as if the re-designation and subdivision had taken place prior to the period ending 31 May 2004.

# Notes to the financial statements

At 31 May 2005

## 11. EARNINGS PER ORDINARY SHARE (CONTINUED)

The directors consider that the basic and diluted earnings per share calculations do not fully reflect changes in the group's capital structure as a result of the flotation of the company on 4 May 2005. Normalising adjustments comprise the impact, net of tax, of exceptional administrative costs, amortisation charges, debt interest, preference dividends and non-recurring tax items. The normalised earnings per share is used to calculate the number of contingent shares which vest under the LTIP and aids comparison of the earnings per share for the periods shown. The calculation is not intended to comply with FRS14.

	Year ended 31 May 2005		Period ended 31 May 2004	
	Earnings £000	Earnings per share pence	Earnings £000	Earnings per share pence
Earnings attributable to ordinary shareholders	4,767	2.27	3,104	1.55
Normalising adjustment to number of shares:				
Effect of basing calculation on number of shares in issue as at 31 May 2005	-	(0.81)	-	(0.60)
Normalising adjustments to earnings:				
Exceptional administrative costs	889	0.27	267	0.08
Interest and charges on debt finance	11,851	3.62	10,281	3.14
Tax effect of above items	(3,555)	(1.09)	(3,098)	(0.95)
Amortisation charges	5,670	1.73	4,183	1.28
Non-recurring tax items	(2,004)	(0.61)	(1,470)	(0.45)
Preference dividends payable	4,749	1.46	-	-
Total normalisation adjustments	17,600	4.57	10,163	2.50
Normalised earnings attributable to ordinary shareholders	22,367	6.84	13,267	4.05
Number of shares in issue as at 31 May 2005		327,500,959		327,500,959

# Notes to the financial statements

At 31 May 2005

## 12. INTANGIBLE FIXED ASSETS

### Group

	Goodwill arising on consolidation £000	Purchased goodwill £000	Total £000
<b>Cost:</b>			
At 1 June 2004	109,135	588	109,723
Purchase price adjustment	(113)	-	(113)
Additions	784	-	784
At 31 May 2005	109,806	588	110,394
<b>Amortisation:</b>			
At 1 June 2004	4,020	162	4,182
Charge for the year	5,450	220	5,670
At 31 May 2005	9,470	382	9,852
<b>Net book value:</b>			
At 31 May 2005	100,336	206	100,542
At 31 May 2004	105,115	426	105,541

The addition in the year relates to the purchase of the 17% minority interest in IG Australia Pty Limited for £783,652. Part of the consideration payable is linked to the future financial performance of the group's Australian operation and an estimate of the potential liability is included in creditors falling due after more than one year.

# Notes to the financial statements

At 31 May 2005

## 13. TANGIBLE FIXED ASSETS

### Group

	Leasehold improvements £000	Office equipment, fixtures and fittings £000	Computer, telephone and electrical £000	Total £000
<b>Cost:</b>				
At 1 June 2004	1,274	189	7,342	8,805
Currency movements	-	1	4	5
Additions	244	27	2,409	2,680
At 31 May 2005	1,518	217	9,755	11,490
<b>Depreciation:</b>				
At 1 June 2004	180	51	2,227	2,458
Currency movements	-	-	3	3
Charge for the year	284	69	3,516	3,869
At 31 May 2005	464	120	5,746	6,330
<b>Net book value:</b>				
At 31 May 2005	1,054	97	4,009	5,160
At 31 May 2004	1,094	138	5,115	6,347

## 14. FIXED ASSET INVESTMENTS

### Group

	Shares (unlisted) £000
<b>Cost:</b>	
At 1 June 2004	2
Disposals	(2)
At 31 May 2005	-

### Company

	£000
<b>Investments in subsidiaries at cost:</b>	
At 1 June 2004	301,584
Purchase price adjustment	(113)
At 31 May 2005	301,471

# Notes to the financial statements

At 31 May 2005

## 14. FIXED ASSET INVESTMENTS (CONTINUED)

### Subsidiary undertakings as at 31 May 2005

Name of Company	Country of incorporation	Holding	Proportion of voting rights held	Nature of business
<b>Subsidiary undertakings held directly:</b>				
IG Group Limited	UK	Ordinary shares	100%	Holding company
IG Finance	UK	Ordinary shares	100%	Financing
<b>Subsidiary undertakings held indirectly:</b>				
IG Finance Two	UK	Ordinary shares	100%	Financing
IG Finance Three	UK	Ordinary Shares	100%	Financing
IG Finance Four	UK	Ordinary Shares	100%	Financing
Market Data Limited	UK	Ordinary shares	100%	Data distribution
IG Index plc	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
ITS Market Solutions Limited	UK	Ordinary shares	60%	Software development and sales
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
Binarybet Limited	UK	Ordinary shares	100%	Fixed odds bookmaker
IG Australia Pty Limited	Australia	Ordinary shares	100%	Australia sales and marketing office
IG Financial Markets Inc	USA	Ordinary shares	100%	Not yet trading
Market Risk Management Inc	USA	Ordinary shares	100%	Market maker
IG Group Limited Employee Benefit Trust	Unincorporated Jersey Trust	-	-	Employee benefit trust
IG Group Holdings plc Inland Revenue Approved Share Incentive Plan	Unincorporated UK Trust	-	-	Employee benefit trust

# Notes to the financial statements

At 31 May 2005

## 15. DEBTORS

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts due from brokers	40,262	31,474	-	-
Amounts due from clients	3,735	2,173	-	-
Amounts due from group companies	-	-	19	-
Other debtors	953	391	85	102
Prepayments and accrued income	1,170	892	25	10
Deferred tax asset (note 9(c))	1,171	688	-	-
	<b>47,291</b>	<b>35,618</b>	<b>129</b>	<b>112</b>

The deferred tax asset may be recoverable in part after more than one year.

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

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts due to clients	26,934	19,920	-	-
Amounts due to group companies	-	-	42,711	157,637
Corporation tax	3,575	1,034	-	-
Other taxes and social security costs	1,285	454	780	1
Accruals and deferred income	8,200	9,325	1,442	2,074
Loan notes	167	570	167	570
	<b>40,161</b>	<b>31,303</b>	<b>45,100</b>	<b>160,282</b>

The loan notes bear interest at LIBOR minus 1% and have no fixed repayment date.

## 17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Accruals and deferred income	500	-	-	-
Loans	-	101,113	-	101,113
	<b>500</b>	<b>101,113</b>	<b>-</b>	<b>101,113</b>

# Notes to the financial statements

At 31 May 2005

## 17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

	Group and Company	
	2005	2004
	£000	£000
The maturity profile of the loans was as follows:		
Amounts falling due:		
– in more than one year but not more than two years (subordinated)	-	4,400
– in more than two years but not more than five years (subordinated)	-	21,000
– in more than five years (subordinated)	-	75,294
– in more than five years (secured)	-	1,000
		<hr/>
	-	101,694
Accrued interest	-	1,765
		<hr/>
	-	103,459
Less: Issue costs	-	(2,346)
		<hr/>
	-	101,113
		<hr/>

The loans detailed below were all repaid along with accrued interest when the company was listed on the London Stock Exchange on 4 May 2005.

	Group and Company	
	2005	2004
	£000	£000
Details of loans not wholly repayable within five years were as follows:		
<b>SECURED LOANS</b>		
Sterling secured loan repayable August 2010	-	170
Euro secured loans repayable August 2010	-	322
Sterling secured loans repayable August 2013	-	508
<b>UNSECURED SUBORDINATED LOANS</b>		
11% subordinated loans	-	21,694
Sterling subordinated loans repayable by instalments between September 2005 and August 2010	-	13,389
Euro subordinated loans repayable by instalments between September 2005 and August 2010	-	25,442
Sterling subordinated loans repayable by instalments between August 2010 and August 2013	-	40,169
		<hr/>
	-	101,694
		<hr/>

The 11% subordinated loans had no fixed repayment date but were repayable in full on the sale or flotation of the company or on giving the Financial Services Authority (FSA) five years notice.

The sterling denominated loans, other than the 11% subordinated loans, bore interest at LIBOR plus 4%.

The Euro denominated loans bore interest at EURIBOR plus 4%. The company had entered into a currency basis swap in order to hedge its FX risk to these loans which was cancelled on 4 May 2005 when the loans were repaid. Under the terms of that swap the company paid LIBOR plus 9 basis points and received EURIBOR on a principal amount equal to the principal amount of the Euro denominated loans.

# Notes to the financial statements

At 31 May 2005

## 17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The secured loans were secured by fixed and floating charges over certain group assets which were removed on 4 May 2005 when all loans were repaid in full.

The secured loans repayable August 2010 ranked equally and in priority to the secured loan repayable August 2013.

Each of the subordinated loans was in the form of a standard subordinated loan for the purposes of consolidated supervision approved by the FSA.

## 18. CLIENTS' MONEY

The group's two FSA regulated subsidiaries, IG Index plc and IG Markets Limited, hold clients' money on trust in client accounts at approved banks in accordance with the rules of the FSA. Clients' money held and the corresponding liability to clients are not included in the balance sheet.

	2005 £000	2004 £000
Client money held at balance sheet date	99,718	66,339

## 19. SHARE CAPITAL

	Group and Company	
	2005 £000	2004 £000
Authorised:		
500,000,000 (2004: nil) ordinary shares of 0.005p each	25	-
65,000 (2004: nil) B shares of 0.001p each	1	-
Nil (2004: 1,136,363) A ordinary shares of 1p each	-	11
Nil (2004: 650) B ordinary shares of 0.1p each	-	1
	<hr/>	<hr/>
	26	12
	<hr/>	<hr/>
	£000	£000
Allotted, called up and fully paid:		
327,500,959 (2004: nil) ordinary shares of 0.005p each	16	-
65,000 (2004: nil) B shares of 0.001p each	-	-
Nil (2004: 1,000,000) A ordinary shares of 1p each	-	10
Nil (2004: 650) B ordinary shares of 0.1p each	-	-
	<hr/>	<hr/>
	16	10
	<hr/>	<hr/>

On 31 March 2005 each A ordinary share of 1p each was subdivided and redesignated as 200 ordinary shares of 0.005p each. On the same date each B ordinary share of 0.1p each was subdivided and re-designated as 100 B shares of 0.001p each.

On 27 April 2005 the authorised ordinary share capital was increased to 500,000,000 by the creation of 272,727,400 ordinary shares.

On 4 May 2005 the company allotted 127,500,959 ordinary shares at a total premium of 131,724,702 as a result of listing the company on the London Stock Exchange.

# Notes to the financial statements

At 31 May 2005

## 19. SHARE CAPITAL (CONTINUED)

At 31 May 2005 618,842 ordinary shares (2004: 4,851 A ordinary shares) were held in the Jersey Employee Benefit Trust and 470,758 (2004: nil) were held in the UK resident Employee Benefit Trust as explained in note 20 to the financial statements.

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

The B shares carry no entitlement to dividends and no voting rights. The B shares entitlement to capital was based on a progressive formula linked to the total return to certain holders of A Ordinary shares. On the company listing on the London Stock Exchange the valuation of each B share was equivalent to that of approximately 122 ordinary shares.

To the extent not already received by them the B shareholders shall, on a winding up of the company be entitled to receive a consideration equal to the amount realised by the sale by the trustee of approximately 122 ordinary shares.

### Preference share capital

	Group and Company	
	2005	2004
	£000	£000
Authorised:		
Preference shares of £1 each	40	35,700
Allotted, called up and fully paid:		
Preference shares of £1 each	40	35,700
Less: Issue costs brought forward	480	792
Amortised during the year	(480)	(312)
Issue costs carried forward	-	480
Carrying value of preference share capital	40	35,220

The preference shares are entitled to a fixed non-cumulative dividend of 8% paid in preference to any other dividend. On 4 May 2005 35,660,000 preference shares of £1 each were redeemed out of the net proceeds of the company listing on the London Stock Exchange and restrictions on the payment of preference dividends ceased.

The remaining 40,000 preference shares were not redeemed on the flotation of the company but on redemption or on the winding up of the company they are entitled to £1 per share plus, if the company has sufficient distributable reserves, any accrued or unpaid dividends.

The preference shares have no voting rights, except that they are entitled to vote should the company fail to pay any amount due on redemption of the shares.

# Notes to the financial statements

At 31 May 2005

## 19. SHARE CAPITAL (CONTINUED)

### Warrants

The company had issued warrants giving the holders the right to subscribe for 88,629 A ordinary shares at par. On 4 May 2005 these warrants were exercised when the company listed on the London Stock Exchange. The warrant holders received 17,725,800 ordinary shares as a result of the re-designation and subdivision of each A ordinary share into 200 ordinary shares. There are no further warrants outstanding.

## 20. EMPLOYEE BENEFIT TRUSTS

The group has established a UK resident Employee Benefit Trust in order to hold shares in the company in respect of awards under the group's Inland Revenue approved share incentive plan. On 3 May 2005 ordinary 564,799 shares were awarded at nominal value when the market price on the shares was 120p. Of these 94,041 were awarded unconditionally and 470,758 vest conditionally on the employee still being employed three years from the date of the award. The shares held by the trust at the balance sheet date have reduced shareholders' funds by £24 (2004: £ nil). The market value of the shares held conditionally at the balance sheet date was £564,910 (2004: £ nil).

The group has established a Jersey resident Employee Benefit Trust which holds shares in the company. At the balance sheet date the trust held 618,842 ordinary shares (2004: 4,851 A ordinary shares) which are available to satisfy awards under the SIP and LTIP schemes. The shares held at the balance sheet date have reduced shareholders' funds by £28 (2004: £49). The market value of the shares held conditionally at the balance sheet date was £742,610 (2004 £ nil).

In addition the Jersey resident Employee Benefit Trust holds 5,861,497 (2004: nil) shares which it may sell in future in order to satisfy future obligations to B shareholders. The trust also unconditionally held 16,941 B shares (2004: nil).

## 21. EMPLOYEE SHARE PLANS

The company operates two employee share plans; a Share Incentive Plan (SIP) and a Long Term Incentive Plan (LTIP). Awards were made during the year ended 31 May 2005 and may be made in future years.

The SIP awarded all employees with free shares which vested immediately and with additional free shares which vest after three years. The shares awarded under the scheme are held in a UK trust in accordance with HM Revenue and Customs rules.

The LTIP allows the award of nil cost or nominal cost shares referred to as 'awards'. The awards made during the year ended 31 May 2005 were conditional upon growth in normalised earnings per share in the three years to 31 May 2008. There are three separate schemes under which shares vest according to different growth criteria.

The management IPO awards do not vest until there is 10% compound annual growth in normalised earnings per share and vest fully at 15% growth. The senior management IPO basic awards do not vest until there is 15% compound annual growth in normalised earnings per share and vest fully at 25%. The senior management IPO high growth awards do not vest until there is 20% compound annual growth in normalised earnings per share and vest fully at 50%. Vesting is pro rata between these limits.

# Notes to the financial statements

At 31 May 2005

## 21. EMPLOYEE SHARE PLANS (CONTINUED)

The number of shares awarded under these schemes were as follows:

	Vesting date	Value of Shares at date of award	Granted during the year No.	Vested during the year No.	As at 31 May 2005 No.
Awards vested:					
Share incentive plan	3 May 2005	120p	94,041	(94,041)	-
Awards vesting in three years:					
Share incentive plan	3 May 2008	120p	470,758	-	470,758
Senior management IPO high growth award	16 May 2008	112.5p	4,785,625	-	4,785,625
Senior management IPO basic award	16 May 2008	112.5p	1,372,398	-	1,372,398
Management IPO award	16 May 2008	112.5p	1,555,104	-	1,555,104
			8,277,926	(94,041)	8,183,885

## 22. RESERVES

### Group

	Share premium account £000	Profit and loss account £000
At 31 May 2004	-	3,104
Arising on the issue of shares	131,725	-
Costs of share issue	(6,528)	-
Profit for the year	-	4,767
At 31 May 2005	125,197	7,871

### Company

	Share premium account £000	Profit and loss account £000
At 31 May 2004	-	5,201
Arising on the issue of shares	131,725	-
Costs of share issue	(6,528)	-
Profit for the year	-	126,158
At 31 May 2005	125,197	131,359

IG Group Holdings plc 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 £126,158,232 (2004: £5,200,968).

# Notes to the financial statements

At 31 May 2005

## 22. RESERVES (CONTINUED)

The profit and loss account for the company includes £130,596,446 which is non distributable. This represents profits which arose in IG Group Limited on the disposal of its investment in subsidiary companies to a fellow group undertaking, Market Data Limited which were distributed to IG Group Holdings plc during the year. This profit is eliminated upon consolidation.

## 23. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Year ended 2005 £000	Period ended 2004 £000
Operating profit	20,981	11,507
Depreciation	3,869	2,468
Amortisation	5,670	4,183
Loss on sale of tangible fixed assets	-	26
Loss on disposal of fixed asset investments	2	-
Increase in debtors	(11,190)	(5,092)
Increase in creditors	6,080	8,594
Net cash inflow from operating activities	25,412	21,686

### (b) Analysis of net funds/(debt):

	At 1 June 2004 £000	Cash flow £000	Other non cash movements £000	At 31 May 2005 £000
Cash at bank and in hand	23,076	(2,244)	-	20,832
Loan notes	(570)	403	-	(167)
Loans	(101,113)	103,459	(2,346)	-
Net funds/(debt)	(78,607)	101,618	(2,346)	20,665

### (c) Exceptional items

Net cash inflow from operating activities includes £343,174 (2004 - £237,222) in respect of professional fees as described in note 5.

### (d) Major non cash transactions

Non cash transactions relate to the amortisation of issue costs and accrual of interest charges.

## 24. OPERATING LEASES

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

	2005 £000	2004 £000
Operating leases which expire:		
In less than one year	22	16
In over five years	756	738
	778	754

# Notes to the financial statements

At 31 May 2005

## 25. PENSION CONTRIBUTIONS

The group makes contributions into individual personal pension schemes based upon a percentage of the salary of the individuals involved. The group's obligation to these individual pension schemes is a defined contribution scheme per FRS 17, Retirement Benefits.

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

	Year ended 2005 £000	Period ended 2004 £000
Pension cost charge	1,103	439
	<hr/>	<hr/>
	2005 £000	2004 £000
Amount outstanding at 31 May	87	65

## 26. TRANSACTIONS WITH DIRECTORS

Directors' interests in share capital and loans and directors' emoluments are described in the directors' remuneration report on pages 16 to 19.

The group had no other transactions with its directors other than in relation to the management of the group.

## 27. RELATED PARTY TRANSACTIONS

During the year ended 31 May 2005 there were no related party transactions other than in connection with the loans described below. During the period ended 31 May 2004 the company paid a fee of £1m to CVC Capital Partners Advisory Co Limited, a company related to CVC Capital Partners Limited and £155,508 to CVC Capital Partners Limited to reimburse costs in connection with the acquisition by IG Group Holdings Limited of IG Group plc. Funds managed or advised by CVC Capital Partners Limited or its affiliates held 22.7% of the ordinary share capital of the company at 31 May 2005 (2004 - 64.2% of the A ordinary share capital).

Funds managed or advised by CVC Capital Partners Limited or its affiliates made loans of £18,061,731 to the company in the period ended 31 May 2004. These loans were 11% subordinated loans further described in note 17 and were repaid in full along with interest of £3,304,060 on 4 May 2005, £1,469,681 of which was accrued as at 31 May 2004.

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

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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, treasury bills and loans. 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 re-translation of foreign currency net assets and liabilities, after taking account of corresponding hedges, are not material.

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

### 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	Fixed rate financial liabilities £000	Floating rate 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>31 May 2005</b>							
Sterling	30,546	40	167	30,339	340,528	107,430	233,098
US dollars	15,041	-	-	15,041	21,384	1,741	19,643
Euro	22,763	-	-	22,763	52,847	2,029	50,818
Other currencies	20,441	-	-	20,441	35,864	9,352	26,512
	88,791	40	167	88,584	450,623	120,552	330,071
<b>31 May 2004</b>							
Sterling	144,147	35,700	102,264	6,183	265,754	81,235	184,519
US dollars	2,098	-	-	2,098	11,773	2,720	9,053
Euro	26,117	-	25,325	792	31,640	26,942	4,698
Other currencies	726	-	-	726	5,072	3,843	1,229
	173,088	35,700	127,589	9,799	314,239	114,740	199,499

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 28(e).

The group has no fixed rate financial assets. Fixed rate financial liabilities relate to issued preference shares as described in note 19.

Floating rate financial assets comprise bank balances at relevant bank base rates, money market deposits at call rates, includes segregated client money which is not included in the balance sheet, and treasury bills placed with brokers as collateral.

Floating rate financial liabilities comprise secured loans and unsecured subordinated loans as described in note 17.

Financial assets, on which no interest is earned include open client position and £ nil (2004 - £1,970) in respect of an investment.

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

### Interest rate risk (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 is 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)	2005 £000	2004 £000
Sterling	(7,378)	(2,581)
US dollars	3,143	3,813
Euro	1,143	1,587
Other currencies	(1,134)	(274)
	(4,226)	2,545

#### Interest rate futures

The group offers bets and contracts for differences 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.

	Notional principal	
	2005 £000	2004 £000
<b>Contracts based on short term interest rates</b>		
Sterling	(2,980)	(41,148)
US dollars	3,404	(36,211)
Euro	(8,509)	51,574
Yen	4,377	2,963
Swiss Francs	7,057	-
<b>Contracts based on long term interest rates</b>		
Sterling	1,240	(140)
US dollars	(99)	(28,273)
Euro	(103)	338
Yen	3,926	554
Swiss Francs	-	-
	8,313	(50,343)

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (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:

	2005 £000	2004 £000
US dollars	(5,088)	(5,970)
Euro	(15,752)	(6,029)
Yen	(173)	1,712
Swiss franc	(733)	(1,290)
Other currencies	3,649	1,437

### (d) Maturity profile of financial liabilities

The group's floating rate financial liabilities are repayable as shown in note 17.

The group's fixed rate financial liabilities relate to issued preference shares which are repayable as described in note 19.

The group's financial liabilities on which no interest is paid were all due within one year or less, 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 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:

	2005 £000	2004 £000
<b>Financial Assets</b>		
Financial assets other than financial instruments:		
Cash and money market deposits, including client money (see note 18)	120,552	89,415
Investments	-	2
	<hr/>	<hr/>
	120,552	89,417
Financial instruments	330,071	199,497
	<hr/>	<hr/>
Total financial assets	450,623	288,914

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

	2005 £000	2004 £000
Financial liabilities other than financial instruments:		
Loans	(167)	(102,264)
Preference shares	(40)	(35,700)
Financial instruments	(88,584)	(9,799)
Total financial liabilities	(88,791)	(147,763)
Net financial assets	361,832	141,151

### 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 18, 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.

	2005 £000	2004 £000
<b>Reconciliation of financial assets</b>		
Financial instruments	330,071	199,496
Client debit balances	2,230	1,680
Cash held with brokers	(185,057)	(148,788)
Effect of netting	(103,247)	(18,741)
Total financial assets	43,997	33,647
<b>As recorded in the financial statements</b>		
Amounts due from brokers (note 15)	40,262	31,474
Amounts due from clients (note 15)	3,735	2,173
	43,997	33,647
<b>Reconciliation of financial liabilities</b>		
Financial instruments	88,584	9,799
Client credit balances	141,315	95,201
Effect of netting	(103,247)	(18,741)
Segregated client net equity (note 18)	(99,718)	(66,339)
Total financial liabilities	26,934	19,920
<b>As recorded in the financial statements</b>		
Amounts due to clients (note 16)	26,934	19,920

# Notes to the financial statements

At 31 May 2005

## 28. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

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

	2005 £000	2004 £000
Undrawn committed borrowing facilities	25,000	25,000

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

# Independent auditors' report

*To the members of IG Group Holdings plc*

We have audited the group's financial statements for the year ended 31 May 2005 which comprise the group profit and loss account, group reconciliation of shareholders' funds, group balance sheet, company balance sheet, group cash flow statement, group statement of total recognised gains and losses and the related notes 1 to 28. 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. The directors are also responsible for preparing the directors' remuneration report.

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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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, unaudited part of the directors' remuneration report, chairman's statement, chief executive's report, operating and financial review and corporate governance statement. 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.

## 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.

# Independent auditors' report

*To the members of IG Group Holdings plc*

## 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 2005 and of the profit of the group for the year then ended;
- 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

18 July 2005

## Directors' biographies

### **Jonathan Davie (Non-Executive Chairman, 58 years old)**

Jonathan was a partner at Wedd Durlacher Mordaunt for ten years before becoming a managing director of Barclays de Zoete Wedd Holdings in the fixed income division and a main board director for nine years. From 1991 to 1996 he served as chief executive of BZW Global Equities followed by 18 months as deputy chairman. Jonathan is currently a vice-chairman of Credit Suisse First Boston, a position to which he was appointed following the acquisition of BZW Global Equities in April 1998. Jonathan joined IG as chairman in January 2004.

### **Nat le Roux (Chief Executive, 48 years old)**

Nat read Law at St Catherine's College, Cambridge. He spent ten years in futures broking and stockbroking before joining IG in 1992. Initially he held the position of financial dealing director, which gave him operational management of all aspects of the financial division including dealing, risk management and marketing. He was promoted to deputy chief executive in 1999 in which role he took the lead in business development and overseas expansion. He became chief executive in March 2002.

### **Tim Howkins (Finance Director, 42 years old)**

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

### **Peter Hetherington (Chief Operating Officer, 36 years old)**

Peter read Economics at Nottingham University and has a Masters in Finance from London Business School. Peter was an officer in the Royal Navy before joining IG Index, as a graduate trainee, in February 1994. He became head of financial dealing in 1999 and was appointed a director of IG Group in June 2002, since when he has performed the role of chief operating officer. To date, this role has focused on driving forward a number of significant strategic projects including the recent and highly successful launch of the new online financial dealing system.

### **Andrew MacKay (Legal Director, 39 years old)**

Andrew has a Masters in History from St Andrews University and completed the Law Society finals examination at the College of Law in London. He qualified as a lawyer with Linklaters and worked there for seven years, principally in the litigation and financial services practices. In 1998, Andrew moved to LIFFE as market investigations manager before joining the IG Group as legal counsel in March 1999.

### **Sir Alan Budd (Non-Executive Director, 67 years old)**

Sir Alan was appointed a non-executive director and the senior independent director of IG in April 2005. He was chief economic advisor to the Treasury and head of the government economic service between 1991 and 1997 and served as a member of the Monetary Policy Committee of the Bank of England between 1997 and 1999. Prior to 1991, he was group economic advisor at Barclays Bank and Professor of Economics at the London Business School. He was chairman of the Gambling Review Body and is currently Provost of The Queen's College, Oxford.

### **Martin Jackson (Non-Executive Director, 56 years old)**

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

### **Robert Lucas (Non-Executive Director, 42 years old)**

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







