23 July 2013
IG GROUP HOLDINGS plc
Preliminary Results for the year ended 31 May 2013

IG Group Holdings plc ("IG" or "the Group") today announces results for the year ended 31 May 2013.

Operating and Financial Summary

- Satisfactory full year results after a challenging first half
- Business responded very well to upturn in trading environment in second half
- Net trading revenue[1] down 1.4% at £361.9 million
- Strong cost control following a subdued first half
- Profit before tax[1] up 3.5% to £192.2 million
- Diluted EPS[1] up 3.4% at 38.80p
- £155.4 million of own funds generated from operations
- Final dividend recommended of 17.50p per share; full year dividend up 3.3% to 23.25p

Jonathan Davie, Chairman, commented:

"I am pleased to report another year of record profitability for the Group, a significant achievement given the particularly challenging trading environment in the first half of the year.

We remain committed to delivering superior technology, innovative products and the best trading experience, putting the needs of our customers at the forefront of everything we do."

Tim Howkins, Chief Executive, commented:

"Along with delivering higher earnings after a difficult first half, we have made considerable progress over the last year with our rebranding, the launch of IG.com and the development of our platform offering. Our additional investment in the next financial year will focus on specific initiatives aimed at further enhancing the Group's offerings for active traders, including introducing MetaTrader, development of our mobile platforms, and further geographic expansion.

This is a business in which we need to continue to invest for the longer-term. The investments we will make in the coming year should leave us well placed for future growth. I am confident in the prospects for the business going forward."

[1] Amounts presented are in relation to the continuing operations of the Group and exclude the Sport business that was discontinued in the year ended 31 May 2012

Net trading revenue is trading revenue excluding interest on segregated client funds and is presented net of introducing broker commissions. All references to 'revenue' in this statement are made with regards to net trading revenue.

Financial highlights:

For the year ended 31 May	2013	2012[1]	Growth %
Net trading revenue (£m)	361.9	366.8	(1.4%)
Profit before taxation (£m)	192.2	185.7	3.5%
Diluted earnings per share	38.80p	37.54p	3.4%
Final dividend per share	17.50p	16.75p	4.5%
Total dividend per share	23.25p	22.50p	3.3%
Dividend payout (% diluted earnings per share)	59.9%	59.9%	
Own funds generated from operations[2] (£m)	155.4	140.7	10.4%

(1) All amounts are stated for the Group's continuing operations. The Group's Sport business was discontinued in the year-ended 31 May 2012.

(2) Own funds generated from operations is analysed in the Operating and Financial Review section of this announcement.

Further information

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Analyst presentation

There will be an analyst presentation on the results at 9:30am on Tuesday 23 July 2013 at IG Group, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA. The presentation will also be accessible live via audio webcast at www.iggroup.com and via a conference call on the following number:

All locations: +44 20 3059 8125

A replay of the conference call is available for a period of seven days on the following dial-in:

All locations: + 44 121 260 4861 with the passcode 9424427#

The audio webcast of the presentation will also be archived at: www.iggroup.com/investors

Forward-looking statements

This preliminary statement, prepared by IG Group Holdings plc (the "Company"), may contain forward-looking statements about the Company. Forward-looking statements involve uncertainties because they relate to events, and depend on circumstances, that will, or may, occur in the future. If the assumptions on which the Company bases its forward-looking statements change, actual results may differ from those expressed in such statements. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update these forward-looking statements.

Nothing in this statement should be construed as a profit forecast.

All market share data has been provided by Investment Trends Limited

- Investment Trends May 2012 Australia CFD Report
- Investment Trends May 2013 France CFD/FX Report
- Investment Trends April 2013 Germany CFD/FX Report
- Investment Trends September 2012 Singapore CFD/FX Report
- Investment Trends November 2012 UK FSB/CFD and FX Report

Chairman's Statement

I am pleased to report another year of record profitability for the Group, a significant achievement given the particularly challenging trading environment in the first half of the year.

Whilst our revenue decreased by 1% to £361.9 million (2012: £366.8 million), our diluted earnings per share increased by 3.4% to 38.80 pence per share (2012: 37.54 pence per share), thanks primarily to tight expense control and materially lower employee variable compensation.

We have continued to develop our business through the opening of new offices in Ireland and Norway, together with on-going investment in our brand and technology to meet customer demand, particularly in mobile delivery and leading edge platform functionality. Our risk management capabilities and strict credit policies have continued to perform well, resulting once again in daily revenue remaining positive with a very low level of bad debts. Your Board remains committed to driving further growth in the business and we are presently looking at several interesting strategic initiatives to achieve this.

IG strives to conduct its business with integrity and in a way that delivers fair outcomes for its customers. Whilst it is always possible to make mistakes, if we are accused unjustly of inappropriate practices, endangering the strong reputation we have worked hard to earn we will defend ourselves vigorously. Our recent victory in the High Court in a case which arose from the collapse of Echelon Wealth Management a few years ago is testament to this. On dismissal of the case the plaintiffs chose not to appeal and we also recovered an acceptable amount of our costs. We also successfully won other legal victories, including the recovery of some substantial historic debts this year. I am particularly grateful to our legal team for bringing all these matters to a very satisfactory conclusion for our business and our shareholders.

Dividend

At the forthcoming AGM your Board will recommend a final ordinary dividend of 17.5 pence per share. This will bring the total ordinary dividend for the year to 23.25 pence per share, an increase of 3.3% on the prior year. The Board is pleased to be able to recommend this level of payout at the end of a challenging year.

The Board has adopted a progressive dividend policy that reflects the long term earnings and cash flow potential of the Group. Our dividend payout target is in the region of 60% of profit after tax.

Regulation

As I have mentioned in previous statements, IG operates in highly regulated financial markets. Our policy is to ensure we remain in compliance with all relevant regulatory and legal obligations and to maintain collaborative relationships with the relevant authorities.

Client money continues to be one area of particular regulatory focus. Our Client Money Committee, under the chairmanship of Christopher Hill, has continued to pursue best practice, through constant review of processes and controls and investment in technology, to ensure we meet all the relevant requirements, whilst reducing the amount of human intervention needed in a business of IG's complexity.

We will be spending time addressing new Financial Conduct Authority (FCA) initiatives, including conduct risk, cultural risk and the increasingly widely recognised problem of cyber-attacks.

Board evaluation and composition

The Board undertook a full evaluation under the guidance of Dr Tracy Long in our previous financial year; consequently it was felt appropriate to conduct an internal review this year under the guidance of our Company Secretary. I am pleased to say that the outcome of this review was satisfactory but also produced some insights as to how we can improve our processes.

I am pleased to welcome Sam Tymms to our Board to replace Lord David Currie, who had to retire from the Board last October to take on his new role as Chairman of the Competition and Markets Authority. Sam is a Managing Director at Promontory, a leading strategy, risk management and regulatory compliance consulting firm, focussing primarily on the financial services industry. Her expertise is already proving extremely helpful to the Board, particularly during a period of increasing regulatory focus. The Board wishes to thank David Currie for his contribution to the business and to wish him every success in his new role.

Martin Jackson, our Chairman of the Audit Committee, and I will have completed our nine years of service with IG next year; consequently we will be stepping down from the IG Board at the AGM in October 2014. We are presently at an advanced stage of finding a successor to Martin, who will join the Board as soon as possible to build up the relevant knowledge of IG and the workings of the Audit Committee and Board prior to Martin's retirement. The Board has agreed that our Senior Independent Director, Roger Yates, will commence a search for a new Chairman in September with the objective of having the candidate on our Board by March 2014 to ensure a smooth handover by our AGM.

It is again our intention this year to put every Board Director up for re-election at the AGM, in compliance with paragraph B.7.1 of the UK Corporate Governance Code. In the case of Sam Tymms, this will be the first opportunity for election following her appointment as a Director in May 2013. All other Directors are being put forward for re-election.

Remuneration

The Remuneration Committee, under the Chairmanship of Roger Yates, the Senior Independent Director, has reviewed the remuneration for senior management during the past year.

The Committee has decided to undertake a complete review of our executive compensation, including changing our external advisers. This decision was taken to reflect a realistic view of the medium term growth prospects of IG and the need to retain and motivate our management team, who have produced outstanding results for shareholders in the past few years. To this end Roger and I have spent time with our leading shareholders to seek their views on the design of a remuneration package which aligns management with shareholders' interests and incentivises them competitively for the long term. This resulted in the proposal that we are putting before shareholders at our forthcoming AGM and which we believe achieve our objectives and reflect the Financial Conduct Authority's remuneration principles.

Conclusion

This has been a challenging year for IG. Given the extremely difficult trading environment in the first half of the year, I believe management responded rapidly and appropriately with actions to reduce operating costs, while still managing to reap the benefits of a more supportive second half and ultimately delivering earnings growth.

We remain committed to delivering superior technology, innovative products and the best trading experience, putting the needs of our customers at the forefront of everything we do. If we continue to do this successfully, I strongly believe IG will prosper in a world where constant changes in the economic backdrop on the road to recovery, both positive and negative, will continue to create opportunities for our clients to participate in financial markets.

As always, none of this could have been achieved without the commitment of all our employees. This has been particularly the case this year, with a disappointing first half year creating the need to manage costs carefully and the strong second half when the external backdrop was much more supportive. Our colleagues have been resolute throughout the year and responded extremely well to the challenges that the markets and competition have presented. I and my fellow Directors would like to express our sincere thanks to them for their personal contributions to the Group's success this year.

Jonathan Davie, Chairman

23 July 2013

Chief Executive's Review

The year was characterised by two extremely different six month periods. In the first half financial markets were very dull, presenting our clients with fewer opportunities to trade than normal. In the second half, while volatility remained low, a succession of significant news events produced more trading opportunities for our clients. These included the US fiscal cliff negotiations, a sustained period of rising equity markets, a crash in the price of gold, the Cyprus bail-in and a shift in monetary policy in Japan. I am pleased with how the business responded in both periods. In the first half our cost base flexed downwards naturally, particularly as a result of reduced employee variable compensation, and we chose to slow down our planned investment and trim our cost base. In the second half we captured the upside from the increased trading levels through our extremely robust trading platform and high quality execution. As a result, despite the challenging conditions and a fall in revenue for the year as a whole, we were able to deliver modest growth in profit and earnings. Our profit before tax grew by 3.5% to £192.2 million and our diluted EPS increased by 3.4% to 38.80 pence.

A full review of the financial performance of the business during the year is set out in the 'Operating and Financial Review'.

Business developments

Over the last couple of years we have increasingly focused IG on active retail traders – individuals who have the knowledge and desire to trade the financial markets on a regular basis. During this year we undertook a major project to re-launch our main brands as IG. This ensures that our websites, platforms, advertising and all of our other manifestations are consistent worldwide, and represent more accurately the scale of our business and its stature as the standard bearer for our industry. As part of this we acquired a number of domain names, including IG.com and a wide range of local IG domains, such as IG.co.uk and IG.de. Shortly after the year-end we launched IG.com for our UK clients. This website has a number of new features for both current and prospective clients. We have consolidated spread betting and CFDs into a single website and, for the first time our clients are now able to access multiple accounts, and hence multiple products and platforms, from a single login. IG.com also makes our market insight research content available to non-clients. Over the next few months we will be migrating all of our web sites onto IG.com, consolidating our online traffic worldwide on a single domain. We believe that this will deliver significant benefits to our ranking on search engines, as well as improving our buying power for paid search, thereby enhancing our client acquisition rates.

Technology is a key competitive differentiator and we continue to invest heavily in this area, further developing our core platforms, both web-based and mobile. The proportion of client transactions placed using our mobile apps is increasing steadily, and in the last few weeks of the year approached 30% of all client trades. We expect ongoing growth in the use of mobile platforms, and we continue to develop our apps to ensure that they remain at the forefront of mobile trading and provide our clients with all the features and tools necessary to trade with us.

Alongside our core platforms we also offer a number of platforms which cater for clients with specific trading requirements. For some time we have had a direct market access (DMA) platform, L2, for our most advanced share trading clients. During the coming year we will pilot the ability for clients to trade and hold cash equities alongside equity CFDs within this platform. If this pilot is successful we would expect to add this functionality to our core platforms in the following financial year.

We are already the largest retail forex provider in a number of our markets, but our market lead is not as decisive as it is for some other products. This may in part reflect that until recently we have not had a specialist forex trading platform. One of the most popular trading platforms for retail forex traders is MetaTrader and we have recently completed the necessary development work to connect this to our pricing, execution and back office systems. We are currently offering MetaTrader to a pilot group of clients before making it generally available in the coming months. This platform has a large and loyal user base around the world, who we believe will welcome the opportunity to trade forex with IG using this platform. I am optimistic that we will see incremental client gains over the coming years as a result of offering MetaTrader.

Early in the financial year we received the unwelcome news that PFG Best, the only broker connected to Nadex, our US regulated exchange, was going into bankruptcy. Towards the end of the year we purchased PFG's software from the Trustee in Bankruptcy. This software includes a full suite of front, middle and back office components.

We are currently developing this into Nadex Connect, an 'out of the box' offering, providing a complete software solution for brokers to offer Nadex products. This technology constraint was a significant barrier to opening up this intermediated distribution channel. Meanwhile, we have seen promising growth in the number of members trading on the Nadex exchange, albeit from a low base, as a result of focusing on direct retail marketing. Over the last few weeks we have also seen increasing regulatory action against 'Over-The-Counter' (OTC) binary option providers who have been offering these products illegally in the US. Both the US 'Commodities Futures Trading Commission' (CFTC) and the US 'Securities and Exchange Commission' (SEC) have made it clear that it is only legal for a US resident to trade binaries on a regulated exchange such as Nadex. Nadex remains a long-term project, and I do not underestimate the challenges of developing a substantial business in a market as large and competitive as the United States. However, we have made good progress over the last year and I am increasingly optimistic that Nadex can reach profitability within a reasonable timeframe. This will be an important milestone in establishing the long-term prospects of our US business.

International growth

International expansion remains a key part of our strategy. There are several parts to this.

Firstly, we continue to seek to establish new offices in countries where we do not currently have a presence, and during the year we opened new offices in Ireland and Norway. This is a driver of longer-term growth and does, of course, require expenditure in advance of any new office beginning to generate revenue. It can also take several years for new offices to reach the profitability levels of our existing offices. We are currently at varying stages of discussion with regulators in three new jurisdictions that have the potential to contribute to our growth outside the UK and Europe. These discussions may or may not ultimately result in us being able to operate in all these countries.

Secondly, I believe that there remains very significant growth potential from the offices we have established over the last seven years. Many of the markets in which we operate are still at an early stage in their development, are small relative to our established businesses in the UK and Australia, and have spent most of their early years battling poor macro-economic conditions. We continue to see strong growth rates from our German and Singaporean offices, with revenue in the second half up 36% and 29% respectively. Together these two offices now generate almost the same level of revenue as Australia, which grew at a more modest 12% in the second half of the year.

Given these relative growth rates, Germany and Singapore, and the regions in which they sit, are likely to become increasingly important drivers of overall revenue growth for the Group over the coming years. Both of these offices were established approximately seven years ago and the fact that they continue to grow strongly is promising for the long-term prospects of our more recently established offices.

Finally, we are being increasingly successful at recruiting clients from countries in the world where we do not have a local office, particularly in the Asia Pacific region. Although our ability to undertake targeted marketing is limited, a growing number of clients are finding us online and the IG.com domain will further help this. We are also introducing a number of changes which will make it easier for clients in these countries to open accounts with us and then to fund and trade through those accounts.

A focused approach to client service

Our aim is to deliver the best possible trading experience for active traders and to provide the best possible range of tools to support their trading activities. We give our largest and most valuable clients a very personalised service, while ensuring that all of our clients enjoy the highest standards of pricing, execution and client service. Our focus on active retail traders means that we expect to recruit fewer new clients than we have in the past, but we also expect these clients will be on average of higher value. We believe this is already one of the drivers of the increase in revenue per client of 6% for the year within our established markets.

We have introduced a rolling survey of our clients in all of our markets to enable us to continually monitor satisfaction levels. In addition, independent market research gives us annual data on satisfaction levels and Net Promoter Scores (NPS) for us and our competitors across our five largest markets. We saw significant improvements in our already strong NPS in most of these markets and in all cases we enjoy a score substantially above the industry average. NPS is a widely recognised measure of customer loyalty, with a high score normally associated with strong, sustainable long-term revenue growth. Word of mouth recommendation remains a major source of new clients, and independent research[1] indicates that we are the largest beneficiary of switching between providers within our industry. All of this, I believe, bodes well for continued gains in market share in our main markets.

Regulation

There remains uncertainty about the impact that a European Financial Transaction Tax (FTT) might have on our business. Over the last couple of months it has become increasingly clear that progress on introducing this tax is likely to be quite slow, and that there is no consensus among the participating member states on the form any tax should take. It appears increasingly likely that any tax eventually introduced could be of a more limited scope, perhaps only applying to cash equities in a similar way to the current unilateral French FTT. The tax in France has no adverse impact on our business as it does not apply to our transactions with our clients or those we carry out to hedge our residual risk. In Italy, a complex FTT was due to be introduced in two stages, with the second stage on 1 July. The first stage, which applies only to cash equities, came into force in March. Introduction of the second stage, applicable to derivatives, has been deferred. The first stage necessitated some changes to our pricing, but it is not yet clear what impact the second stage may have, if and when it is eventually introduced.

In Japan, new rules are being introduced on binaries, which accounted for approximately 25% of the revenue from our Japanese office in the year. On the one hand these new regulations provide a beneficial shift in the competitive landscape, because they outlaw forms of binary which are offered by the majority of our competitors in Japan, but not by us. On the other hand, the new rules are likely to make it significantly harder to sign up new binary clients, as they introduce a detailed test which new clients must pass before being permitted to trade the products. Further clarity is still required around the implementation of these rules, but we currently anticipate they will come into force towards the end of this calendar year.

The economic backdrop

There is considerable economic stress in the majority of the countries in which we operate and the global economic outlook remains uncertain. This undoubtedly has an impact on our industry and has impacted our ability to recruit new clients. More positively, the flow of economic news has provided a wealth of trading opportunities for our installed client base. In the short to medium term I believe that we will continue to see a flow of mixed economic data, providing continuing trading opportunities for our clients.

Over the longer term, the Group should benefit as economic conditions improve, providing an easier backdrop against which to recruit new clients. Additionally, when interest rates eventually start to rise again, the interest that we earn on client money, which is currently in decline, has the potential to once again become a more significant contributor to our profitability.

Outlook

In the coming year we face relatively benign comparatives for the first two quarters, and then increasingly challenging comparatives for the final two quarters of the year. Trading to this point in the 2014 year has been in line with expectations, with a strong June followed by a quieter July as we head into holiday season in the Northern Hemisphere. Following the reduction in our operating costs in 2013, we plan for these to rise in 2014. The primary drivers of this increase are the resetting of employee variable compensation into the new financial year, the impact of inflation on overall remuneration, an assumed increase in regulatory fees and additional investment in growing the business.

We have made considerable progress over the last year with our rebranding, the launch of IG.com and the development of our platform offering. Our additional investment in the next financial year will focus on specific initiatives aimed at further enhancing the Group's offerings for active traders, including introducing MetaTrader, development of our mobile platforms, and further geographic expansion.

This is a business in which we need to continue to invest for the longer-term. Our business is highly cash generative and has a strong balance sheet, giving us significant competitive advantage and a high level of resilience. The investments we will make in the coming year should leave us well placed for future growth. I am confident in the prospects for the business going forward.

Tim Howkins, Chief Executive
23 July 2013

Operating and Financial Review

Operating review

Net trading revenue for the Group in the year was down by 1% at £361.9 million (2012: £366.8 million). There was a stark contrast in performance for the two halves of the year, with revenue behind in the first half by 14% and ahead in the second half by 13%. The trading backdrop in the first half of the year was extremely dull, with the market providing few trading opportunities for clients. In the second half, although certain measures of volatility remained low, there were a number of macro stories which encouraged increased activity from clients. This led to a particularly strong finish to the year.

Net trading revenue

The table below shows the geographical split of revenue and changes in active client numbers and revenue per client for the year ending 31 May 2013. A summary of these underlying Group metrics is presented in the Investor Resources section. The following commentary explains the drivers and impact of these KPI's on the net trading revenue of the Group.

	Net Trading revenue			Year on year change in Key Performance Indicators	
	2013 £m	2012 £m	Change	Number of Active clients	Average Revenue per client
UK	186.5	191.8	(3%)	(9%)	7%
Australia	56.3	58.0	(3%)	(8%)	6%
Europe	71.0	72.2	(2%)	6%	(7%)
Rest of World	32.2	28.4	13%	19%	(5%)
Total excluding Japan	346.0	350.4	(1%)	(4%)	2%
Japan	15.9	16.4	(3%)	(19%)	19%
Total	361.9	366.8	(1%)	(5%)	4%

UK

The UK segment comprised the offices in London and Dublin. Net trading revenue in the UK was behind the prior year by 3% at £186.5 million (2012: £191.8 million). Performance in the two halves of the year was very different, driven by factors described earlier, with revenue down in the first half by 15% and up in the second half by 11%.

Active client numbers were down by 9% in the year, while average revenue per client was up by 7%. The weak economic backdrop and a reduction in marketing from many competitors in the industry made the 2013 financial year a more difficult period in which to introduce new clients to the industry. Almost offsetting this was an increase in activity from existing clients, with more trading opportunities presented in the second half of the year and an increasing level of reactivation among clients who had been inactive for a period of time.

A market research study released in November concluded that for the 12 months to July 2012, IG had increased its share of the financial spread betting market in the UK from 41% to 44% and the CFD market from 24% to 32%. The study also showed that the size of the UK leveraged trading market had grown by 6% to reach approximately 104,000 active participants.

Late in the year the technological work to establish a single customer identity within IG was completed. This allows UK clients with a spread betting and CFD trading account to access them both through a single login and move funds between them. We also acquired IG.co.uk as part of the broader online strategy centred around IG.com; this single domain name will replace IGindex and IGmarkets.

Australia

The Australia segment comprised the Melbourne office and revenue from New Zealand and other countries in the Asia Pacific region. Net trading revenue in Australia for the year was down by 3% to £56.3 million (2012: £58.0 million), with a stark split between the first half and the second half. Revenue was down in the first half by 14% and ahead in the second half by 11%. Active client numbers in the year were down by 8%, but this was partially offset by strong growth of 6% in revenue per client.

Consumer sentiment appeared weak during the first half of the year, with the fall in commodities prices hitting the key mining industry and relatively high interest rates putting pressure on household budgets. Sentiment improved in the second half with a steady drop in base rates from 4.5% to 2.75% and the recovery in global equity markets. Although reactivation rates among the client base were high towards the end of the year, opening new accounts remains challenging.

During the year an annual market research study found that IG had grown its market share of the retail CFD industry by three percentage points to 37%, extending its leadership by two percentage points. IG continued to lobby the regulator to prevent client funds being used for hedging purposes, an approach IG adopted some time ago. The business increased its efforts to encourage account sign-up from around the Asia Pacific region by improving marketing, education and account application and money transfer processes.

Europe

The Europe segment comprised the German, French, Italian, Spanish, Dutch, Swedish, Norwegian and Luxembourg offices. The economic backdrop in Europe continued to weaken, with the corresponding impact on consumer sentiment making it more difficult to open new accounts and expand the category in the short-term. Net trading revenue in Europe for the year was down by 2% at £71.0 million (2012: £72.2 million), with a strong second half almost offsetting the very weak trading environment in the first half.

Active client numbers grew by 6% across the region, with a particularly strong performance from the newer offices in Sweden and The Netherlands, and continued active client gains in Germany, Spain and Italy. An annual market research report for France concluded that IG's market share had declined by two percentage points to 22%. This is within a market which has grown by 20%, with certain prominent local brokers beginning to more actively promote CFDs as a preferred method of leveraged trading.

Rest of World

The Rest of World segment comprised the Singapore and South African offices and Nadex, the Group's only retail exchange, in the USA. Net trading revenue in the Rest of World was ahead of the prior year by 13% at £32.2 million (2012: £28.4 million), with the first half slightly behind and the second half ahead by 21%.

Singapore revenue was ahead by 12%, driven by an increase in revenue per client. During the year it was confirmed in a survey that IG is the joint largest FX provider, with a market share of 13% and that IG increased its share of the CFD market by three percentage points to 15%. The survey concluded that the size of the CFD market remained flat, with approximately 23,000 retail traders, while the forex market declined by 20% to around 20,000.

The Client Knowledge Assessment regime introduced at the start of 2012 increased the barriers to entry for new traders into the market, with its requirement for a relevant educational or employment background or trading experience. IG is in negotiations with the regulator to gain approval for an online training module which would provide sufficient education to facilitate the flow of new traders into the market. The consultation issued by the Monetary Authority of Singapore in May 2012 proposed an increase in margin for non-accredited investors on a forex trade from 2% to 5%. To date there have been no further public updates on this proposal.

In South Africa, although the absolute numbers are still relatively small, revenue was ahead by 14% at £4.6 million, driven primarily by strong growth in active client numbers, even after taking into account the rapid depreciation in the Rand which held back the reported results.

In the USA, Nadex revenue was up by 40% in the year, with over 1,300 clients per month now regularly trading on the exchange; this compares to approximately 700 at the end of the prior year. During the period the Commodity Futures Trading Commission (CFTC) took action to halt the activities of three companies offering over the counter binary options in contravention of US law. In the last of these actions both the CFTC and the Securities and Exchange Commission (SEC) made it clear that it is only legal to trade these products on a regulated exchange, such as Nadex. In June 2012 the one broker connected to Nadex, PFG Best, went into bankruptcy. Late in the year IG acquired some software assets of PFG Best from the trustee, to enable the development of a full technology solution which could allow other brokers to connect to the Nadex platform without large scale investment on their part.

Japan

The Japan segment comprised only clients of the Tokyo office. Net trading revenue in Japan for the year was down by 3% to £15.9 million (2012: £16.4 million). There was particular weakness in the first half, down 9%, caused by the quieter market backdrop. Active client numbers for the year were down by 19%, while average revenue per client was up by 19%.

Following the leverage reductions in 2011 and 2012, the last of which took place in August 2011, the business has been reasonably stable and remains profitable. Nevertheless it has proven difficult to grow against the larger local competition. One area where business has continued to grow is binary options, which made up 25% of the revenue in 2013 (2012: 18%). In May this year the regulator clarified its approach to binaries. New rules will prevent the offering of very short term contracts and those which can only run to expiry. IG does not currently offer these types of contract, but they do constitute the principle forms of binary offered by a large number of competitors. However, a new requirement for a client knowledge assessment, in the form of an online test, is likely to make the recruitment of new binary clients more difficult than at present.

Summary Group Income Statement

£000	2013	2012	% change
Net trading revenue[1]	361,857	366,812	(1.4)%
Other net operating income	6,051	2,358	
Net operating income	367,908	369,170	
Operating expenses	(163,814)	(172,897)	(5.3)%
Depreciation, amortisation and amounts written off property plant and equipment	(12,166)	(10,760)	
Operating profit	191,928	185,513	3.5%
Net finance income	280	204	
Profit before tax	192,208	185,717	3.5%
Tax expense	(50,460)	(48,583)	
Profit for the year from continuing operations	141,748	137,134	
Loss from discontinued operations	-	(374) [1]	
Profit after tax and discontinued operations	141,748	136,760	
Diluted earnings per share from continuing operations[2]	38.80p	37.54p	3.4%
Total dividend per share	23.25p	22.5p	3.3%

(1)Net trading revenue is trading revenue excluding interest on segregated client funds and is net of introductory broker commissions

(2) The Group's Sport business was discontinued in the year-ended 31 May 2012

Other net operating income

Other net operating income of £6.1million (2012: £2.4 million) includes:

- Betting duties paid by the Group in relation to spread betting clients of £5.2million (2012: £8.9 million). The reduction of £3.7 million is in line with reduced trading revenue and lower client losses
- Receipt of £1.3 million (2012: £nil) from a 3rd party's insurer in relation to remedial work performed on the fit out of the London office
- Inactivity fees charged of £0.5 million (2012: £nil). In the year ended 31 May 2013, the Group commenced charging an inactivity fee of £10 per month to any client who had not traded for a period of two years and who has a positive account balance
- Income of £1.3 million (2012: £1.0 million) in relation to a revenue share arrangement with Spreadex Limited following the sale of the Group's Sport business client list. Under this arrangement, which ends on 31 May 2014, the Group receives semi-annual payments, calculated by reference to the revenue that the acquirer generates from clients on the list

- Net interest income on segregated client funds of £8.2 million (2012: £10.3 million). The reduction of 20% from the prior period results from lower interest rates in Australia and the impact of the UK Government's funding for lending schemes which has resulted in UK banks offering lower interest rates to depositors such as IG

Operating expenses

Operating expenses, as detailed below, decreased by £7.7 million to £176.0 million (2012: £183.7 million). Underlying operating expenses which exclude depreciation, amortisation and exceptional items, decreased by £10.2 million to £163.8 million (2012: £174.0 million).

The reduction in underlying operating expenses followed the cautious approach taken to managing cost in response to the subdued trading in the first half. Some costs, notably bonuses, flexed with financial performance whilst cost actions with regards to headcount, marketing and general other spend all contributed to lower underlying operating expenses.

Administrative expenses £000	**2013**	**2012**
Employee remuneration costs	86,276	92,669
Advertising and marketing	32,558	31,068
Premises related costs	10,164	10,384
IT, market data and communications	12,211	12,724
Legal and professional	4,772	5,777
Regulatory fees	6,394	6,300
Bad and doubtful debts	(348)	1,337
Other costs	11,787	13,729
Underlying operating expenses	163,814	173,988
Depreciation, amortisation and amounts written off property plant and equipment	12,166	10,760
Exceptional items (including depreciation)	-	(1,091)
Total administrative expenses	**175,980**	**183,657**

Employee remuneration costs

Employee remuneration costs decreased by £6.4 million to £86.3 million (2012: £92.7 million) in the year. This was as a result of a £10.6 million reduction in performance-related bonuses as the financial elements of staff bonus schemes flexed with below expectation revenue performance. This was partly offset by inflationary pay rises and a year on year increase of 45 in the average headcount.

In the first half of the year, a redundancy programme was carried out as part of the Group's approach to cost management. The redundancy programme costs included in remuneration totalled £1.3 million. Following the redundancy programme and cautious approach to headcount through the second half, headcount was marginally lower than the prior year, with year-end employees totalling 991 (2012: 1,012).

The Group pays performance-related bonuses to most staff and makes awards under the Value Sharing Plan (VSP) to key personnel. In addition, the opportunity to acquire shares under various Share Incentive Plans (SIPs) has been made available to all UK, Australian and US staff. These awards reward employees for past performance and help to retain them in the future. We also provide a range of other benefits to employees, including pension contributions and private health insurance.

Inclusive of national insurance and pension costs, employee remuneration costs comprise:

£000's	2013	2012
Fixed employment costs	63,306	59,719
Performance-related bonuses and commissions:	17,304	27,945
Share-based payment schemes	4,414	5,005
Redundancy programme costs	1,252	-
Total employee remuneration costs	**86,276**	**92,669**

Investment in IT development resource allows the advancement of multiple technology initiatives, such as the single client log in, roll out of IG.com, the development of MetaTrader and other initiatives. This resource also ensures we maintain high levels of platform resilience and availability. At 31 May 2013 year-end IT headcount was 411 (2012: 397) an increase of 4% over the level at the prior year-end.

Advertising and Marketing costs

Advertising and marketing costs have increased by £1.5 million to £32.6 million (2012: £31.1 million) during the year and include £1.1 million for the brand relaunch as IG (further details are provided in the CEO's Statement) in the first half of the financial year.

Marketing resource during the year has focused on the roll out of the new 'IG' brand which will be further developed in the 2014 financial year, with the launch and roll out of IG.com growing market share, an increased focus on forex traders and traditional shares traders and, in the APAC region, targeting out of country sales, in regions where the Group does not have a local presence.

Other expenses

Premises-related costs are in line with the prior year at £10.2 million (2012: £10.4 million). During the year there were new offices opened in Dublin and Oslo and a number of office moves either completed or in the planning phase, including Melbourne, Johannesburg and Singapore in order to meet the demands of more developed business.

IT, market data and communication costs include the cost of IT maintenance and short term license arrangements as well as market data fees from exchanges. Review of market data usage, contracts and terminals as part of the cost management focus has seen costs in this area reduce by £0.5 million.

Legal and professional fees, which include audit, taxation, legal and other professional fees decreased by £1.0 million to £4.8 million (2012: £5.8 million). Costs associated with litigation by a number of claimants in relation to the insolvency of Echelon Wealth Management Limited (Echelon) were £3.4 million (2012: £1.1 million) during the year-ended 31 May 2013. These were offset by the recovery of £2.8 million of legal costs from the plaintiffs following the successful outcome of the litigation for the Group and their subsequent decision not to appeal the findings.

Regulatory fees predominantly consist of charges levied on the Group by the Financial Services Compensation Scheme ('FSCS') in relation to the failure of investment intermediary firms. These levies were consistent with those levied in the prior year – with a total levy for the FSCS year of £5.1 million (2012: £5.0 million). The Group also pays other regulatory fees to the FCA in the UK as well as regulatory bodies in other jurisdictions where we have operations. It is expected that there will be higher overall charges from the FCA over the coming year, as the cap on the FSCS levy pot, to which the Group is required to contribute (investment intermediaries), has been increased to £150 million (including management fees) from £100 million (excluding management fees).

The positive impact of our Close-Out Monitor, which automatically reduces our exposure to bad debts, combined with the use of tiered-margining, again ensured that new bad debt provisions of £1.0 million (2012: £2.3 million) were less than 1% of net trading revenue. The Group recovered £1.4 million of cash against previously provided bad debts. A significant amount of the debt resulting from 2008 has now been recovered so a material level of recoveries is not expected to continue. The management of credit risk is described in both the 'Managing Our Business Risk' section of the Business Review and in note 37 to the Financial Statements.

Other costs include bank charges, training, travel, recruitment and irrecoverable sales taxes. The decrease in other costs primarily results from a £1.1 million credit from the liquidation of a dormant overseas subsidiary.

Depreciation and amortisation increased to £12.2 million (2012: £10.8 million) following the higher levels of spend on IT development, software and licenses in the year.

Operating Profit margins

The Group uses operating profit margin, which includes an allocation of central costs, as a key indicator of regional performance.

Operating profit increased to £191.9 million (2012: £185.5 million). Operating profit margin (Operating profit expressed as a percentage of net trading revenue) increased to 53.0% (2012: 50.6%). The following table summarises operating profit margin by segment:

	Operating profit margin by region	
Segment	**2013**	**2012**
UK	59.1%	55.9%
Australia	65.0%	62.2%
Europe	37.5%	36.2%
Japan	45.4%	37.4%
Rest of World	35.1%	35.2%
Group	53.0%	50.6%

The UK and Australia currently have higher operating profit margin levels than the other regions because they operate in more established markets. In Europe, for example, markets are in early stages of development, and while these businesses reach operating profitability quickly, initially they have depressed operating profit margins, as marketing and other costs are higher relative to net trading revenue.

Operating profit margin, grew year on year across all regions with the exception of 'Rest of World', which remained flat.

The operating profit margin in Japan increased by 8 percentage points in the year due to the prior year reorganisation and headcount reduction having a full year impact on operating costs.

The UK segment's operating profit margin is higher than that in the prior financial year primarily as a result of lower betting duties, lower costs due to the Group's cost management programme and the reduction in performance related bonuses.

Profit before taxation

As a result of the factors outlined above profit before taxation grew 3.5% to £192.2 million (2012: £185.7 million). Profit before tax margin, calculated with reference to net trading revenue, increased to 53.1% (2012: 50.6%).

Profit before taxation is used as a primary measure of the Group's underlying profitability and the vesting of a proportion of the awards made under the Group's Value Sharing Plan are calculated with reference to this measure.

Taxation expense

The effective rate of taxation for the year-ended 31 May 2013 increased to 26.3% compared to a rate of 26.2% for the prior year. The effective rate for the current year is higher due to significant movements in deferred tax in the period largely in relation to changes in assumptions with regards to the vesting of the Group's Value Sharing Plan.

The calculation of the Group's tax charge involves a degree of estimation and judgement, in particular with respect to certain items whose tax treatment cannot be finally determined until agreement has been reached with the relevant tax authority.

Discontinued operations

There were no discontinued operations in the current year. In the year ending 31 May 2012, the closure of the Group's Sport business was disclosed as a discontinued operation and contributed a loss after taxation of £0.4 million.

Diluted earnings per share

Diluted earnings per share from continuing operations increased to 38.80p (3.4% growth) from 37.54p in the year-ended 31 May 2013. Diluted earnings per share is used as a primary measure of our underlying profitability and as a financial measure in relation to the annual Directors' performance-related bonuses.

Dividend policy

At the forthcoming AGM, the Board will recommend the payment of a final ordinary dividend of 17.5 pence per share. This will bring the total ordinary dividend for the year to 23.25 pence per share, an increase of 3.3% on the prior year. The Board is pleased to be able to recommend this level of payout at the end of a challenging year.

The Board has adopted a progressive dividend policy that reflects the long term earnings and cash flow potential of the Group. Out dividend payout target is in the region of 60% of profit after tax.

Summary Group Cash Flow – high levels of cash generation

The following cash flow statement summarises the Group's cash generation during the year and excludes all cash flows in relation to monies held on behalf of clients. In order to provide a clear presentation of the Group's liquid assets both amounts due from brokers and financial investments held in the Group's liquid assets buffer in accordance with BIPRU 12 have been treated as 'cash equivalents' and included within 'own funds'. For an explanation of the derivation of 'own funds' please refer to the table presented in the following liquid assets section.

£000	2013	2012
Operating activities		
Profit before tax	192,208	185,329(1)
Depreciation and amortisation	12,166	10,760
Other cash and non-cash adjustments	4,247	2,140
Income taxes paid	(53,247)	(57,554)
Own funds generated from operations	**155,374**	**140,675**
Movement in working capital	(13,081)	21,906
Outflow from investing and financing activities	(100,732)	(83,324)
Increase in own funds	**41,561**	**79,257**
Own funds at 1 June	388,221	309,228
Exchange gains on own funds	(491)	(264)
Own funds at 31 May	**429,291**	**388,221**

(1) Profit before tax for the year ending 31 May 2012 is stated inclusive of discontinued operations for the purposes of the cash flow statement.

Own funds generated from operations were £155.4 million (2012: £140.7 million) during the year, reflecting the cash generative nature of the business. Cash conversion, calculated as own funds generated from operations divided by profit before tax, remained at high absolute levels (2013: 80.9%, 2012: 75.9%).

'Own funds' increased by £41.6 million (2012: £79.3 million) after adjustments for movements in working capital balances, largely in relation to variable remuneration schemes, and significant outflows in relation to investing and financing activities. The outflow from investing and financing activities includes £16.8 million in relation to capital expenditure (2012: £9.1 million). During the year the Group acquired the IG.com web domain and other such 'IG' domains (£4.0 million) and invested a further £8.0 million on a combination of IT development and software assets. Cash investment in tangible fixed assets of £4.8 million was primarily driven by £2.8 million of IT hardware to reduce latency and provide additional resilience and £1.6 million in relation to office fit out and renovations. This item also includes the payment of the final 2012 and interim 2013 dividend payments which total £81.6 million (2012: £73.9 million). Finally the year saw a cash outflow of £1.3 million in respect of the acquisition of the remaining minority interest in our South African business.

Own funds – high levels of liquidity

The Group's liquid assets, as set out in the table opposite, comprise cash balances available to the Group for its own purposes and exclude all monies held on behalf of clients. Own funds are used in normal business operations as well as for the funding of broker margin requirements. Consequently own funds are held either with the Group's banking or broking counterparties. The Group is also entitled to use 'title transfer funds' in normal business operations and as broker margin. Title transfer funds are those held on behalf of corporate clients where the client agrees, under a Title Transfer Collateral Arrangement (TTCA), that full ownership of such monies is unconditionally transferred to the Group. The Group no longer accepts title transfer funds from individual clients – explaining the reduction in these monies held over the course of the year.

At 31 May 2013 ‘own funds’ also include financial investments (UK Government Treasury Bills and Gilts) held in accordance with the BIPRU 12 liquidity standards and the Group’s regulatory oversight by the FCA. These assets comprise the Group’s ‘liquid assets buffer’ and are available to the Group in times of liquidity stress and therefore are considered as available for the purposes of overall liquidity planning. Own funds increased to £429.3 million (2012: £388.2 million) in the year to 31 May 2013 reflecting the high level of cash generation set out earlier in this report. An analysis of own funds is provided in the following table:

	2013	*2012*
	£000	*£000*
Own cash and title transfer funds[(1)]	98,345	228,156
Amounts due from brokers[(2)]	283,940	206,997
Financial investments – liquid assets buffer[(3)]	50,468	-
Other amounts due to the Group[(4)]	15,003	12,920
Liquid assets	**447,756**	**448,073**
Liquid assets are analysed as:		
Own funds	429,291	388,221
Title transfer funds	18,465	59,852

(1) Own cash and title transfer funds represent cash held on demand with financial institutions.

(2) Amounts due from brokers represent balances with brokers where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group. These positions are held to hedge client market exposures in accordance with the Group’s market risk management.

(3) Financial investments represent UK Government Treasury Bills and Gilts held in accordance with the BIPRU 12 liquidity standards and the Group’s regulatory oversight by the FCA. This is the Group’s liquid assets buffer.

(4) Other amounts due to the Group include balances that will be transferred to the Group’s own cash from segregated client funds on the following working day in accordance with the UK’s Financial Conduct Authority (FCA) ‘CASS’ rules and similar rules of other regulators in whose jurisdiction the Group operates. At 31 May 2013 this also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end. The Group is required to segregate these client funds at the point of client funding and not at cash settlement.

An element of the Group’s liquidity is not available for the purposes of the centrally performed market risk management as it is held in overseas businesses for the purposes of local regulatory and working capital requirements or is currently held within segregated client money bank accounts to ensure the Group’s segregation obligations are met. At 31 May 2013 the unavailable cash totalled £47.5 million having increased by £13.6 million from that unavailable in the prior year as a result of both a higher cash capital holding in the Group’s US subsidiary, Nadex, and the requirement to segregate client card transfers to the Group from the point of transaction and not when client funds settle into a client money bank account.

Available own funds enable the funding of large broker margin requirements when required and should be considered in the context of the intra-year high broker margin requirement of £297.5 million (2012: £277.1 million), the requirement to hold a liquid assets buffer, the continued growth of the business, the Group’s commitment to segregation of individual clients money as well the final proposed dividend for the year ending 31 May 2013 all of which draw upon the Group’s liquidity.

‘Net available own funds’ decreased to £136.1 million (2012: £159.0 million) following an increase in the year-end broker margin requirement to £245.7 million (2012: 196.0 million). ‘Net available own funds’ is disclosed in the table below and represents the Group’s available own liquidity inclusive of the liquid assets buffer and after the payment of broker margin.

	2013	*2012*
	£000	*£000*
Own funds	**429,291**	**388,221**
Less amounts required to ensure appropriate client money segregation - other amounts due to the Group	(15,003)	(12,209)
Less amounts required for regulatory and working capital of overseas subsidiaries	(32,542)	(21,064)
Available own funds	**381,746**	**354,948**
Less broker margin requirement	(245,689)	(195,954)
Net available own funds	**136,057**	**158,994**
Of which held as a liquid assets buffer	50,468	-

In order to mitigate liquidity risks, the Group regularly stress tests its three-year liquidity forecast to validate the appropriate level of committed unsecured bank facilities held. At the year-end, these amounted to £180.0 million (2012: £180.0 million). These facilities were drawn to a maximum of £25.0 million for a period of 22 days in April 2013 where the broker margin requirement reached a maximum level of £294.7 million and the Group held a liquid assets buffer of £50.5 million.

Regulatory capital resources

Throughout the year, the Group maintained a significant excess over the capital resources requirement, both on a consolidated and individual regulated entity basis. The Group's pillar 1 regulatory capital surplus is reflected in the own funds and available liquidity disclosed above.

The Group considers there are significant benefits to being well capitalised at a time of continuing global economic uncertainty. The Group is well placed in respect of any regulatory changes which may increase our capital or liquidity requirements, and high levels of liquidity are important in the event of significant market volatility. The Group's liquidity requirements have historically been, and remain, significantly in excess of its regulatory capital requirements. The total regulatory capital requirement remains significantly below the necessary liquidity levels.

The following table summarises the Group's Pillar 1 capital adequacy on a consolidated basis.

£m	**2013**	**2012**
Total Tier 1 capital	508.4	448.7
Less: Intangible assets	(120.5)	(115.4)
Less: Investment in own shares	(1.5)	(1.5)
Total capital resources (CR)	**386.4**	**331.8**
Capital resources requirement (CRR) – pillar 1	(115.1)	(100.4)
Pillar 1 Surplus	**271.3**	**231.4**

Summary Group Statement of Financial Position

£000	2013	2012
Property, plant and equipment	14,469	15,555
Intangible assets	120,479	115,366
Deferred tax assets	9,470	11,915
Non-current assets	**144,418**	**143,836**
Trade and other receivables	310,914	232,087
Cash and cash equivalents	98,345	228,156
Financial investments	50,468	-
Current assets	**459,727**	**460,243**
TOTAL ASSETS	**604,145**	**603,079**
Trade and other payables	72,828	125,891
Provisions	-	1,353
Income tax payable	24,289	28,652
Current liabilities	**97,117**	**155,896**
Redeemable preference shares	40	40
Non-current liabilities	**40**	**40**
Total liabilities	**97,157**	**155,936**
Total equity	**506,988**	**447,143**
TOTAL EQUITY AND LIABILITIES	**604,145**	**603,079**

Non-current assets

As discussed in the Business Review, the Group continues to invest in technology both to enhance client experience and to improve the capacity and resilience of dealing platforms, each of which is critical to the success of the business.

Intangible assets includes £4.0 million, for a suite of domain names purchased during the year, including IG.com. These assets support the global single rebrand project.

Intangible assets also include goodwill of £107.3 million (2012: £107.5 million), primarily arising on the acquisition of IG Group Plc and its subsidiaries in 2003, the goodwill associated with the acquisition of Nadex of £5.0 million (2012: £4.9 million) and the goodwill (£1.4 million) arising on the acquisition of our South African business.

Capitalised investment in relation to development costs and software and licenses amounted to £2.5 million (2012: £3.0 million) largely relating to the development of the client trading platform and software relating to enhanced marketing capability. During the year the Group also invested £4.4 million in property, plant and equipment (2012: £4.7 million) including £2.5 million (2012: £2.4 million) in relation to IT equipment.

Current assets

Trade and other receivables include amounts due from brokers, amounts due to be received from segregated client money accounts on the following working day, and prepayments. Amounts due from brokers represent cash placed with counterparties in order to provide initial and variation margin in relation to the Group's market risk management. Amounts due from brokers have increased to £283.9 million (2012: £207.0 million) primarily as a result of an increase in the excess of funds held at broker and higher equity positions than at the prior year-end with an intra-year high broker margin requirement of £297.5 million (2012: £277.1 million).

During the year the Group completed the acquisition of the final 10% of IG Markets South Africa Limited, for £1.3 million. As a result there is no minority interest presented in the statement of financial position.

Client money

Total monies held on behalf of clients at year-end was £842.0 million (2012: £792.6 million) of which £823.5 million (2012: £732.7 million) is segregated in trust bank accounts and treated as 'segregated client money' and therefore excluded from the Group Statement of Financial Position. The remaining monies held on behalf of clients of £18.5 million (2012: £59.9 million) represents 'title transfer funds' where the client agrees, under a Title Transfer Collateral Arrangement (TTCA), that full ownership of such monies is unconditionally transferred to the Group. Title transfer funds have reduced in the current year following the Group's decision not to accept title transfer funds from individual clients, consequently title transfer funds now include only corporate clients. Monies subject to title transfer arrangements are included in the Group Statement of Financial Position.

Although the levels of client money can vary depending on the overall mix of financial products being traded by clients, the long-term increase in the level of client money placed by clients with the Group is a positive indicator of future client propensity to trade.

Liabilities

Trade and other payables include amounts due to clients in relation to title transfer funds, accruals and other payables.

Trade payables have reduced by £42.0 million following the Group's decision not accept title transfer funds from all individual clients in the prior year. The level of other payables is £11.0 million lower at 31 May 2013 largely as a result of the lower performance-related bonus accruals discussed earlier in this section.

Preparation of the Operating and Financial Review

This Operating and Financial Review (OFR) has been prepared solely to provide additional information to shareholders to assess our strategies and the potential for those strategies to succeed. The OFR should not be relied on by any other party or for any other purpose.

The OFR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing the OFR, have sought to comply with the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review. The Directors also believe they have adequately discharged their responsibilities under Section 417(3) of the Companies Act 2006 in providing this business review.

Financial information

Group Income Statement

For the year ended 31 May 2013

	Note	*2013* £000	*2012* *£000*
Trading revenue		397,946	400,262
Interest income on segregated client funds		8,477	10,509
Revenue		406,423	410,771
Interest expense on segregated client funds		(289)	(257)
Introducing broker commissions		(36,089)	(33,450)
Betting duty		(5,204)	(8,907)
Other operating income	3	3,067	1,013
Net operating income		367,908	369,170
Analysed as:			
Net trading revenue	*2*	361,857	*366,812*
Other net operating income		6,051	*2,358*
Administrative expenses		(175,980)	(183,657)
Operating profit		191,928	185,513
Finance income		2,036	2,487
Finance costs		(1,756)	(2,283)
Profit before taxation from continuing operations		192,208	185,717
Tax expense	4	(50,460)	(48,583)
Profit for the year from continuing operations		141,748	137,134
Loss for the year from discontinued operations		-	(374)
		141,748	136,760
Profit for the year attributable to:			
Equity holders of the parent		141,692	136,792
Non-controlling interests		56	(32)
		141,748	136,760

Earnings per ordinary share from continuing operations	Note	*2013*	*2012*
Basic	5	39.02p	37.90p
Diluted	5	38.80p	37.54p

Group Statement of Comprehensive Income

For the year ended 31 May 2013

	2013		*2012*	
	£000	*£000*	*£000*	*£000*
Profit for the year		141,748		136,760
Other comprehensive (expense)/ income:				
Foreign currency translation on overseas subsidiaries	(4,578)		751	
Other comprehensive (expense)/ income for the year		(4,578)		751
Total comprehensive income for the year		137,170		137,511
Total comprehensive income attributable to:				
Equity holders of the parent		137, 117		137,566
Non-controlling interests		53		(55)
		137, 170		137,511

Group Statement of Financial Position

As at 31 May 2013

	Note	2013 £000	2012 £000
Assets			
Non-current assets			
Property, plant and equipment		14,469	15,555
Intangible assets		120,479	115,366
Investment in subsidiaries		-	-
Deferred tax assets		9,470	11,915
		144,418	142,836
Current assets			
Trade receivables	7	300,636	222,342
Prepayments and other receivables		10,278	9,745
Cash and cash equivalents	8	98,345	228,156
Financial investments	9	50,468	-
		459,727	460,243
TOTAL ASSETS		604,145	603,079
Liabilities			
Current liabilities			
Trade payables		19,047	61,076
Other payables		53,781	64,815
Provisions		-	1,353
Income tax payable		24,289	28,652
		97,117	155,896
Non-current liabilities			
Redeemable preference shares		40	40
		40	40
Total liabilities		97,157	155,936
Capital and reserves			
Equity share capital		18	18
Share premium		206,758	206,291
Other reserves		84,990	85,543
Retained earnings		215,222	155,145
Shareholders' equity		506,988	446,997
Non-controlling interests		-	146
Total equity		506,988	447,143
TOTAL EQUITY AND LIABILITIES		604,145	603,079

Group Statement Changes in Equity

For the year ended 31 May 2013

	Share capital	*Share premium account*	*Other reserves*	*Retained earnings*	*Shareholders' equity*	*Non-controlling interests*	*Total equity*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 June 2011	18	206,246	80,173	92,263	378,700	201	378,901
Profit /(loss) for the year	-	-	-	136,792	136,792	(32)	136,760
Other comprehensive income / (expense) for the year	-	-	774	-	774	(23)	751
Total comprehensive income / (expense)for the year	-	-	774	136,792	137,566	(55)	137,511
Equity-settled employee share-based payments	-	-	5,005	-	5,005	-	5,005
Excess of tax deduction benefit on share-based payments recognised directly in shareholders' equity	-	-	(101)	-	(101)	-	(101)
Issuance of shares		45	-	-	45	-	45
Purchase of own shares	-	-	(298)	-	(298)	-	(298)
Exercise of US share incentive plans	-	-	(10)	-	(10)	-	(10)
Equity dividends paid	-	-	-	(73,910)	(73,910)	-	(73,910)
Movement in equity	-	45	5,370	62,882	68,297	(55)	68,242
At 31 May 2012	18	206,291	85,543	155,145	446,997	146	447,143
Profit for the year	-	-	-	141,692	141,692	56	141,748
Other comprehensive (expense) for the year	-	-	(4,575)	-	(4,575)	(3)	(4,578)
Total comprehensive income/ (expense) for the year	-	-	(4,575)	141,692	137,117	53	137,170
Equity-settled employee share-based payments	-	-	4,309	-	4,309	-	4,309
Excess of tax deduction benefit on share-based payments recognised directly in shareholders' equity	-	-	13	-	13	-	13
Issuance of shares	-	467	-	-	467	-	467
Exercise of US share incentive plans	-	-	(20)	-	(20)	-	(20)
Purchase of own shares	-	-	(441)	-	(441)	-	(441)
Equity dividends paid	-	-	-	(81,615)	(81,615)	-	(81,615)
Acquisition of non-controlling interests	-	-	199	-	199	(199)	-
Loss on financial investments	-	-	(38)	-	(38)	-	(38)
Movement in equity	-	467	(553)	60,077	59,991	(146)	59,845
At 31 May 2013	18	206,758	84,990	215,222	506,988	-	506,988

Group Cash Flow Statement

For the year ended 31 May 2013

	Note	*2013* *£000*	*2012* *£000*
Cash generated from operations	11	66,402	234,916
Income taxes paid		(53,247)	(57,554)
Interest received on segregated client funds		9,013	10,111
Interest paid on segregated client funds		(289)	(257)
Net cash flow from operating activities		21,879	187,216
Investing activities			
Interest received		2,155	2,004
Purchase of property, plant and equipment		(4,813)	(4,709)
Payments to acquire intangible fixed assets		(11,949)	(4,432)
Purchase of a non-controlling interest		(1,319)	-
Purchase of financial investments		(50,486)	-
Net cash flow from investing activities		(66,412)	(7,137)
Financing activities			
Interest paid		(3,175)	(2,013)
Equity dividends paid to equity holders of the parent		(81,615)	(73,910)
Purchase of own shares		(461)	(298)
Proceeds from the issue of shares		467	37
Payment of redeemable preference share dividends		(3)	(3)
Net cash flow from financing activities		(84,787)	(76,187)
Net increase/ (decrease) in cash and cash equivalents		(129,320)	103,892
Cash and cash equivalents at the beginning of the year		228,156	124,528
Exchange loss on cash and cash equivalents		(491)	(264)
Cash and cash equivalents at the end of the year		98,345	228,156

The cash flows stated above are inclusive of discontinued operations for the year ended 31 May 2012.

Notes

As at 31 May 2013

1. Basis of preparation

The financial information in this announcement is derived from IG Group Holdings plc's group financial statements but does not, within the meaning of Section 435 of the Companies Act 2006, constitute statutory accounts for the years ended 31 May 2012 or 31 May 2013. The financial statements are prepared on a going concern basis and the accounting policies, other than as set out below, are consistent with the Group's 2012 Annual Report.

Although the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this preliminary statement does not itself contain sufficient information to comply with IFRS. The Group will publish full IFRS compliant group financial statements in August 2013 and statutory accounts for 2013 will be delivered to the Registrar of Companies following the company's Annual General Meeting on 17 October 2013.

The Group's auditors, PricewaterhouseCoopers LLP, have reported on those financial statements and the report was unqualified, did not emphasise any matters nor contained any statements under Section 498(2) or (3) of the Companies Act 2006.

Copies of full group financial statements will be posted to all shareholders in August 2013. Further copies will be available, from the date of posting, from the Group's Headquarters, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA, by telephone on 020 7896 0011 or via the Group's corporate website at www.iggroup.com.

Critical accounting estimates and judgements

The preparation of financial statements requires the Group to make estimates and judgements that affect the amounts reported for assets and liabilities as at the year-end and the amounts reported for revenues and expenses during the year. The nature of estimates means that actual outcomes could differ from those estimates.

In the Directors' opinion, the accounting estimates or judgements that have the most significant impact on the measurement of items recorded in the financial statements remain the impairment of goodwill, the impairment of trade receivables – amounts due from clients, the useful economic life applied to the intangible fixed assets and the calculation of the Group's current corporation tax charge and recognition of deferred tax assets.

The judgements in relation to the impairment of goodwill largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of the long-term business plan and macroeconomic assumptions underlying the valuation process.

The judgments in relation to impairment of trade receivables – amounts due from clients are dependent on historic levels of repayment and based upon individual circumstances.

The assessment of the useful economic life of the Groups technology based intangible assets is judgemental and can change as a result of unforeseen technological developments.

The calculation of the Group's current corporation tax charge involves a degree of estimation and judgement with respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The Group holds tax provisions in respect of the potential tax liability that may arise on these unresolved items, however, the amount ultimately payable may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Group in future periods.

A deferred tax asset is only recognised to the extent it is considered to be probable that future operating profits will exceed the losses that have arisen to date.

The measurement of the Group's net trading revenue is predominately based on quoted market prices and accordingly involves little judgement. However, the calculation of the segmental net trading revenue, as the Group manages risk and hedges on a group-wide portfolio basis, involves the use of an allocation methodology. This allocation methodology does not impact on the overall Group net trading revenue disclosed.

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Corporate Governance Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the business review and the Directors' statutory report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

2. Segment information

The segment information is presented as follows:

- Segment net trading revenue has been disclosed net of introducing broker commissions as this is consistent with the management information received by the Chief Operating Decision Maker (CODM) who are the Executive Directors;
- Net trading revenue is reported by the location of the office that manages the underlying client relationship and aggregated into the disclosable segments of UK, Australia, Europe, Japan and 'Rest of World'. The 'Rest of World' segment comprises the Group's operations in each of South Africa, Singapore and the United States;
- The 'Europe' segment comprises the Group's operations in each of France, Germany, Italy, Luxembourg, the Netherlands, Portugal, Spain , Sweden and Norway; and,
- Segment contribution, being segment trading revenue less directly incurred costs, as the measure of segment profit and loss reported to the CODM.

The UK segment derives its revenue from financial spread bets, Contracts for Difference (CFDs) and binary options. The Australian, Japanese and European segments derive their revenue from CFDs and binary options. The businesses reported within the 'Rest of World' derive revenue from the operation of a regulated futures and options exchange as well as CFDs, and binary options.

The Group employs a centralised operating model whereby market risk is managed principally in the UK, switching to Australia outside of UK hours. The costs associated with these operations are included in the Central segment, together with central costs of senior management, middle office, IT development, marketing and other support functions. As the Group manages risk and hedges on a group-wide portfolio basis, the following segmental revenue analysis involves the use of an allocation methodology. Interest income and expense on segregated client funds is managed and reported to the CODM centrally and thus has been reported in the Central segment. In the following analysis, the Central segment costs have been further allocated to the other reportable segments based on a number of cost allocation assumptions and segment net trading revenue.

Year ended 31 May 2013	*UK*	*Australia*	*Europe*	*Japan*	*Rest of World*	*Central*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Segment net trading revenue	186,450	56,251	71,047	15,918	32,191	-	361,857
Interest income on segregated client funds	-	-	-	-	-	8,477	8,477
Revenue from external customers	186,450	56,251	71,047	15,918	32,191	8,477	370,334
Interest expense on segregated client funds	-	-	-	-	-	(289)	(289)
Other operating income	-	-	-	-	-	3,067	3,067
Betting duty	(5,204)	-	-	-		-	(5,204)
Net operating income	181,246	56,251	71,047	15,918	32,191	11,255	367,908
Segment contribution	151,337	49,297	43,870	11,043	20,245	(71,698)	204,094
Allocation of central costs	(35,251)	(11,165)	(15,074)	(3,290)	(6,918)	71,698	-
Depreciation and amortisation	(5,888)	(1,544)	(2,170)	(524)	(2,040)	-	(12,166)
Operating profit	110,198	36,588	26,626	7,229	11,287	-	191,928
Net finance income							280
Profit before taxation from continuing operations							192,208

2. Segment information (continued)

Year ended 31 May 2012	*UK*	*Australia*	*Europe*	*Japan*	*Rest of World*	*Central*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Segment net trading revenue	191,781	57,962	72,217	16,457	28,395	-	366,812
Interest income on segregated client funds	-	-	-	-	-	10,509	10,509
Revenue from external customers	191,781	57,962	72,217	16,457	28,395	10,509	377,321
Interest expense on segregated client funds	-	-	-	-	-	(257)	(257)
Other operating income	-	-	-	-	-	1,013	1,013
Betting duty	(8,907)	-	-	-	-	-	(8,907)
Net operating income	182,874	57,962	72,217	16,457	28,395	11,265	369,170
Segment contribution	151,529	49,833	43,447	10,377	17,909	(76,822)	196,273
Allocation of central costs	(39,378)	(12,336)	(15,422)	(3,598)	(6,088)	76,822	-
Depreciation and amortisation	(4,998)	(1,424)	(1,893)	(623)	(1,822)	-	(10,760)
Operating profit	107,153	36,073	26,132	6,156	9,999	-	185,513
Net finance income							204
Profit before taxation from continuing operations							185,717

3. Other operating income

	2013	*2012*
	£000	*£000*
Revenue share arrangement[(1)]	1,333	1,013
Inactivity fees[(2)]	484	-
Settlement income[(3)]	1,250	-
	3,067	1,013

[(1)] On 8 June 2011, the Group reached an agreement to sell the majority of the client list relating to the Group's Sport business to Spreadex Limited under a revenue share agreement where the Group would receive semi-annual payments for the subsequent three years, calculated by reference to the revenue that the acquirer generates from clients on the list.

[(2)]In the year ended 31 May 2013, the Group commenced charging inactivity fees for those accounts on which clients had not traded for two years.

[(3)]In the year ended 31 May 2013, the Group received one-off income in relation to settlement of an insurance claim made regarding the fit out of the London head office.

4. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2013	2012
Current income tax:	*£000*	*£000*
UK Corporation Tax	43,680	46,756
Foreign tax	4,197	2,738
Adjustment in respect of prior years	174	(265)
Total current income tax	48,051	49,229
Deferred tax:		
Origination and reversal of temporary differences	2,409	(646)
Continuing tax expense in the income statement (note 10(b))	50,460	48,583

(b) Reconciliation of the total tax charge

Corporation tax is calculated at 23.83% (2012: 25.67%) of the estimated assessable profit in the UK. Taxation outside the UK is calculated at the rates prevailing in the respective jurisdictions. The tax expense in the income statement for the year can be reconciled to the income statement as set out below:

	2013	*2012*
	£000	*£000*
Continuing profit before taxation	192,208	185,717
Continuing profit multiplied by the UK standard rate of corporation tax of 23.83% (2012: 25.67%)	45,803	47,674
Expenses not deductible for tax purposes	1,892	1,193
Impact of previously unrecognised timing differences	1,428	-
Higher / (lower) taxes on overseas earnings	1,163	(19)
Adjustment in respect of prior years	174	(265)
Total tax expense reported in the income statement	50,460	48,583

The effective tax rate is 26.3% (2012: 26.2%).

4. Taxation (continued)

(c) Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the geographic location of the Group's earnings, the transfer pricing policies, the tax rates in those locations, changes in tax legislation, future planning opportunities, the use of brought-forward tax losses and the resolution of open tax issues. The calculation of the Group's total tax charge involves a degree of estimation and judgement with respect to the recognition of deferred tax assets (refer to note 10(c)) and of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The Group holds tax provisions in respect of the potential tax liability that may arise on these unresolved items, however, the amount ultimately payable may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Group in future periods.

On 1 April 2013 the main rate of corporation tax reduced from 24% to 23%. A further 2% reduction to 21% at 1 April 2014 and 20% on 1 April 2015 is expected to be legislated in the Finance Bill 2013. The Group will assess the impact of the reductions in line with its accounting policy in respect of deferred tax at each reporting date.

5. Earnings per ordinary share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as own shares in Employee Benefit Trusts. Diluted earnings per share is calculated using the same profit figure as that used in basic earnings per share and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares arising from share schemes. The following reflects the income and share data used in the earnings per share computation:

	2013	*2012*
	£000	*£000*
Continuing earnings attributable to equity shareholders of the Company	141,692	137,166
Discontinued earnings attributable to equity shareholders of the Company		(374)
Total earnings attributable to equity shareholders of the Company	141,692	136,792
Weighted average number of shares		
Basic	363,172,810	361,915,111
Dilutive effect of share-based payments	2,016,025	3,404,455
Diluted	365,188,835	365,319,566

	2013	*2012*
	£000	*£000*
Earnings per share		
Basic earnings per share from continuing operations	39.02p	37.90p
Basic loss per share from discontinued operations	-	(0.10p)
Basic earnings per share	39.02p	37.80p
Diluted earnings per share		
Diluted earnings per share from continuing operations	38.80p	37.54p
Diluted (loss) per share from discontinued operations	-	(0.10p)
Diluted earnings per share	38.80p	37.44p

6. Dividends

	2013	2012
	£000	£000
Declared and paid during the year:		
Final dividend for 2012 at 16.75p per share (2011: 14.75p)	60,769	53,051
Interim dividend for 2013 at 5.75p per share (2012: 5.75p)	20,846	20,859
	81,615	73,910
Proposed for approval by shareholders at the AGM:		
Final dividend for 2013 at 17.50p per share (2012: 16.75p)	63,767	60,769

The final dividend for 2013 of 17.50p per share amounting to £63,767,000 was approved by the Board on 19 July 2013 and has not been included as a liability at 31 May 2013. This dividend will be paid on 22 October 2013 to those members on the register at the close of business on 20 September 2013.

7. Trade receivables

	2013	2012
	£000	£000
Amounts due from brokers(1)	283,940	206,997
Other amounts due to the Group(2)	15,003	12,920
Amounts due from clients(3)	1,693	2,425
	300,636	222,342

(1) Amounts due from brokers represent balances with brokers where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group. At 31 May 2013 the actual broker margin requirement was £245.7 million (2012: £196.0 million).

(2) Other amounts due to the Group include balances that will be transferred to the Group's own cash from segregated client funds on the following working day in accordance with the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates. At 31 May 2013 this also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end. The Group is required to segregate these client funds at the point of client funding and not at cash settlement.

(3) Amounts due from clients arise when a client's total funds deposited with the Group are insufficient to cover any trading losses incurred and are stated net of an allowance for impairment.

8. Cash and cash equivalents

	2013	*2012*
	£000	*£000*
Gross cash and cash equivalents[1]	921,869	960,894
Less: Segregated client funds[2]	(823,524)	(732,738)
Own cash and title transfer funds[3]	98,345	228,156

[1] Gross cash and cash equivalents includes the Group's own cash as well as all client monies held including both segregated client and title transfer funds.

[2] Segregated client funds comprise individual client funds held in segregated client money accounts or money market facilities established under the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates. Such monies are not included in the Group's Statement of Financial Position.

[3] Title transfer funds are held by the Group under a Title Transfer Collateral Arrangement (TTCA) by which a corporate client agrees that full ownership of such monies is unconditionally transferred to the Group.

9. Financial investments

	2013	2012
	£000	£000
UK Government securities	50,468	

The UK Government securities are held by the Group in satisfaction of the FCA requirements to hold a "liquid asset buffer" against potential liquidity stress under BIPRU 12.

All financial investments are shown as current assets as they have a maturity less than one year and are held as 'available for sale'. The fair value of securities held is based on closing market prices at the year-end as published by the UK Debt Management Office.

10. Liquidity analysis and risk management

The following section provides an analysis of the Group's available liquidity, the liquidity requirements that result from the Group's business model, and sets out the key measures used by the Group to monitor and manage the level of liquidity available to the Group.

The key measures used by the Group are explained below:

Liquid assets: These are total liquid assets that the Group can access. These include cash held at bank (both own cash and title transfer funds) as well as at broker, the liquid assets buffer held by the Group and other cash amounts due to the Group.

Own funds: These are *liquid assets* less title transfer funds. Title transfer funds are client monies held by the Group under a Title Transfer Collateral Arrangement (TTCA).

Available liquid assets: Certain of the Group's funds are not immediately available for the purposes of central market risk management as they are required to provide regulatory capital balances in regulated subsidiaries. Additionally the Group's overseas businesses also require working capital balances to both fund daily operations and to ensure sufficient liquidity is available to fund the local client segregation requirements. Available liquid assets are therefore liquid assets less both amounts held in overseas subsidiaries and amounts due from segregation to the Group - each of which are not considered immediately available to the Group.

Net available liquidity: This is the remaining liquidity available to the Group after the funding of the broker margin requirement associated with market risk management.

Total liquid resources: This measure is the total of the Group's liquid assets and the Group's undrawn committed banking facilities.

a) Liquid assets and own funds

'Liquid assets' and 'own funds' are the key measures the Group uses to monitor the overall level of liquid assets available to the Group. The derivation of both liquid assets and own funds is shown in the following table.

		2013	2012
	Note	*£000*	*£000*
Own cash and title transfer funds[1]	8	98,345	228,156
Amounts due from brokers[2]		283,940	206,997
Financial investments – liquid assets buffer[3]	9	50,468	-
Other amounts due to the Group[4]		15,003	12,920
Liquid assets		**447,756**	**448,073**
Analysed as:			
Own funds		429,291	388,221
Title transfer funds		18,465	59,852

The following notes have been provided in order to further explain the derivation of liquid assets and own funds. The generation of own funds from operations is disclosed in note 10d)).

[1] Own cash and title transfer funds represent cash held on demand with financial institutions (please refer to note 8).

[2] Amounts due from brokers represent balances with brokers where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group. These positions are held to hedge client market exposures in accordance with the Group's market risk management.

[3]Financial investments represent UK Government Treasury Bills and Gilts held in accordance with the BIPRU 12 liquidity standards and the Group's regulatory oversight by the FCA. This is the Group's liquid assets buffer.

[4]Other amounts due to the Group include balances that will be transferred to the Group's own cash from segregated client funds on the following working day in accordance with the UK's Financial Conduct Authority (FCA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates. At 31 May 2013 this also includes amounts due from banking counterparties or held within segregated client funds in relation to monies transferred by clients to the Group that remain unsettled at the year-end. The Group is required to segregate these client funds at the point of client funding and not at cash settlement.

b) The Group's liquidity requirements

The Group requires liquidity for each of; the full segregation of client monies; the funding of regulatory and working capital in overseas businesses; the funding of margin requirements at brokers to hedge the underlying client positions under both normal and stressed conditions; the funding of a liquid assets buffer; and amounts associated with general working capital.

The available liquid assets measure excludes cash amounts tied up in both the requirement to segregate client funds and in regulatory and working capital of overseas businesses as they are not considered to be available for the purposes of central market risk management.

These requirements are analysed in the following table.

	Note	*As at 31 May 2013*	*As at 31 May 2012*
		£000	*£000*
Liquid assets	10(a)	**447,756**	**448,073**
Less amounts required to ensure appropriate client money segregation - other amounts due to the Group[(1)]		(15,003)	(12,920)
Less amounts required for regulatory and working capital of overseas businesses[(2)]		(32,542)	(21,064)
Available liquid assets		**400,211**	**414,089**
Less broker margin requirement[(3)]		(245,689)	(195,954)
Net available liquidity		**154,522**	**218,135**
Of which held as a liquid assets buffer[(4)]	9	50,468	-

The reduction in net available liquidity from £218.1 million at 31 May 2012 to £154.5 million at 31 May 2013 primarily results from a £49.7 million increase in the year-end broker margin requirement. At 31 May 2013 £50.5 million of the net available liquidity is held in a liquid assets buffer in accordance with BIPRU 12.

The following notes have been provided in order to further explain the derivation of available liquid assets and net available liquidity**:**

[(1)] Refer to note 10a) for details of the amounts included in this balance. These cash balances are not immediately available to the Group for the purposes of broker margin payments.

[(2)] The Group's regulated subsidiaries in Singapore, Japan, South Africa and the USA all have minimum cash holding requirements associated with their respective regulatory capital requirements. Additionally the Group's regulated business or subsidiaries in Australia, Singapore, Japan, South Africa and the USA are required to segregate individual client funds in segregated client money bank accounts. This daily segregation requirement occurs prior to the release of funds from the UK (note: market risk management is performed centrally for the Group in the UK) in relation to the associated hedging positions held at external brokers. Accordingly cash balances are held in each of overseas businesses in order to ensure client money segregation obligations are met. These regulatory or working capital cash balances are not available to the Group for the purposes of market risk management.

[(3)] Positions are held with external brokers in order to hedge client market risk exposures in accordance with the Group's market risk management policies.

[(4)]The liquid assets buffer is not available to the Group in the ordinary course of business, however utilisation is allowed in times of liquidity stress and therefore it is considered as available for the purposes of overall liquidity planning.

c) Liquidity management and liquidity risk

Liquidity risk is managed centrally and on a group-wide basis. The Group's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its broker margin requirements and other financial liabilities when due, under both normal circumstances and stressed conditions. The Group has carried out an Individual Liquidity Adequacy Assessment ("ILAA") during the year, and whilst this applies specifically to the Group's FCA regulated entities, it provides the context in which liquidity is managed on a continuous basis for the whole Group.

The Group does not have any material liquidity mismatches with regard to liquidity maturity profiles due to the very short-term nature of its financial assets and liabilities. Liquidity risk can, however, arise as all individual client funds are required to be placed in segregated client money accounts. A result of this policy is that short-term (less than one week) liquidity 'gaps' can potentially arise in periods of very high client activity or significant increases or falls in global financial market levels.

During periods of significant market falls the Group will be required to fund margin payments to brokers prior to the release of funds from segregation, and in periods of significant market increases or increased client activity, the Group will be required to fund higher margin requirements at brokers to hedge increased underlying client positions. These additional requirements are funded from the Group's liquidity available for market risk management while these individual client positions are open, as individual client funds remain in segregated client money bank accounts.

In order to mitigate this and other liquidity risks, the Group regularly stress tests its three-year liquidity forecast to validate the appropriate level of committed unsecured bank facilities held. At the year-end, these amounted to £180.0 million (2012: £180.0 million). These facilities were drawn to a maximum of £25.0 million for a period of 22 days in April 2013 where the broker margin requirement reached a maximum level of £294.7 million and the Group held a liquid assets buffer of £50.5 million. Other than for testing purposes these facilities were not drawn upon during the prior financial year. As well as the three-year liquidity forecast, the Group also produces more detailed short-term liquidity forecasts and detailed stress tests such that appropriate management actions or liquidity facility draw down can occur prior to a period of liquidity stress.

Additionally the Group's Japanese business, IG Markets Securities Limited has a Yen 300 million (£2.5 million) liquidity facility as at 31 May 2013 (2012: Yen 300 million (£2.5 million)).

Please refer to section e) of this note for details of the subsequent events with regards to the liquid assets buffer and the liquidity facility.

A number of measures are used by the Group for managing liquidity risk, one of which is the level of total available liquidity. For this purpose total liquid resources are calculated as set out in the following table inclusive of undrawn committed facilities.

	2013	*2012*
	£000	*£000*
Liquid assets	**447,756**	**448,073**
Undrawn committed banking facilities[1]	180,000	180,000
Total available liquidity (including facilities)[2]	627,756	628,073

[1]Draw down of the committed banking facilities is capped at 80% of the actual broker margin requirement on the draw down date. Available draw down was £180.0 million and £156.8 million at 31 May 2013 and 31 May 2012 respectively based on the broker margin requirements on those dates.

[2]Stated inclusive of the liquid assets buffer of £50.5 million (2012: nil) that is held by the Group in satisfaction of the FCA requirements to hold a "liquid asset buffer" against potential liquidity stress under BIPRU 12. Utilisation of the liquid assets buffer is allowed in times of liquidity stress and therefore it is considered as available for the purposes of overall liquidity planning.

The Group's total available liquidity enables the funding of large broker margin requirements when required – the level of available liquid assets that can be utilised for market risk management at 31 May 2013 should be considered in light of the intra-year high broker margin requirement of £297.5 million (2012: £277.1 million), the requirement to hold a liquid assets buffer, the continued growth of the business, the Group's commitment to segregation of individual clients money as well as the final proposed dividend for the year ending 31 May 2013 all of which draw upon the Group's liquidity.

d) Own funds generated from operations

The following cash flow statement summarises the Group's generation of own funds during the year and excludes all cash flows in relation to monies held on behalf of clients. Additionally both amounts due from brokers and the liquid assets buffer have been treated as 'cash equivalents' and included within 'own funds' in order to provide a clear presentation of the Group's available cash resources. The derivation of own funds is explained in note 10(a). A narrative explanation of the key cash flows disclosed in the following cash flow statement is provided within the Operating and Financial Review.

£000	2013	2012
Operating activities		
Profit before tax	192,208	185,329[1]
Depreciation and amortisation	12,166	10,760
Other non-cash adjustments	4,247	2,140
Income taxes paid	(53,247)	(57,554)
Own funds generated from operations	**155,374**	140,675
Movement in working capital	**(13,081)**	21,906
Inflow/(outflow) from investing activities		
Interest received	2,172	2,004
Purchase of property, plant and equipment and intangible fixed assets	(16,762)	(9,141)
Purchase of non-controlling interests	(1,319)	-
Outflows from financing activities		
Interest paid	(3,175)	(2,013)
Equity dividends paid to equity holders of the parent	(81,615)	(73,910)
Other outflow from financing activities	(33)	(264)
Total outflow from investing and financing activities	(100,732)	(83,324)
Increase in own funds	41,561	79,257
Own funds at 1 June	388,221	309,228
Exchange losses on own funds	(491)	(264)
Own funds at 31 May	429,291	388,221

[1] Profit before tax is stated inclusive of discontinued operations in the year-ended 31 May 2012 for the purposes of the cash flow statement.

e) Subsequent events

Subsequent to the year-end, in accordance with the phased transfer agreed with the FCA for the Group to hold a liquid assets buffer of up to £100.0 million by August 2013, the Group has purchased £32.3 million of additional BIPRU qualifying assets. Following this purchase the Group now holds £82.7 million of BIPRU qualifying assets within the liquid assets buffer.

Further, the Group has on 19 July 2013 completed the renegotiation of the liquidity facilities with a syndicate of three banks. In doing so the Group has increased the size of the overall facility to £200.0 million and established a longer term liquidity funding arrangement. Of the total facility £120.0 million is available for a period of one year and £80.0 million is available for three years respectively from the facility signing date.

A final dividend of 17.50p per share amounting to £63,767,000 was approved by the Board on 19 July 2013. In the Directors' opinion the Group has sufficient liquidity available to meet operational requirements under both normal and stressed conditions. Liquidity management is also dependent on credit risk management previously described.

11. Cash generated from operations

	2013	2012
Operating activities	*£000*	*£000*
Operating profit	191,928	185,126
Adjustments to reconcile operating profit to net cash flow from operating activities:		
Net interest income on segregated client funds	(8,188)	(10,252)
Depreciation of property, plant and equipment	6,050	5,934
Amortisation of intangible assets	6,116	4,826
Non-cash foreign exchange gains in operating profit	(2,399)	(2,190)
Share-based payments	4,309	5,005
Recovery of trade receivables	1,043	2,563
(Increase)/decrease in trade and other receivables	(79,415)	42,274
(Decrease) / increase in trade and other payables	(52,228)	2,572
Decrease in provisions	(202)	(714)
Other non-cash items	(612)	(228)
Cash generated from operations	66,402	234,916

12. Litigation

On the 27 March 2013, the High Court dismissed the claim against IG Markets Limited, which dated from late 2010, in relation to the insolvency of Echelon Wealth Management Limited, a former client of IG Markets Limited. No provision had been made in the Group statement of financial position as at 31 May 2012.

Subsequently the plaintiffs chose not to appeal and have paid a substantial contribution to the legal costs incurred by the Group.

13. Subsequent events

Subsequent to the year-end, in accordance with the phased transfer agreed with the FCA for the Group to hold a liquid assets buffer of up to £100.0 million by August 2013, the Group has purchased £32.3 million of additional BIPRU qualifying assets. Following this purchase the Group now holds £82.7 million of BIPRU qualifying assets within the liquid assets buffer.

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