



23 January 2006

*IG GROUP HOLDINGS PLC*  
**Interim Results for the 6 months ended 30 November 2005**

IG Group Holdings plc (“IG” or “the Group”) today announces interim results for the six month period ended 30 November 2005.

**Highlights**

- Turnover up 31% at £38.6 million
- EBITDA<sup>1</sup> up 34% at £21.4 million
- Strong EBITDA margin of 55.6%
- Normalised earnings per share up 40% at 4.33p
- Interim dividend of 1.5p per share
- Current trading remains strong and foundations are in place to deliver further growth

**Nat le Roux, Chief Executive**

“IG has continued to deliver substantial growth in turnover and profits in the first half of the year, underpinned by consistently strong levels of client acquisition and the sustained development of our financial businesses in both the UK and Australia. Current trading is strong and we remain confident about IG’s prospects.”

**Jonathan Davie, Chairman**

“The performance for the half year to November represents another excellent result for IG and our shareholders. The business is strongly cash generative, and I am pleased to announce that the Board has recommended the payment of a maiden interim dividend of 1.5 pence per share. IG is well positioned for further growth.”

**Financial Highlights**

	<i>6 months ended 30 November 2005</i>	<i>6 months ended 30 November 2004</i>	<i>Growth</i>
Turnover	£38.6m	£29.4m	+31%
EBITDA	£21.4m	£16.0m	+34%
Profit before taxation	£20.4m	£6.6m	+209%
Profit after taxation	£14.2m	£6.2m	+129%
Basic earnings per share	4.33p	3.12p	+39%
Diluted earnings per share	4.33p	2.87p	+51%
Normalised earnings per share <sup>2</sup>	4.33p	3.10p	+40%
Interim dividend per share	1.50p	-	

<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 8 to the interim financial report, normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue and to be issued, adjusted for normalising items. Normalising adjustments to earnings comprise the impact, net of tax, of exceptional administrative costs, debt interest, dividends on redeemable preference shares and tax items relating to financing structure. Normalising adjustments to the number of shares comprise the impact of restating the weighted average number of A ordinary shares to the equivalent number of ordinary shares in issue in the period and treating the issue of new ordinary shares at the time of the company’s flotation as if it had taken place prior to 1 June 2004. The calculation is not intended to comply with IAS33.

## **Chief Executive's Report**

The six months ended 30 November 2005 saw a continuation of the strong growth that we have achieved over recent years. All areas of the business performed well, but I am particularly pleased with the development of our financial businesses in both the UK and Australia.

Group revenues were up 31% on the corresponding period the previous year and operating profit up by 41%. Normalised earnings per share, which is defined in note 8, increased by 40%.

### **Financial businesses**

Our UK spread betting and CFD operation achieved revenue growth of 32%, which is somewhat higher than that seen in recent years. Several factors contributed to the strong growth in this period, but it is underpinned by continuing healthy levels of new client recruitment.

Clients referred to us by stockbrokers and other introducers now form an important source of revenue and in one recent month contributed more than half our total CFD revenue. We believe that the breadth of our product offering, the strength of our Direct Market Access dealing platform and the quality of our back office procedures will continue to attract additional stockbrokers as introducers.

Client activity on equity indices, particularly our popular daily markets, is driven to a certain extent by short term equity market volatility. For most of the last two years this volatility has been at much lower levels than seen over the preceding eight years. Market volatility did, however, rise briefly in October and these conditions helped us achieve record revenues in that month, beating the previous highest monthly revenue level by over 20%.

Financial binary trading volumes grew strongly. The number of bets in the six months to November was more than 25% higher than it was in the preceding six months. However, profitability relative to trading volume was slightly disappointing. It is not cost effective to hedge binaries and, while we aim to reduce revenue volatility by offering a wide range of diverse betting markets, there is inevitably more variation in revenues from month to month than there is in those markets where we are able to hedge. We would expect these variations to even out over the course of a year.

We are very pleased to have entered into a joint venture agreement with Samvo Entertainment Limited, a bookmaker with a large Asian client base. Under this agreement we will offer a Chinese language financial binary website using the Samvo brand. Samvo has significant infrastructure in Asia dedicated to recruiting betting clients and will undertake all marketing for the site. We plan to launch this website during the second half of this financial year.

Our Australian office had another good six months, revenues having almost doubled compared with the corresponding period last year.

We are in the late stages of obtaining authorisation from the Monetary Authority of Singapore for our new subsidiary. Our Singapore office is expected to commence trading in February offering CFDs and foreign exchange. It will act as a sales office, with risk management and all support functions being provided out of our established offices in Melbourne and London.

### **Sports businesses**

The sports division achieved good levels of growth in both spread betting and binary betting in a period which contained no major football tournament. Overall revenue was 14% up on the corresponding period last year, a period which included Euro 2004. Volumes in sports spread betting have been growing steadily since we introduced our new internet dealing platform in the summer of 2004.

We continue to develop a simplified fixed odds offering, which we hope will appeal to a larger audience than our existing sports products. Our intention is to launch this in the spring, in good time for this summer's football World Cup.

We have successfully begun market making into one betting exchange, although the impact of this on our financial performance is not yet significant. This is a mutually beneficial relationship where the exchange obtains liquidity in naturally illiquid markets and we obtain an additional flow of binary business.

### **Dividend**

The business remains strongly cash generative. At 30 November we had cash of £25.1m held in our own accounts and surplus regulatory capital of £16.5m. Our first interim dividend, of 1.5p per share will be paid in February.

### **Current trading and outlook**

The group has continued to experience the strong volumes seen in the first half of our financial year and account opening levels, which are a key leading indicator, continue to be robust. All parts of our business are performing well and we remain confident about IG's prospects for the current year.

**Nat le Roux**  
**Chief Executive**

23 January 2006

For further information please contact:

**IG Group** **020 7896 0011**  
Nat le Roux  
Tim Howkins

**Financial Dynamics** **020 7269 7200**  
Robert Bailhache  
Dominick Peasley

[www.iggroup.com](http://www.iggroup.com)

## Consolidated income statement for the six months ended 30 November 2005

		<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
	<i>Notes</i>			
<b>Revenue</b>	3	38,598	29,407	62,177
Cost of sales		(1,328)	(1,366)	(2,528)
<b>Gross Profit</b>		37,270	28,041	59,649
Administrative expenses	4	(19,732)	(15,572)	(33,141)
<b>Operating profit</b>	5	17,538	12,469	26,508
Finance revenue		3,898	2,439	6,013
Finance costs	6	(1,004)	(8,294)	(15,680)
<b>Profit before tax</b>		20,432	6,614	16,841
Tax expense	7	(6,257)	(428)	(4,495)
<b>Profit for the period</b>		14,175	6,186	12,346
Attributable to:				
Equity holders of the parent		14,175	6,242	12,401
Minority interests		-	(56)	(55)
		14,175	6,186	12,346
Earnings per share				
- basic	8	4.33p	3.12p	5.91p
- diluted	8	4.33p	2.87p	5.48p
- normalised	8	4.33p	3.10p	6.80p
Dividends per share				
- interim proposed	9	1.50p	-	-

The interim proposed dividend of 1.5p per share was declared after the period end and is not included in the results. The total dividend will amount to £4,913,000.

All of the group's revenue and profit for the period were derived from continuing operations.

**Consolidated balance sheet**  
as at 30 November 2005

		<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
<b>Non current assets</b>				
Property, plant and equipment		3,508	3,536	3,614
Intangible assets		107,402	107,245	107,758
Deferred tax assets		1,765	1,031	1,435
		<u>112,675</u>	<u>111,812</u>	<u>112,807</u>
<b>Current assets</b>				
Trade and other receivables	10	71,250	44,086	43,997
Prepayments and other debtors		2,727	1,539	2,123
Cash and short-term deposits	11	168,763	122,157	120,550
		<u>242,740</u>	<u>167,782</u>	<u>166,670</u>
<b>Total assets</b>		<u>355,415</u>	<u>279,594</u>	<u>279,477</u>
<b>Current liabilities</b>				
Trade and other payables		184,193	120,830	127,358
Other creditors	12	7,480	7,627	9,658
Interest-bearing loans and borrowings	13	128	4,689	167
Income tax payable		10,055	979	3,575
		<u>201,856</u>	<u>134,125</u>	<u>140,758</u>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	13	-	99,932	-
Redeemable preference shares	14	40	38,983	40
Other payables		500	-	500
		<u>540</u>	<u>138,915</u>	<u>540</u>
<b>Total Liabilities</b>		<u>202,396</u>	<u>273,040</u>	<u>141,298</u>
<b>NET ASSETS</b>		<u>153,019</u>	<u>6,554</u>	<u>138,179</u>
<b>Capital and reserves</b>				
Equity share capital		16	10	16
Share premium		125,235	-	125,197
Share based payment reserve		627	-	-
Retained earnings		27,101	6,504	12,926
		<u>152,979</u>	<u>6,514</u>	<u>138,139</u>
<b>Shareholders' equity</b>		<u>152,979</u>	<u>6,514</u>	<u>138,139</u>
Minority interests		40	40	40
<b>TOTAL EQUITY</b>		<u>153,019</u>	<u>6,554</u>	<u>138,179</u>

**Consolidated statement of changes in equity**  
**for the six months ended 30 November 2005 (unaudited)**

	<i>Share capital</i>	<i>Share premium account</i>	<i>Share based payment reserve</i>	<i>Retained earnings</i>	<i>Shareholder's equity</i>	<i>Minority interests</i>	<i>Total Equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at 1 June 2005	16	125,197	-	12,926	138,139	40	138,179
Profit for the period	-	-	-	14,175	14,175	-	14,175
Employee share plans	-	-	627	-	627	-	627
Adjustment to costs of share issue	-	38	-	-	38	-	38
Balance at 30 November 2005	16	125,235	627	27,101	152,979	40	153,019

**Consolidated cash flow statement  
for the six months ended 30 November 2005**

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
<b>Operating activities</b>			
Group operating profit	17,538	12,469	26,508
Adjustments to reconcile group operating profit to net cash inflows from operating activities:			
Depreciation of property, plant and equipment	1,080	1,045	2,236
Amortisation of intangible assets	691	854	1,633
Share based payments	627	-	-
(Profit)/loss on disposal of fixed assets	2	(40)	2
(Increase)/decrease in trade and other receivables	(27,857)	(10,000)	(11,190)
Increase/(decrease) in trade and other payables	54,688	31,717	39,602
	<hr/> 46,769	<hr/> 36,045	<hr/> 58,791
Income taxes paid	(107)	(606)	(2,480)
<b>Net cash inflow from operating activities</b>	<hr/> <b>46,662</b>	<hr/> <b>35,439</b>	<hr/> <b>56,311</b>
<b>Investing activities</b>			
Interest received	3,898	2,373	6,013
Purchase of property, plant and equipment	(971)	(613)	(1,842)
Payments to acquire intangible fixed assets	(335)	(330)	(838)
Receipts from available-for-sale investments	-	42	-
Purchase of subsidiary undertakings	-	-	(21)
	<hr/> 2,592	<hr/> 1,472	<hr/> 3,312
<b>Net cash flows from/(used in) investing activities</b>	<hr/> <b>2,592</b>	<hr/> <b>1,472</b>	<hr/> <b>3,312</b>
<b>Financing activities</b>			
Interest paid	(1,002)	(3,888)	(11,934)
Proceeds from share issues	-	-	131,731
Issue costs of new shares	-	-	(5,779)
Repayment of borrowings	(39)	(281)	(102,097)
Redemption of redeemable preference shares	-	-	(35,660)
Payment of redeemable preference share dividends	-	-	(4,749)
	<hr/> (1,041)	<hr/> (4,169)	<hr/> (28,488)
<b>Net cash flows from/(used in) financing activities</b>	<hr/> <b>(1,041)</b>	<hr/> <b>(4,169)</b>	<hr/> <b>(28,488)</b>
<b>Net increase/(decrease) in cash and short-term deposits</b>	<hr/> <b>48,213</b>	<hr/> <b>32,742</b>	<hr/> <b>31,135</b>
Net cash and short-term deposits at the beginning of the period	120,550	89,415	89,415
	<hr/> 168,763	<hr/> 122,157	<hr/> 120,550
<b>Net cash and short-term deposits at the end of period</b>	<hr/> <b>168,763</b>	<hr/> <b>122,157</b>	<hr/> <b>120,550</b>

# Notes to the interim financial report

At 30 November 2005 (unaudited)

## 1. General information

The interim financial information for the six months ended 30 November 2005 has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) subject to the exemptions referred to in note 15. The unaudited financial information for the year ended 31 May 2005 has been derived from audited UK GAAP financial statements adjusted for the impact of IFRS. The unaudited financial information for the six months ended 30 November 2004 has been derived from audited UK GAAP non-statutory financial statements, prepared for the purposes of the flotation of the company, adjusted for the impact of IFRS.

The interim information, together with the comparative information contained in this report for the year ended 31 May 2005, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. However, the information has been reviewed by the company's auditors, Ernst & Young LLP, and their report appears at the end of the interim financial report. The UK GAAP statutory financial statements for the year ended 31 May 2005 have been reported on by the company's auditors, Ernst & Young LLP, and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

## 2. Accounting policies

### Basis of preparation

As the next annual full financial statements will be prepared under IFRS, this interim financial report has been prepared in accordance with IFRS accounting policies consistent with those that the management expect to apply in its financial statements for the year ended 31 May 2006, subject to changes in interpretation, new standards and guidance. This interim financial report has been prepared in accordance with IAS34 and the disclosure requirements of the Listing Rules. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in note 15.

The presentational currency of the group is pounds sterling and all values are rounded to the nearest thousand pounds (£000) unless indicated otherwise.

A summary of the accounting policies management expect to be applied in preparing the first IFRS compliant full year financial statements, which have been used in preparing this interim financial report, is set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of IG Group Holdings plc (the company) and entities controlled by the company (and its subsidiaries) made up to the reporting date. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the profit or loss in the period of acquisition.

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

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

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

## Foreign currencies

The functional currency of the company is pounds sterling. Transactions in other currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are taken to the income statement, except when hedge accounting is applied and for exchange differences arising on monetary assets and liabilities that form part of the group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

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

## Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives 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 gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

## Goodwill

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

On disposal of a subsidiary the attributed amount of goodwill which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount and was subject to an impairment review at 1 June 2004.

## Intangible assets

Intangible assets acquired are capitalised at fair value at the date of acquisition. Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Purchased and self-developed software are recognised as intangible assets at cost when acquired and amortised on a straight line basis over a period of 2 or 3 years. Acquired software licences are amortised over the life of the licence.

## **Impairment**

At least annually, the group reviews the carrying amounts of its tangible and intangible assets including goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate. This rate reflects current market assessments of the time value of money as well as the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

## **Operating leases**

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

## **Financial assets**

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

### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss being recognised in the income statement.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### **Trade and other receivables**

Trade and other receivables are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts. Prepayments and other debtors are stated at their nominal values.

### **Cash and short-term deposits**

Cash comprises cash in hand and demand deposits which may be accessed without penalty. Short-term deposits comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition. For the purposes of the consolidated cash flow statement, net cash and short-term deposits consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

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

### **Trade and other payables**

Trade and other payables are valued at their fair value. Other creditors are not interest bearing and are stated at their nominal value.

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

### **Taxation**

The income tax expense represents the sum of tax currently payable and movements in deferred tax.

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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

## **Provisions**

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event which it is possible will result in an outflow of economic benefits that can be reasonably estimated.

## **Derecognition of financial assets and liabilities**

### *Financial assets*

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

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

### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

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

The group uses derivative financial instruments in order to hedge exposures resulting from derivatives with clients.

Bets and other derivative financial instruments are stated at fair value determined by reference to third party market values or, in the case of derivative financial instruments where there is no underlying market, to the fair value as determined by the group at the period end. In the case of long term bets where there is no underlying market, consideration is given to the impact of post period end settlement prices.

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

## **Hedge Accounting**

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

## **Classification of shares as debt or equity**

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

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

### **Treasury shares**

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

### **Revenue recognition**

Revenue is recognised to the extent that economic benefits will flow to the group and the revenue can be reliably measured.

Revenue 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 revenue as well as gains and losses realised on positions that have closed.

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

Dividend revenue from investments is recognised when the shareholders' right to receive the payment is established.

### **Cost of sales**

Cost of sales represents duties and levies charged on betting revenues.

### **Finance costs**

The interest cost recognised in the income statement is accrued on a time basis by reference to the principal amount charged at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts the future expected cash flows to the carrying amount of the liability. Issue costs are recognised as an expense in the income statement on a discounted basis over the expected term of the instrument.

### **Retirement benefit costs**

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

### **Share-based payments**

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

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

### 3. Business and geographic segments

#### Primary reporting format - 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 and other financial markets; 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 markets.

##### *Financial binaries*

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

##### *Sports*

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

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
<b>Revenue</b>			
Financial	31,519	23,019	50,391
Financial binaries	2,701	2,541	4,950
Sports	4,378	3,847	6,836
	<u>38,598</u>	<u>29,407</u>	<u>62,177</u>
<b>Profit</b>			
Financial	25,743	17,363	39,623
Financial binaries	1,993	1,770	3,474
Sports	1,131	794	1,141
	<u>28,867</u>	<u>19,927</u>	<u>44,238</u>
Unallocated administrative expenses	(9,189)	(6,742)	(14,047)
Unallocated finance revenue	819	1,289	1,186
Unallocated finance costs	(65)	(7,860)	(14,536)
Profit before taxation	<u>20,432</u>	<u>6,614</u>	<u>16,841</u>

## Secondary reporting format - 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 client 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.

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
<b>Revenue</b>			
United Kingdom	34,968	27,566	58,401
Australia	3,630	1,841	3,776
	<u>38,598</u>	<u>29,407</u>	<u>62,177</u>
<b>Profit</b>			
United Kingdom	18,617	13,551	30,617
Australia	1,817	922	1,638
	<u>20,434</u>	<u>14,473</u>	<u>32,255</u>
Unallocated exceptional administrative costs	-	-	(889)
Unallocated finance costs	(2)	(7,859)	(14,525)
Profit before taxation	<u>20,432</u>	<u>6,614</u>	<u>16,841</u>

## 4. Administrative expenses

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
Administrative expenses excluding exceptional administrative expenses	19,732	15,572	32,252
Exceptional administrative expenses	-	-	889
	<u>19,732</u>	<u>15,572</u>	<u>33,141</u>

The exceptional administrative expenses charged in the year ended 31 May 2005 relate to professional fees payable in connection with listing the company's shares on the London Stock Exchange.

## 5. Operating profit

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
This is stated after charging/(crediting):			
Depreciation of own assets	1,080	1,045	2,236
Amortisation of intangible fixed assets	691	854	1,633
Operating lease rentals for land and buildings	387	497	763
Foreign exchange differences	(99)	702	607
(Profit)/loss on sale of tangible fixed assets	2	(40)	2

## 6. Finance costs

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
Interest payable to clients and brokers	1,002	434	1,144
Interest payable on interest-bearing loans	-	4,774	8,815
Issue costs amortised on interest-bearing loans	-	1,637	2,826
Dividends payable on redeemable preference shares	2	1,402	2,685
Other charges	-	47	210
	<u>1,004</u>	<u>8,294</u>	<u>15,680</u>

## 7. Tax expense

### (a) Income statement

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
Current tax:			
Corporation tax on profit for the year	6,587	550	4,979
Adjustment in respect of prior years	-	-	42
Total current tax	<u>6,587</u>	<u>550</u>	<u>5,021</u>
Deferred income tax:			
Origination and reversal of temporary differences	(330)	(122)	(526)
Tax expense in the income statement	<u>6,257</u>	<u>428</u>	<u>4,495</u>

## (b) Deferred income tax

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

	<i>Unaudited</i> <i>30 November</i> <i>2005</i> <i>£000</i>	<i>Unaudited</i> <i>30 November</i> <i>2004</i> <i>£000</i>	<i>Unaudited</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Deferred tax assets:			
Decelerated capital allowances	885	309	702
Tax losses available for offset against future tax	426	454	469
Share based payments	188	-	-
Open positions valuation at bid or offer	211	204	212
Employees' short-term compensated absences	55	64	52
	<u>1,765</u>	<u>1,031</u>	<u>1,435</u>

	<i>Unaudited</i> <i>six months</i> <i>ended</i> <i>30 November</i> <i>2005</i> <i>£000</i>	<i>Unaudited</i> <i>six months</i> <i>ended</i> <i>30 November</i> <i>2004</i> <i>£000</i>	<i>Unaudited</i> <i>year</i> <i>ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
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The deferred income tax credit included in the income statement was made up as follows:

Decelerated capital allowances	183	(34)	359
Tax losses available for offset against future tax	(43)	109	124
Share based payments	188	-	-
Open positions valuation at bid or offer	(1)	28	36
Employees' short-term compensated absences	3	19	7
	<u>330</u>	<u>122</u>	<u>526</u>

The tax losses available for offset against future tax 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.

Share-based payment awards have been charged to the income statement but are not allowable as a tax expense until the awards vest.

The open positions valuation at bid or offer and the employees' short-term compensated absences both arise because of the group's transition to IFRS. IFRS has not yet been adopted in the financial statements of the individual entities within the group and a deferred tax asset has arisen as a result of differences in the recognition of taxable items of income and expenditure between the group accounts and those of the individual entities.

## 8. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
Basic earnings attributable to equity shareholders:	14,175	6,242	12,401
Effect of dilution	-	-	-
Diluted earnings attributable to equity shareholders	<u>14,175</u>	<u>6,242</u>	<u>12,401</u>
Basic weighted average number of equity shares:	327,500,959	200,000,000	209,780,895
Effect of warrants	-	17,725,800	16,365,331
Diluted weighted average number of equity shares	<u>327,500,959</u>	<u>217,725,800</u>	<u>226,146,226</u>
Basic earnings per share	<u>4.33p</u>	<u>3.12p</u>	<u>5.91p</u>
Diluted earnings per share	<u>4.33p</u>	<u>2.87p</u>	<u>5.48p</u>

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

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. Normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue and to be issued, adjusted for normalising items. Normalising adjustments to earnings comprise the impact, net of tax, of exceptional administrative costs, debt interest, dividends redeemable preference shares and tax items relating to financing structure. Normalising adjustments to the number of shares comprise the impact of restating the weighted average number of A ordinary shares to the equivalent number of ordinary shares in issue in the period and treating the issue of new ordinary shares at the time of the company's flotation as if it had taken place prior to 1 June 2004. The calculation is not intended to comply with IAS33.

	<i>Unaudited six months ended 30 November 2005</i>		<i>Unaudited six months ended 30 November 2004</i>		<i>Unaudited year ended 31 May 2005</i>	
	<i>Earnings £000</i>	<i>Earnings per share pence</i>	<i>Earnings £000</i>	<i>Earnings per share pence</i>	<i>Earnings £000</i>	<i>Earnings per share pence</i>
Earnings attributable to equity shareholders	14,175	4.33	6,242	3.12	12,401	5.91
Normalising adjustments to number of shares	-	-	-	(1.22)	-	(2.12)
Normalising adjustments to earnings:						
Exceptional administrative costs	-	-	-	-	889	0.27
Interest and charges on debt finance	-	-	6,458	1.97	11,851	3.62
Tax effect of above items	-	-	(1,937)	(0.59)	(3,555)	(1.09)
Tax items relating to financing structure	-	-	(2,010)	(0.61)	(2,004)	(0.61)
Redeemable preference share interest payable	2	0.00	1,402	0.43	2,685	0.82
Total normalising adjustments	2	0.00	3,913	(0.02)	9,866	(0.89)
Normalised earnings attributable to equity shareholders	14,177	4.33	10,155	3.10	22,267	6.80
Normalised number of shares in issue during the period used as basis of earnings per share calculation		<u>327,500,959</u>		<u>327,500,959</u>		<u>327,500,959</u>

## 9. Dividends

	<i>Unaudited six months ended 30 November 2005 £000</i>	<i>Unaudited six months ended 30 November 2004 £000</i>	<i>Unaudited year ended 31 May 2005 £000</i>
Amounts recognised as distributions to equity holders in the period	-	-	-

The proposed interim dividend of 1.5p per share amounting to £4,913,000 was approved by the board on 20 January 2006 and has not been included as a liability at 30 November 2005. This dividend will be paid on 28 February 2006 to those members on the register at the close of business on 3 February 2006.

## 10. Trade and other receivables

	<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
Amounts due from brokers	68,570	41,124	40,262
Amounts due from clients	2,680	2,267	3,735
Other receivables	-	695	-
	<u>71,250</u>	<u>44,086</u>	<u>43,997</u>

## 11. Cash and short-term deposits

	<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
Held in own accounts	25,118	25,615	13,123
Client money held	143,645	96,542	107,427
	<u>168,763</u>	<u>122,157</u>	<u>120,550</u>

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 and other regulatory bodies. Clients' money held and the corresponding liability to clients are included in cash and short-term deposits and trade and other payables in the balance sheet.

## 12. Other creditors

	<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
Other taxes and social security costs	582	412	1,285
Accruals and deferred income	6,898	7,215	8,373
	<u>7,480</u>	<u>7,627</u>	<u>9,658</u>

### 13. Interest-bearing loans and borrowings

	<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
Current liabilities:			
Loan notes	128	289	167
Unsecured subordinated loans	-	4,400	-
	<u>128</u>	<u>4,689</u>	<u>167</u>
Non-current liabilities:			
Secured loans	-	1,000	-
Unsecured subordinated loans	-	96,989	-
Accrued interest charges	-	2,962	-
Unamortised issue costs	-	(1,014)	-
Held in employee benefit trust	-	(5)	-
	<u>-</u>	<u>99,932</u>	<u>-</u>

The unamortised issue costs relating to secured and unsecured loans, amounted to £11,345 and £1,002,719 respectively, at 30 November 2004.

### 14. Redeemable preference shares

	<i>Unaudited</i> 30 November 2005 £000	<i>Unaudited</i> 30 November 2004 £000	<i>Unaudited</i> 31 May 2005 £000
Redeemable preference shares of £1 each	40	35,700	40
Accrued interest charges	-	3,466	-
Unamortised issue costs	-	(175)	-
Held in employee benefit trust	-	(8)	-
	<u>40</u>	<u>38,983</u>	<u>40</u>

### 15. Explanation of transition to International Financial Reporting Standards (IFRS)

This is the first period that the group has presented its financial information in accordance with the recognition and measurement criteria of IFRS. The last financial statements under UK GAAP were for the year ended 31 May 2005.

The group has applied the transitional provisions of IFRS1 First time adoption of International Financial Reporting Standards. The date of transition to IFRS was 1 June 2004 and all comparative information in these financial statements has been restated to reflect the group's adoption of International Financial Reporting and Accounting Standards at that date.

#### Exemptions applied

IFRS1 contains a number of exemptions which companies are permitted to apply. The group has elected:

- to present comparative information on financial instruments in accordance with IAS32 Financial Instruments: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement;
- not to apply IFRS3 Business Combinations to acquisitions of subsidiaries that occurred before 1 June 2004;
- that cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 June 2004.

## Balance sheet reconciliation at 1 June 2004

The effect of the changes to the group's accounting policies on the equity of the group at the date of transition, 1 June 2004, was as follows:

		<i>Audited</i> 31 May 2004 <i>UK GAAP</i> £000	<i>Unaudited</i> effect of transition to <i>IFRS</i> £000	<i>Unaudited</i> 01 June 2004 <i>IFRS</i> £000
	<i>Notes</i>			
<b>Non-current assets</b>				
Property, plant and equipment	a	6,347	(2,341)	4,006
Goodwill arising on consolidation	b	105,115	-	105,115
Purchased goodwill	b	426	-	426
Intangible assets	a	-	2,341	2,341
Deferred tax assets	c	-	909	909
Available-for-sale investments		2	-	2
		<u>111,890</u>	<u>909</u>	<u>112,799</u>
<b>Current assets</b>				
Trade and other receivables		33,647	-	33,647
Prepayments and other debtors		1,283	-	1,283
Deferred tax assets	c	688	(688)	-
Cash and short-term deposits	d	23,076	66,339	89,415
		<u>58,694</u>	<u>65,651</u>	<u>124,345</u>
<b>Total assets</b>		<u>170,584</u>	<u>66,560</u>	<u>237,144</u>
<b>Current liabilities</b>				
Trade and other payables	e	19,920	67,363	87,283
Other creditors	f	9,779	151	9,930
Interest-bearing loans and borrowing		570	-	570
Tax liabilities		1,034	-	1,034
		<u>31,303</u>	<u>67,514</u>	<u>98,817</u>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	g	101,113	(439)	100,674
Redeemable preference shares	h	-	37,284	37,284
		<u>101,113</u>	<u>36,845</u>	<u>137,958</u>
<b>Total liabilities</b>		<u>132,416</u>	<u>104,359</u>	<u>236,775</u>
Minority interests	i	166	(166)	-
<b>NET ASSETS</b>		<u>38,334</u>	<u>(37,965)</u>	<u>369</u>
<b>Capital and reserves</b>				
Equity share capital		10	-	10
Redeemable preference shares	h	35,220	(35,220)	-
Retained earnings		3,104	(2,785)	319
<b>Shareholders' equity</b>		<u>38,334</u>	<u>(38,005)</u>	<u>329</u>
Minority interests	i	-	40	40
<b>TOTAL EQUITY</b>		<u>38,334</u>	<u>(37,965)</u>	<u>369</u>

## Balance sheet reconciliation at 30 November 2004

The effect of the changes to the group's accounting policies on the equity of the group at 30 November 2004 was as follows:

	<i>Audited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 November</i>	<i>effect of</i>	<i>30 November</i>
	<i>2004</i>	<i>transition to</i>	<i>2004</i>
	<i>UK GAAP</i>	<i>IFRS</i>	<i>IFRS</i>
<i>Notes</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>			
Property, plant and equipment	a 5,353	(1,817)	3,536
Goodwill arising on consolidation	b 102,272	2,730	105,002
Purchased goodwill	b 316	110	426
Intangible assets	a -	1,817	1,817
Deferred tax assets	c -	1,031	1,031
	<hr/> 107,941	<hr/> 3,871	<hr/> 111,812
<b>Current assets</b>			
Trade and other receivables	g 43,391	695	44,086
Prepayments and other debtors	1,539	-	1,539
Deferred tax assets	c 763	(763)	-
Cash and short-term deposits	d 28,703	93,454	122,157
	<hr/> 74,396	<hr/> 93,386	<hr/> 167,782
<b>Total assets</b>	<hr/> 182,337	<hr/> 97,257	<hr/> 279,594
<b>Current liabilities</b>			
Trade and other payables	e 26,697	94,133	120,830
Other creditors	f 7,412	215	7,627
Interest-bearing loans and borrowing	4,689	-	4,689
Income tax payable	979	-	979
	<hr/> 39,777	<hr/> 94,348	<hr/> 134,125
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	g 99,237	695	99,932
Redeemable preference shares	h -	38,983	38,983
	<hr/> 99,237	<hr/> 39,678	<hr/> 138,915
<b>Total liabilities</b>	<hr/> 139,014	<hr/> 134,026	<hr/> 273,040
Minority interests	i 223	(223)	-
<b>NET ASSETS</b>	<hr/> 43,546	<hr/> (36,992)	<hr/> 6,554
<b>Capital and reserves</b>			
Equity share capital	10	-	10
Redeemable preference shares	h 35,517	(35,517)	-
Retained earnings	8,019	(1,515)	6,504
<b>Shareholders' equity</b>	<hr/> 43,546	<hr/> (37,032)	<hr/> 6,514
Minority interests	i -	40	40
<b>TOTAL EQUITY</b>	<hr/> 43,546	<hr/> (36,992)	<hr/> 6,554

## Balance sheet reconciliation at 31 May 2005

The effect of the changes to the group's accounting policies on the equity of the group at 31 May 2005, the date of the last annual financial statements presented under UK GAAP, was as follows:

		<i>Audited</i> 31 May 2005 UK GAAP £000	<i>Unaudited</i> effect of transition to IFRS £000	<i>Unaudited</i> 31 May 2005 IFRS £000
<b>Non-current assets</b>				
Property, plant and equipment	a	5,160	(1,546)	3,614
Goodwill arising on consolidation	b	100,336	5,450	105,786
Purchased goodwill	b	206	220	426
Intangible assets	a	-	1,546	1,546
Deferred tax assets	c	-	1,435	1,435
		<u>105,702</u>	<u>7,105</u>	<u>112,807</u>
<b>Current assets</b>				
Trade and other receivables		43,997	-	43,997
Prepayments and other debtors		2,123	-	2,123
Deferred tax assets	c	1,171	(1,171)	-
Cash and short-term deposits	d	20,832	99,718	120,550
		<u>68,123</u>	<u>98,547</u>	<u>166,670</u>
<b>Total assets</b>		<u>173,825</u>	<u>105,652</u>	<u>279,477</u>
<b>Current liabilities</b>				
Trade and other payables	e	26,934	100,424	127,358
Other creditors	f	9,485	173	9,658
Interest-bearing loans and borrowing		167	-	167
Income tax payable		3,575	-	3,575
		<u>40,161</u>	<u>100,597</u>	<u>140,758</u>
<b>Non-current liabilities</b>				
Redeemable preference shares	h	-	40	40
Other payables		500	-	500
		<u>500</u>	<u>40</u>	<u>540</u>
<b>Total liabilities</b>		<u>40,661</u>	<u>100,637</u>	<u>141,298</u>
Minority interests	i	(40)	40	-
<b>NET ASSETS</b>		<u>133,124</u>	<u>5,055</u>	<u>138,179</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent company</b>				
Equity share capital		16	-	16
Redeemable preference shares	h	40	(40)	-
Share premium account		125,197	-	125,197
Retained earnings		7,871	5,055	12,926
<b>Shareholders' equity</b>		<u>133,124</u>	<u>5,015</u>	<u>138,139</u>
Minority interests	i	-	40	40
<b>TOTAL EQUITY</b>		<u>133,124</u>	<u>5,055</u>	<u>138,179</u>

## Retained earnings reconciliations

The following illustrates the adjustments to retained earnings as shown in the balance sheet reconciliations:

	<i>Unaudited</i> <i>1 June</i> <i>2004</i> <i>£000</i>	<i>Unaudited</i> <i>30 November</i> <i>2004</i> <i>£000</i>	<i>Unaudited</i> <i>31 May</i> <i>2005</i> <i>£000</i>
<i>Adjustments relating to the period:</i>			
Amortisation of goodwill (b)	-	2,840	5,670
Deferred tax (c)	-	47	43
Open positions valuation provision for adjustment from mid-market to bid-offer prices (e)	-	(94)	(121)
Compensated short-term absences accrual (f)	-	(64)	(22)
Finance expense adjustment for interest provided on redeemable preference shares (h)	-	(1,402)	(2,685)
	<hr/>	<hr/>	<hr/>
	-	1,327	2,885
<i>Adjustments made directly through equity:</i>			
Deferred tax (c)	221	221	221
Open positions valuation provision for adjustment from mid-market to bid-offer prices (e)	(585)	(585)	(585)
Compensated short-term absences accrual (f)	(151)	(151)	(151)
Finance expense adjustment for interest provided on redeemable preference shares (h)	(2,064)	(2,064)	2,685
Minority interest losses (i)	(206)	(263)	-
	<hr/>	<hr/>	<hr/>
	(2,785)	(2,842)	2,170
	<hr/>	<hr/>	<hr/>
Total effect of transition to IFRS on retained earnings	(2,785)	(1,515)	5,055

### Reconciliation of profit for the six months ended 30 November 2004

The changes in the accounting policies and the adjustments described above had the following effect on the profit reported for the period ended 30 November 2004:

		<i>Audited</i> <i>six months to</i> <i>30 November</i> <i>2004</i> <i>UK GAAP</i> <i>£000</i>	<i>Unaudited</i> <i>effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Unaudited</i> <i>six months to</i> <i>30 November</i> <i>2004</i> <i>IFRS</i> <i>£000</i>
<b>Revenue</b>	j	29,501	(94)	29,407
Cost of sales		(1,366)	-	(1,366)
<b>Gross profit</b>		28,135	(94)	28,041
Administrative expenses	k	(18,348)	2,776	(15,572)
<b>Operating profit</b>		9,787	2,682	12,469
Finance revenue		2,439	-	2,439
Finance costs	l	(6,892)	(1,402)	(8,294)
<b>Profit before tax</b>		5,334	1,280	6,614
Tax expense	m	(475)	47	(428)
<b>Profit for the period</b>		4,859	1,327	6,186
Attributable to:				
Equity holders of the parent		4,915	1,327	6,242
Attributable to minority interests		(56)	-	(56)
		4,859	1,327	6,186

### Reconciliation of profit for the year ended 31 May 2005

The changes in the accounting policies had the following effect on the profit reported for the year ended 31 May 2005:

		<i>Audited</i> <i>year ended</i> <i>31 May 2005</i> <i>UK GAAP</i> <i>£000</i>	<i>Unaudited</i> <i>effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Unaudited</i> <i>year ended</i> <i>31 May 2005</i> <i>IFRS</i> <i>£000</i>
<b>Revenue</b>	j	62,298	(121)	62,177
Cost of sales		(2,528)	-	(2,528)
<b>Gross profit</b>		59,770	(121)	59,649
Administrative expenses	k	(38,789)	5,648	(33,141)
<b>Operating profit</b>		20,981	5,527	26,508
Finance revenue		6,013	-	6,013
Finance costs	l	(12,995)	(2,685)	(15,680)
<b>Profit before tax</b>		13,999	2,842	16,841
Tax expense	m	(4,538)	43	(4,495)
<b>Profit for the period</b>		9,461	2,885	12,346
Attributable to:				
Equity holders of the parent		9,516	2,885	12,401
Attributable to minority interests		(55)	-	(55)
		9,461	2,885	12,346

## Cash flow reconciliations

The only material adjustment to the cash flow statement for the six months ended 30 November 2004 or the year to 31 May 2005 arising from transition to IFRS is as a result of reclassifying client money, which was off-balance sheet under UK GAAP, but which is included within cash and short-term deposits and amounts due to clients under IFRS. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities: operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

### Reconciliation of cash flows for the six months ended 30 November 2004

	<i>Audited</i> <i>six months to</i> <i>30 November</i> <i>2004</i> <i>UK GAAP</i> <i>£000</i>	<i>Unaudited</i> <i>effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Unaudited</i> <i>six months to</i> <i>30 November</i> <i>2004</i> <i>IFRS</i> <i>£000</i>
Net cash generated from/(absorbed by) operations (d)	8,930	27,115	36,045
Income taxes paid	(606)	-	(606)
Net cash inflow/(outflow) from investing activities	1,472	-	1,472
Net cash inflow/(outflow) from financing activities	(4,169)	-	(4,169)
	<hr/>	<hr/>	<hr/>
Net increase in cash and short-term deposits	5,627	27,115	32,742
Net cash and short-term deposits at the beginning of the period	23,076	66,339	89,415
Net cash and short-term deposits at the end of the period	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	28,703	93,454	122,157

### Reconciliation of cash flows for the year ended 31 May 2005

	<i>Audited</i> <i>year ended</i> <i>31 May</i> <i>2005</i> <i>UK GAAP</i> <i>£000</i>	<i>Unaudited</i> <i>effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Unaudited</i> <i>year ended</i> <i>31 May</i> <i>2005</i> <i>IFRS</i> <i>£000</i>
Net cash generated from/(absorbed by) operations (d)	25,412	33,379	58,791
Income taxes paid	(2,480)	-	(2,480)
Net cash inflow/(outflow) from investing activities	3,312	-	3,312
Net cash inflow/(outflow) from financing activities	(28,488)	-	(28,488)
	<hr/>	<hr/>	<hr/>
Net increase in cash and short-term deposits	(2,244)	33,379	31,135
Net cash and short-term deposits at the beginning of the period	23,076	66,339	89,415
Net cash and short-term deposits at the end of the period	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	20,832	99,718	120,550

**Notes relating to the effect of transition to IFRS**

**Balance sheet adjustments**

a - On transition to IFRS the group has recognised other intangible assets in relation to purchased and self-developed software and software licences. The effect of this was to reclassify balances previously held in property, plant and equipment. Items previously depreciated under UK GAAP have been amortised under IFRS but this reclassification has no impact on profit.

b - Under UK GAAP goodwill was amortised over a period not exceeding 20 years. Adoption of IFRS has resulted in the group ceasing annual goodwill amortisation and testing for impairment annually at the cash generating unit level.

c - On transition to IFRS the group has reclassified deferred tax assets as non-current assets from current assets. Transition adjustments relate to the valuation of open positions and employee short-term compensated absence accruals. These have no effect on profit before tax and have had no effect on taxable income in the subsidiaries of the group but have given rise to deferred tax assets upon consolidation.

d - Client money which was recorded off-balance sheet under UK GAAP has now been included within cash and short-term deposits under IFRS.

e - Open positions in bets and derivatives were valued at mid-market value under UK GAAP whereas under IFRS open net long positions are valued at bid prices and open net short positions are valued at offer prices. As noted at note d above, client money which was recorded off-balance sheet under UK GAAP has been included within cash and the equivalent liability to clients included within trade and other payables under IFRS.

f - Under IFRS expenses are accrued for employees' short-term compensated absences which were not accrued under UK GAAP as these are accounted for on a pay as you go basis.

g - Under IFRS the company has applied hedge accounting to a currency basis swap which is disclosed separately from the loan, whereas under UK GAAP the hedge was netted off against the loan in the balance sheet.

h - Redeemable preference shares which were classified as equity instruments under UK GAAP are classified as financial liabilities under IFRS. Under UK GAAP the distributions were treated as dividends and accounted for on a cash basis while under IFRS the distributions are classified as interest and are charged to the income statement using the effective interest rate method.

i - Minority interests are presented as part of equity while under UK GAAP these were disclosed separately in the consolidated balance sheet. Losses applicable to minority interests under IFRS have been allocated against the majority interest.

**Income statement adjustments**

j - Open positions in bets and derivatives were valued at mid-market value under UK GAAP whereas under IFRS open net long positions are valued at bid prices and open net short positions are valued at offer prices.

k - Amortisation on goodwill charged in the period under UK GAAP has been reversed as this is not charged under IFRS. An employee short-term compensated absence provision has been provided under IFRS which was not provided under UK GAAP.

l - The finance expense recognised on redeemable preference shares is calculated using the effective interest rate method under IFRS whereas under UK GAAP interest charges were recognised on an accruals basis.

m - Adjustments to the valuation of open positions and employee short-term compensated absence accruals, which are made in the consolidated accounts but not in the accounts of the individual entities within the group, have resulted in deferred tax credits in the income statement upon consolidation.

# **Independent review report to the members of IG Group Holdings plc**

## **Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 November 2005 which comprises consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 15, the next annual financial statements of the group will be prepared in accordance with those IFRS adopted for use by the European Union. This interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and the requirements of IFRS1, "First Time Adoption of International Financial Reporting Standards" relevant to interim reports.

The accounting policies are consistent with those that the directors intend to use in the next financial statements.

## **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 November 2005.

**Ernst & Young LLP**  
Registered Auditor  
London  
23 January 2006