



## IG GROUP HOLDINGS PLC

Preliminary Results for the year ended 31 May 2014  
22 July 2014

IG Group Holdings plc (“IG” or “the Group”) today announces results for the year ended 31 May 2014.

### Operating and Financial Summary

- Good full year results despite a subdued backdrop at the end of the year
- Net trading revenue<sup>(1)</sup> up 2.4% at £370.4 million
- Profit before tax up 1.3% to £194.7 million
- Diluted EPS up 3.6% at 40.18p
- £160.6 million of own funds generated from operations
- Final dividend recommended of 22.40p per share; full year dividend up 21.1% to 28.15p
- Ordinary dividend payout ratio increased to approximately 70% of earnings
- Strong progress on longer-term strategic growth initiatives
- Swiss licence application in the final stages and applying to expand into Dubai

### Jonathan Davie, Chairman, commented:

“I am delighted to report another record year for the Group. We continue to build on a long history of growth, with profitability having increased every year since our public listing in 2005.

As part of our aim to become the default choice for active traders, we are now progressing new initiatives, which should have positive long-term benefits for shareholders.”

### Tim Howkins, Chief Executive, commented:

“This was a good year for IG, with growth in revenue, profit, cash generation and dividends. Importantly, we also made strong progress on our strategic objectives, designed to deliver the next phase of our growth.

We will continue to make significant investments in initiatives, this year and beyond, to deliver sustainable growth into the future.”

<sup>(1)</sup> Net trading revenue is trading revenue excluding interest on segregated client funds and is presented net of introducing partner commissions. All references to ‘revenue’ in this statement are made with regards to net trading revenue.

## Financial summary

For the year ended 31 May	2014	2013	Growth %
Net trading revenue (£m)	370.4	361.9	2.4%
Profit before taxation (£m)	194.7	192.2	1.3%
Diluted earnings per share	40.18p	38.80p	3.6%
Final dividend per share	22.40p	17.50p	28.0%
Total dividend per share	28.15p	23.25p	21.1%
Dividend payout (% diluted earnings per share)	70.1%	59.9%	
Own funds generated from operations <sup>(1)</sup> (£m)	160.6	154.3	4.1%

<sup>(1)</sup> Own funds generated from operations is analysed in the Operating and Financial Review section of this announcement.

All current financial results listed are for the year ended 31 May 2014. All references to 'the prior period', 'the prior year', and 'last year' mean the year ended 31 May 2013, unless otherwise specified.

IG is a global leader in online trading, providing fast and flexible access to over 10,000 financial markets – including shares, indices, forex, commodities and binaries.

Established in 1974 as the world's first financial spread betting firm, IG's aim is to become the default choice for active traders globally. It is already an award-winning multi-platform trading company, the world's No.1 provider of CFDs\* and a global leader in forex, and will be launching its new execution-only stockbroking service in late 2014.

It is a member of the FTSE 250, with offices across Europe, Africa, Asia-Pacific and the US, where it offers limited risk derivatives contracts via the Nadex brand.

\*Based on revenue excluding FX, published financial statements, August 2013.

## Further information

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## Analyst presentation

There will be an analyst presentation on the results at 9:30am on Tuesday 22 July 2014 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](http://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 6495408#**

The audio webcast of the presentation will also be archived at: [www.iggroup.com/investors](http://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 August 2013 Australia CFD Report
- Investment Trends April 2014 France CFD/FX Report
- Investment Trends May 2014 Germany CFD/FX Report
- Investment Trends November 2013 Singapore CFD/FX Report
- Investment Trends December 2013 UK Leveraged Trading Report

## **Chairman's Statement**

I am delighted to report another record year for the Group. Our revenue increased by 2.4% to £370.4 million (2013: £361.9 million), whilst our diluted earnings per share increased by 3.6% to 40.18 pence (2013: 38.80 pence).

We continue to build on our long history of growth, with profitability having increased every year since our public listing in 2005. As part of our aim to become the default choice for active traders, we are now progressing new initiatives which should have positive long-term benefits for shareholders. These include our stockbroking product, our forthcoming entry into Switzerland, our application to the regulator in Dubai for a retail-trading licence and our continued technology developments, with particular emphasis on mobile applications and our online presence.

As we continue to be a highly cash-generative business, we are able to invest in our strategic growth initiatives, together with further improving our technology and client experience, whilst maintaining a progressive dividend policy. With this in mind, the Board proposes to increase the ordinary dividend payout ratio to approximately 70% of Group earnings, from the current level of 60%, with effect from the 2014 financial year, whilst retaining a progressive dividend policy. Simultaneously the Board will adopt a new policy of paying the interim dividend each year, calculated at approximately 30% of the prior year's full-year dividend.

The Board recommends a final ordinary dividend for the 2014 year of 22.40 pence per share, taking the full-year ordinary dividend to 28.15 pence per share, representing approximately 70% of the Group's full-year earnings.

The Board will continue to monitor the capital structure of the business closely to allow sufficient headroom for the planned investment in growth initiatives, whilst retaining the ability to respond to any changes in the regulatory or financial environment.

## **Regulation**

As the regulatory environment continues to develop, we are cognisant of the importance of maintaining collaborative and constructive relationships with all the relevant regulatory authorities that oversee IG's operations. IG fully appreciates that the industry in which we operate requires considered and sophisticated regulatory oversight. In particular, we embrace such concepts as appropriateness and conduct, which we believe form the foundations of a sensible consumer-protection regime. We wish to see these principles applied with total consistency across the industry.

As IG expands globally, the regulatory challenges it faces are complex. Although each region is separately regulated, countries are increasingly impacted by the growing globalisation of commerce and the rules which surround it. This is particularly so in Europe, where regulatory bodies not only have influence over our activities on the Continent but increasingly on our domestic business in the UK. This presents us with obvious challenges, as the UK is only one of twenty-eight member states with an interest and a say in how regulation develops. Consequently we continue to monitor and manage this very carefully. Enhancing our ability to respond to regulatory challenges will form part of the remit of the new Board Risk Committee, set up under the Chairmanship of Stephen Hill.

## **Board Evaluation**

We completed our last external evaluation of the Board in 2012 and, in line with the Corporate Governance Code, it is our intention to undergo another external review in the coming financial year. Our Company Secretary, Bridget Messer, and I conducted an internal evaluation of the Board this year. I am pleased to report that no substantive issues were raised.

## **Board Composition**

As previously announced, there were a number of changes to our Board in the past year. Jim Newman joined the Board on 1 October 2013. Jim has deep experience in the financial services industry, currently with Resolution Plc, where he was Chief Financial Officer until March 2013, and is now Corporate Development

Director for Friends Life. Jim will be taking over as the Chairman of the Audit Committee on the retirement of Martin Jackson at this year's Annual General Meeting (AGM).

I wish to record my personal thanks to Martin Jackson, who has done such an outstanding job as Chairman of the Audit Committee for the past nine years. Martin's energy, eye for detail and ability to keep abreast of the legal and regulatory developments that have taken place on his watch have been a joy to experience. Martin goes with our gratitude and best wishes for his retirement.

I am also pleased to welcome Andy Green to our Board as Deputy Chairman. As foreshadowed in my Chairman's statement last year, Andy will succeed me at this year's AGM. The search for Andy was led by our Senior Independent Director, Roger Yates. Roger and the Nomination Committee reviewed both internal and external candidates and concluded that, of the many excellent candidates that were seen, Andy was the best fit for us, with his background and understanding of IT and marketing, which are two of our biggest differentiators.

As Roger Yates approaches his maximum tenure as an independent non-executive director, we anticipate that he will leave IG no later than the AGM in 2015. A search for a replacement for Roger will commence in the near future.

Following our proposed Board changes, we will continue to be fully compliant with provision B.1.2 of the UK Corporate Governance Code ('the Code').

The intention again this year is to put every Board Director, with the exception of myself and Martin, up for re-election at the AGM, in compliance with paragraph B.7.1 of the Code.

## **Remuneration**

The Remuneration Committee, under the Chairmanship of Roger Yates, the Senior Independent Director, reviewed the remuneration of all Senior Management during the year.

Last year the Committee also decided to undertake a complete review of our Executive compensation, including changing our external advisors. As you will see in the Remuneration Committee Report in due course, we have not made any substantive changes to the structure of our remuneration for the coming year.

## **Strategy and Repositioning**

IG has grown for nearly 40 years to be the global leader in its category. This has been achieved through ruthless focus on the client experience, with constant investment in the development of market-leading technology and consistent delivery of high-quality customer service. The category in which we lead continues to display good growth, particularly in the continental European countries where our products have been offered for less than ten years. However, leveraged trading will remain a niche activity into the future. Although we will continue to grow this niche through ongoing education, platform development and excellent execution, we also have an opportunity to use the skills and technology at our disposal to broaden our product range and enter new markets. We believe that the launch of our execution-only stockbroking offering will both open up new revenue streams and broaden the appeal of our current business, supporting our aim to become the default choice for active traders.

## **Conclusion**

As this is my last statement as Chairman, I would like to take this opportunity to thank all of my executive and non-executive colleagues, both past and present, for supporting me and giving me so much valuable advice and input, particularly since our public listing in April 2005. From that date until the end of this financial year, our shares have increased in value by approximately 500%, and we have been a FTSE 350 top-decile performer in terms of total shareholder return.

There has been much recent discussion and comment about the historic low levels of volatility. Our excellent

results have been achieved despite these volatility headwinds which have adversely affected so many financial services firms in the past year. It is impossible to forecast volatility levels into the future, but I have no doubt that our management team will be able to take full advantage of the business opportunities that will arise, and give our clients the leading execution service they have come to expect.

As always, none of our success could have been achieved without the commitment of all of our employees. Our colleagues have again responded admirably to the challenges that the markets and competition have presented us, and I have no doubt that this will continue into the future. My fellow Directors and I would like to express our sincere thanks to them for their personal contributions to the Group's successes again this year.

**Jonathan Davie**

Chairman

22 July 2014

## Chief Executive's Review

Trading revenue for the year of £370.4 million was at record levels, up 2.4% on the prior year, and ahead of the previous record set two years ago in the elevated volatility of the 2012 financial year. In contrast, market volatility was relatively low throughout most of this year and particularly subdued as the year drew to a close. In May we saw 25-year lows in forex volatility and came close to 25-year lows in equity volatility, and these conditions have continued into the early part of the 2015 financial year. Against this backdrop, as is normal, our clients reduced their activity levels. While client trading levels were relatively subdued towards the end of the year, we did reach record levels of client money in the final quarter. At the year-end, client money deposits were 4% higher than one year before and 11% higher than two years before. This is one encouraging indicator that we continue to build a valuable client base, which is ready to trade as soon as markets provide more opportunities.

Monetary policies across the globe have converged over the last few years, consisting of near-zero interest rates and a process of quantitative easing (QE). One effect of such a monetary policy is to reduce volatility across asset classes, with low and stable interest rates having a particularly dampening impact on the forex market. This phase of monetary policy appears to be drawing to a close in some countries, with the tapering of QE in the US and suggestions from the Bank of England that interest-rate rises could come sooner than markets had been anticipating. As monetary policies shift in response to the improving economic situation, I would expect that IG will be a beneficiary in three ways. Firstly we should see an increase in market volatility, which would drive greater levels of client activity; secondly, as we hold almost £1.4 billion of cash and other interest-earning assets, interest income will rise and, thirdly, a greater level of consumer confidence tends to increase trading activity among current clients and increase the risk appetite among prospects, and therefore produce a greater flow of new clients into the industry.

Against the backdrop described we saw modest growth from the UK and Ireland, up 3%, and a fall in revenue from Australia, down 7%. Both economic conditions and consumer sentiment are noticeably weaker in Australia, which has lagged the rest of the world with its economic downturn.

We delivered strong growth in Europe, up 16% overall. All four large European offices grew, with the strongest growth rates of 20% and 15% coming from our two largest offices, Germany and France respectively. Germany is one of the few markets in which we operate where we are not the largest provider. I am very pleased that the most recent independent market research, received in the middle of June, shows that over the past year the gap in market share between us and the largest provider has narrowed, and that this effect was most marked among higher-value clients.

Our European businesses are still at a relatively early stage in their development, and most of the growth to date has been against the headwind of recession, so we are confident that they can continue to deliver strong growth for some years to come. This year, 22% of our revenue came from Europe, and this proportion is growing, making Europe an increasing contributor to our overall growth rate.

In the Rest of World business segment, revenue was down by 10%, as the impact of the exceptionally low volatility in forex was felt most in Singapore and Japan, where forex makes up the majority of client trading activity. Within this segment, our US business, Nadex, delivered 55% revenue growth but, at £3.1 million of revenue, it remains small. Shortly before the year-end two additional market makers joined the exchange, one of which has been consistently providing additional liquidity for the last couple of months. This greater liquidity, along with narrower effective spreads, should make Nadex a more attractive venue for trading.

Following another strong year for cash generation, and given our continued confidence in future cash delivery, the Board proposes to increase the ordinary dividend payout ratio to approximately 70% of Group earnings, from the current level of 60%, with effect from the 2014 financial year, while maintaining a progressive dividend policy. Importantly, we retain the capacity to invest in the strategic initiatives which are designed to diversify and broaden the business to deliver longer-term sustainable growth.

A more detailed review of the performance of all our offices is set out in the Operating and Financial Review.

Beyond revenue performance, this was a year in which we made significant progress on a number of longer-term projects which we expect to be drivers of future growth.

## **Address the needs of active traders**

We have completed the development work necessary to offer stockbroking, on all of our platforms, as part of our comprehensive share-trading offering, and we are currently testing this with a pilot group of clients prior to a full launch in September. This service will initially be available in the UK and Ireland, but we are developing our plans to offer it in some of our other markets in 2015. In the UK market, as we rollout the full functionality, our technology will provide a number of features that are not available from the large market participants. We offer streaming live prices which are sourced from both the primary exchange and multilateral trading facilities. We provide smart order routing into the best execution venue, and the ability to see market depth and interact directly with the order book. This level of functionality is not currently available in the UK market and we believe it will ultimately form a compelling offering for the active trader.

The majority of our existing UK clients have online share-trading accounts with another provider, and many of them have told us previously that they would consider using our service when it is launched. Shortly after launch, we will offer clients the ability to use their share portfolio as collateral to support their trading with CFDs or spread betting. Initially we anticipate that existing clients will form the bulk of the early adopters of our stockbroking service, but beyond that, over time, we will target those who are actively trading in shares with other online brokers as well as active clients of our current competitors.

This is an important development for IG and a key milestone in our journey to become the default choice for active traders. A challenge that we face with our existing products is that many within the target audience either do not know about the existence of our products or have discounted them without due consideration. Broadening our offering to a more mainstream product should help us to engage with this wider audience, and I hope that we will see the benefit both in the revenue we generate directly from stockbroking and, over time, from increasing the reach and take-up of our current products.

## **Strengthen global presence**

We are in the final stages of our application for a licence to operate in Switzerland, with the office now fully staffed and ready to welcome clients. The regulatory regime in Switzerland is such that, to provide our normal offering to clients it is necessary to hold a Swiss banking licence. The application process for obtaining such a licence has been demanding and we have been subject to intense regulatory scrutiny. We are confident that the application will be successful in due course, and this reflects extremely well on the quality of our systems and processes and, above all, our people. The earliest we would now carry out a full launch of the IG offering is after the summer holiday period.

We have been in constructive discussions with regulators in Dubai for some time. There is further work to do before our application to the Dubai Financial Services Authority for a licence is complete, but we are hopeful that we will be able to establish an office in the Dubai International Financial Centre in 2015. We consider this and the surrounding region to be an attractive opportunity.

We continue to have ongoing dialogue with regulators in other countries, but these discussions are at early stages and are not expected to lead to the establishment of new offices in the immediate future.

## **Sustain technology leadership**

During the year we acquired a number of local domain names to support IG.com in specific countries, as well as investing in a number of new generic top-level domains (gTLDs) which are directly relevant to our business. This investment positions us well to take full advantage, over the coming years, of possible changes to the way people use and search the internet if, as we expect, gTLDs become an increasingly integral part of its structure.

Towards the end of the year we established an offshore IT and marketing development office in Eastern Europe, which is focused on recruiting and converting clients through mobile apps; around a third of all client trades are made using mobile apps, and we are seeing an increasing proportion of new clients opening accounts using this

medium. Our current apps are designed with our most experienced and demanding clients in mind, and we will continue to ensure we lead the industry in this category. However, this new team will focus on developing apps more suited to less experienced new and potential clients, concentrating on early-stage education and simplification of the recruitment and conversion process through apps.

### **Deliver quality service to clients**

We continually monitor the quality of our service through a number of different methods, including a rolling survey of our client base and independent mystery-shopping which tests our customer service and that of our main competitors. We continue to score highly in these surveys, and during this year we saw an increase in levels of satisfaction with the quality of our customer service.

During this year we introduced 'Think Tank', an online forum for invited clients to provide feedback on various aspects of our products, platforms and services. This new resource has proved valuable in more formally incorporating clients' suggestions and comments into our development process. I am extremely grateful to those clients who participate in Think Tank, for the time and thought which they devote to helping us shape our offering.

### **Regulation**

Although there are few tangible signs of progress by the 11 EU member states seeking to introduce a financial transaction tax (FTT) under the enhanced-cooperation process, the rhetoric suggests that eventually we will see some form of levy on financial transactions. However, we continue to believe that any tax would be considerably less onerous than originally proposed, and could most easily take a form similar to UK stamp duty or the French FTT, neither of which impact on our business.

In Japan, new rules came into force halfway through the financial year on binary options. Since these rules took effect we have seen an increase in our share of the binary options market, although the longer-term impact from a new online suitability test is yet to be fully understood.

As we reported two years ago, the Monetary Authority of Singapore (MAS) has indicated an intention to introduce stricter leverage restrictions on retail forex trading at some point. It now looks as if these rules may come into force during the course of 2015. We expect the restrictions to have only a limited impact on our business, as they do not apply to clients with higher levels of income or assets - accredited investors - who make up the majority of our revenue. MAS has recently approved an e-learning module, which went live at the start of July, and should provide some relief from current impediments to recruiting clients in Singapore who have no prior experience of trading our products.

### **Our Chairman**

Jonathan Davie has chaired IG since before our public listing in 2005; he has therefore served the full term permitted for an independent Non-Executive Director and, as announced last year, will step down at the next Annual General Meeting in October. During Jonathan's tenure as Chairman we have expanded from operating in two countries to operating in 15, and we have grown our revenue more than sevenfold. I would like to put on record the Board's thanks for his contribution to this success. I am pleased to welcome Andy Green as our Chairman-Designate, and I very much look forward to working with him as we continue to develop IG.

### **Outlook**

In November, IG will celebrate its 40th anniversary. We have grown our revenues in virtually every one of those 40 years and have achieved that against a broad range of market and economic backdrops – bull and bear markets, the 1987 crash, the dotcom frenzy, the most recent financial crisis - and through cycles of boom and bust. Our operating model and risk management have been thoroughly tested and have proved highly resilient. We have continually adapted our business to a changing world, moving from telephone-based dealing to internet dealing and increasingly to dealing using mobile apps. Our drive to innovate and to grow our business remains extremely strong and I believe that IG is better-placed than ever before to deliver the next phase of growth. In particular, the imminent launch in the UK of our stockbroking service, as part of our comprehensive

share-trading offering, positions us well to address the needs of a much broader audience of active traders.

**Tim Howkins**

Chief Executive

22 July 2014

Geographical Revenue	Q1 revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	47.5	41.1	16%	(10%)	28%
Australia	13.8	14.1	(2%)	(2%)	-
Europe	20.2	15.4	31%	3%	27%
Rest of World	12.1	10.9	11%	(2)%	14%
<b>Total</b>	<b>93.6</b>	<b>81.5</b>	<b>15%</b>	<b>(5%)</b>	<b>21%</b>

Geographical Revenue	Q2 revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	45.9	45.8	-	(8%)	8%
Australia	13.2	14.1	(6%)	(5%)	(2%)
Europe	20.1	16.6	21%	5%	15%
Rest of World	9.9	11.0	(10%)	(6%)	(3%)
<b>Total</b>	<b>89.1</b>	<b>87.5</b>	<b>2%</b>	<b>(5%)</b>	<b>7%</b>

Geographical Revenue	Q3 Revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	50.9	46.0	11%	(11%)	24%
Australia	12.9	12.2	6%	(3%)	9%
Europe	21.5	18.1	19%	5%	13%
Rest of World	11.4	12.3	(7%)	(10%)	3%
<b>Total</b>	<b>96.7</b>	<b>88.6</b>	<b>9%</b>	<b>(6%)</b>	<b>16%</b>

Geographical Revenue	Q4 Revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	48.4	53.6	(10%)	(11%)	1%
Australia	12.3	15.9	(23%)	(12%)	(12%)
Europe	20.4	20.8	(2%)	4%	(6%)
Rest of World	9.9	14.0	(29%)	(3%)	(27%)
<b>Total</b>	<b>91.0</b>	<b>104.3</b>	<b>(13%)</b>	<b>(7%)</b>	<b>(6%)</b>

Geographical Revenue	H1 revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (Incl Ireland)	93.4	86.9	7%	(9%)	18%
Australia	27.0	28.2	(4%)	(3%)	(2%)
Europe	40.2	32.1	25%	5%	20%
Rest of World	22.1	21.8	1%	(3%)	4%
<b>Total</b>	<b>182.7</b>	<b>169.0</b>	<b>8%</b>	<b>(5%)</b>	<b>13%</b>

Geographical Revenue	H2 Revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	99.3	99.5	-	(13%)	14%
Australia	25.2	28.1	(10%)	(8%)	(2%)
Europe	41.9	39.0	7%	5%	2%
Rest of World	21.3	26.3	(19%)	(8%)	(12%)
<b>Total</b>	<b>187.7</b>	<b>192.9</b>	<b>(3%)</b>	<b>(8%)</b>	<b>6%</b>

Geographical Revenue	FY Revenue			KPI	
	FY14 £m	FY13 £m	% Change	Active client growth	Revenue per client growth
UK (inc Ireland)	192.7	186.5	3%	(13%)	19%
Australia	52.2	56.3	(7%)	(5%)	(2%)
Europe	82.1	71.0	16%	6%	10%
Rest of World	43.4	48.1	(10%)	(6%)	(4%)
<b>Total</b>	<b>370.4</b>	<b>361.9</b>	<b>2%</b>	<b>(7%)</b>	<b>10%</b>

The financial tables contained herein may contain numbers which have been subject to rounding adjustments, and which therefore differ from the equivalent numbers contained in the Financial Statements.

## **Operating and Financial Review**

### **Operating review**

#### **UK**

The UK segment comprised the offices in London and Dublin. Net trading revenue in the UK was 3.3% ahead of the prior year at £192.7 million (2013: £186.5 million). The revenue proportion delivered in the two halves was very similar to that of the overall Group, with a slightly stronger second-half performance, driven by a good third quarter.

Active client numbers were down by 13.2% in the year, while average revenue per client was up by 19.1%. While the uncertain economic backdrop continued to make client recruitment challenging, the fall in client numbers was primarily a function of management actions to de-emphasise clients with the very lowest levels of trading activity, including raising the minimum deposit level to £100.

An annual study of the UK's retail leveraged-trading industry, released towards the end of 2013, showed that IG's market share of spread bettors had fallen from 44% to 41% and our share of CFD traders had risen from 32% to 34%. Although IG is still the clear market leader in both categories, with the second-placed providers in each category holding shares of 6% and 7% respectively, the precise numerical conclusions are increasingly less relevant in the context of our focus on active retail traders, who generate a more significant share of revenue. Inevitably, our focus in this regard contributed to a fall in the overall size of the market from 104,000 to 93,000.

We have now completed the technology development and internal testing that enable us to offer our execution-only stockbroking service as part of our comprehensive share-trading package in the UK. In July, we began an external pilot programme within our UK client base, with the aim of carrying out a full UK launch in September 2014.

#### **Australia**

The Australia segment comprised the Melbourne office and revenue from New Zealand and other countries in the Asia Pacific region. In Australia, net trading revenue for the year was down by 7.3% to £52.2 million (2013: £56.3 million). Active client numbers in the year were down by 5.1%, and average revenue per client was down by 2.2%.

Our business in Australia continued to experience some weakness for several reasons. Consumer sentiment remains subdued, with the Australian economy lagging most global regions and entering a recessionary phase later in the cycle. Our results were also softened by the extremely low levels of volatility in the forex market, which had a negative impact on client trading activity in this asset type – Australia gleans a larger proportion of its revenue from forex trading than the UK and Europe. The ongoing weakness in the Australian dollar also resulted in a negative translation impact, as much of the local revenue is dollar-denominated.

During the year, an annual market research study concluded that IG had grown its market share of the retail CFD industry by one percentage point to 38% and extended its leadership over the second-largest provider by four percentage points. In the same time period, the market size dropped from 44,000 participants to 41,000.

#### **Europe**

The Europe segment comprised the German, French, Italian, Spanish, Dutch, Swedish and Norwegian offices. Although still weak in absolute terms, the European economy is showing signs of improvement, and this has positively impacted the performance of our European business. Net trading revenue in Europe for the year was up by 15.6% at £82.1 million (2013: £71.0 million), with strong growth in both the number of clients trading, up 5.6%, and average revenue per client, up 9.5%. There was strong performance from the two countries with the greatest revenue, Germany and France, which were ahead by 19.8% and 15.0% respectively. The European segment accounted for 22.2% of Group revenue in the period, against 19.6% in the prior year.

An annual market research report into the French retail CFDs market was published in April 2014. It concluded that IG had retained its market leadership, with a stable market share of 22%, after a small decline in the prior year. It also showed that our share of the forex market had increased to 11%. Shortly after the end of the financial year, an equivalent study for Germany was published. Encouragingly, it showed IG's share has increased slightly to 13%, after two years of small declines. We have maintained second place in the market and closed the gap on the market leader by six percentage points.

## **Rest of World**

The Rest of World segment comprised the offices in Singapore, Japan and South Africa and our retail exchange, Nadex, in the USA. Net trading revenue in the Rest of World region was 9.8% behind the prior year, at £43.4 million (2013: £48.1 million).

Singapore revenue was behind by 10.3%, predominantly due to a fall in average revenue per client, which was down 4.9%. Revenue in Singapore is traditionally weighted towards forex trading, and the sustained period of low volatility in this asset class negatively impacted our performance in the year. For some time, an industry-wide group in Singapore has been designing an e-learning module that will help new traders gain an appropriate level of knowledge to begin trading. Following approval by the regulator, this module was launched at the start of July and should assist with the flow of new clients to CFD trading. As previously discussed, we continue to expect that leverage restrictions will be applied to retail forex trading in 2015.

In Japan, net trading revenue was down by 23.4% to £12.2 million (2013: £15.9 million). The majority of our Japanese revenue comes from forex trading, and this year volatility in this asset type was unusually low. This compares to the prior year, which finished particularly strongly, following a shift in economic policy that caused considerable volatility in the yen. The new regulations surrounding binaries came into force on 1 December 2013, restricting the range of products from our main competitors and enabling us to increase our range. Consequently, we experienced an almost instantaneous uplift in market share and volumes in this product. The regulations also placed restrictions on new binary traders, in the form of an online test; it is too early to assess how impactful this will be to the flow of new binary traders.

South Africa had another strong year, with revenue ahead by 12.2% to £5.1 million (2013: £4.6 million). Results here continue to be constrained by the weakness of the South African Rand and the ongoing exchange controls, which prevent easy access to overseas-quoted instruments. In the USA, revenue was ahead by 54.6% at £3.1 million (2013: £2.0 million). Nadex volumes reached another record, with 2,927,000 lots traded in the year, against 1,623,000 in the prior year. Monthly client numbers peaked in April at around 2,200, up from around 1,300 at the same time in the prior year. Towards the end of the fourth quarter, two new market makers joined the exchange, one of which has been consistently providing additional liquidity for the last couple of months. Over time this should have the effect of decreasing spreads and increasing available liquidity on the traded contracts.

## Financial Review

### Summary Group Income Statement

	2014 £000	2013 £000	% change
Net trading revenue <sup>(1)</sup>	370,408	361,857	2.4%
Net interest on segregated client funds	5,500	8,188	(32.8%)
Betting duty and FTT	(3,873)	(5,204)	(25.6%)
Other operating income	2,132	3,067	(30.5%)
Net operating income	374,167	367,908	1.7%
Administrative expenses	(178,912)	(175,980)	1.7%
Operating profit	195,255	191,928	1.7%
Net finance (expense)/income	(532)	280	
Profit before tax	194,723	192,208	1.3%
Tax expense	(47,688)	(50,460)	
Profit for the year	147,035	141,748	
Diluted earnings per share	40.18p	38.80p	3.6%
Total dividend per share	28.15p	23.25p	21.1%

<sup>(1)</sup> Net trading revenue is trading revenue excluding interest on segregated client funds and is net of introductory partner commissions

### Net operating income

As discussed earlier, net trading revenue has increased by 2.4% to £370.4 million (2013: £361.9 million).

Net interest income on segregated client funds has decreased by £2.7 million to £5.5 million (2013: £8.2 million). This was driven by the decrease in the Australian base interest rate and the reduction in the margins paid by the UK banks on sterling client money deposits in response to Basel III.

Betting duties paid by the Group, in relation to net losses for spread betting clients, amounted to £3.5 million (2013: £5.2 million). The reduction of £1.7 million reflected the changes in client profitability over the two periods.

The Italian Financial Transaction Tax, introduced in 2013, has added to the Group's expenses for the year. During the year the Group made payments of £0.4 million (2013: £nil).

Other operating income includes income of £1.4 million (2013: £1.3 million) in relation to a revenue share arrangement with Spreadex Limited, following the sale of the Group's Sport business client list in 2012. The agreement ended on 23 June 2014 and the income in the next financial year will be minimal. It also includes inactivity fees, amounting to £0.7 million (2013: £0.5 million), which the Group commenced charging in February 2013. These are applied to any account that has not traded for more than two years and has a positive account balance.

### Administrative expenses

Administrative expenses, as detailed below, increased by £2.9 million to £178.9 million (2013: £176.0 million).

Over the year, the Group continued to invest in longer-term projects to broaden its offering to active traders through the development of a stockbroking offering, extending its technological lead, particularly in the mobile

sphere, and to expand geographically. As a result, both headcount and the associated costs have increased, reflected in the higher employee remuneration costs. Additionally, performance related remuneration has increased following the improved relative revenue and EPS performance for the year.

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Employee remuneration costs	89,255	86,276
Advertising and marketing	31,660	32,558
Premises related costs	9,973	10,164
IT, market data and communications	13,800	12,211
Legal and professional	4,266	4,772
Regulatory fees	5,544	6,394
Bad and doubtful debts	1,614	(348)
Other costs	13,103	11,787
Depreciation and amortisation	9,697	12,166
<b>Total administrative expenses</b>	<b>178,912</b>	<b>175,980</b>

### Employee remuneration costs

Employee remuneration costs increased by 3.5% to £89.3 million (2013: £86.3 million) in the year.

The investment in headcount during the year brought the year-end employee number to 1,153 (2013: 1,009) and the average headcount for the year to 1,070 (2013: 1,005). Total salary costs however, show an increase of only 2.7% as a change in the staff mix has brought the average salary down by 2.8%.

The Sustained Performance Plan (SPP) introduced during the year replaced both the annual bonus and the long-term share schemes for the Executive Directors. Therefore, a direct individual comparison of year-on-year bonus and share schemes costs respectively is inappropriate.

The £2.6 million aggregated increase in performance-related bonuses and share-based payment schemes charges reflects both the re-alignment of executive remuneration and higher staff bonus payments in line with the improved year-on-year performance.

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

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Total salaries	64,987	63,306
Performance-related bonuses and commissions	17,191	17,304
Share schemes	7,077	4,414
Redundancy programme costs	-	1,252
<b>Total employee remuneration costs</b>	<b>89,255</b>	<b>86,276</b>

Investment in IT development resource continued throughout the year to assist the Group in achieving its strategic priorities. The overseas IT and marketing development team in particular has grown, with the new office in Eastern Europe, allowing the Group to focus on the development of mobile apps, which could improve the recruitment and conversion of new clients. At 31 May 2014 year-end IT headcount was 497 (2013: 411) an increase of almost 21% over the level at the prior year-end.

## Advertising and marketing costs

Advertising and marketing costs decreased by £0.9 million to £31.7 million (2013: £32.6 million) during the year. The prior year included £1.1 million in relation to the IG brand re launch, thus marketing costs are relatively flat year-on-year.

During 2014 the Group completed the migration to the IG.com domain. During the transition process the Group increased its spending on pay per click advertising in order to maintain its online visibility.

The main marketing campaigns run in the year focused on the Group's forex trading opportunities, the live market insight offerings and its grey market available in the days leading up to a number of high profile IPOs.

The Group has also made a significant change to its global sponsorship portfolio, replacing its cycling sponsorship with a three year partnership with Harlequins Rugby Football Club.

## Other expenses

Premises-related costs are in line with prior year at £10.0 million (2013: £10.2 million). The increase in costs in relation to the new offices established in Switzerland and Eastern Europe during the year has been mitigated by the downsizing of the office space in Japan, bringing this in line with current business needs. Furthermore, the office move in Melbourne completed in 2013 not only better located the business, but also resulted in lower premises costs.

IT, market data and communication costs include the cost of IT maintenance and short term licence arrangements as well as market data fees from exchanges. The increase in costs from prior year is due to a change in software agreements from perpetual licences to cloud software. This resulted in more items being expensed, rather than capitalised, and ultimately amortised. The corresponding cost reduction can also be seen in software amortisation.

Legal and professional fees, which include audit, taxation, legal and other professional fees decreased by £0.5 million to £4.3 million (2013: £4.8 million).

Regulatory fees decreased by £0.9 million to £5.5 million. The reduction is primarily due to a lower Financial Services Compensation Scheme levy ('FSCS' levy) incurred in the year, as FCA decided to defer a potential £30 million interim levy on the investment intermediary firms. The FSCS levy for the year was £4.3 million (2013: £5.1 million). The level of FSCS levy paid by the Group remains dependent on investment intermediary firms' failures and the eventual compensation paid. Accordingly, this charge is outside of the Group's control and is hard to forecast accurately.

For the forthcoming financial year, following an amendment to the accounting requirements, the way in which the Group accounts for the FSCS levy will change. In summary this change will require the Group to recognise, in full, an estimate of the FSCS levy for the applicable year on 1 April each year, with comparative figures restated accordingly, with the result that there will be no explicit expense in the first half of the year.

The Group also pays other regulatory fees to the FCA in the UK, as well as regulatory bodies in other jurisdictions where it operates.

Provisions against bad and doubtful debts were £2.9 million (2013: £1.0 million) for the year and remain less than 1% of net trading revenue. The Group recovered £1.3 million of cash against previously provided debts, £0.1 million lower than last year, with legacy debt recoveries now largely dealt with.

Other costs include bank charges, training, travel, recruitment and irrecoverable sales taxes. The increase in other costs is primarily attributable to the increase in recruitment fees driven by the investment in headcount.

Depreciation and amortisation decreased by £2.5 million to £9.7 million (2013: £12.2 million) partly due to the change in IT licence agreements from perpetual licences to cloud software mentioned earlier.

## Profit before taxation

Profit before taxation grew 1.3% to £194.7 million (2013: £192.2 million). Profit before tax margin, calculated with reference to net trading revenue, decreased slightly to 52.6% (2013: 53.1%).

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

## Operating profit margins

The Group uses operating profit margin, which includes an allocation of central costs, as an indicator of regional performance (refer to note 2 of the financial information, 'Segment information').

Operating profit increased by 1.7% to £195.3 million (2013: £191.9 million). However, the Group operating profit margin (operating profit as a percentage of net trading revenue) decreased slightly to 52.7% (2013: 53.0%).

The following table summarises operating profit margin by region:

Operating profit margin by region	2014	2013
UK	61.0%	59.1%
Australia	60.1%	65.0%
Europe	38.8%	37.5%
Rest of World	33.4%	38.5%
Group	52.7%	53.0%

The UK and Europe increased their operating profit margins as the revenue for both of these regions increased by 3.3% and 15.6% respectively. Despite the relatively high increase in the revenue for Europe, the operating profit margin only increased by 1.3% as the operating costs for this region include the costs associated with establishing the new office in Switzerland which is still to generate income.

Australia and Rest of World regions, however, experienced a decrease in their revenue levels compared to prior year primarily driven by the reduced volatility in the forex market which negatively impacted on the client trading activity, and therefore margin, as the majority of the revenue in these regions comes from forex trading.

## Taxation expense

The effective rate of taxation for the year-ended 31 May 2014 decreased to 24.5% compared to a rate of 26.3% for the prior year. The rate for the current year benefited from the reduction in the UK corporation tax rate to 21.0% with effect from 1 April 2014. However, as the proportion of profit in higher-tax rate jurisdictions increases, this will apply upward pressure to the Group's effective tax rate.

The calculation of the Group's tax charge involves a degree of estimation and judgment, in particular with respect to certain items whose tax treatment cannot be finally determined until agreement has been reached with the relevant tax authority. Further detail is provided in note 4 to the financial information.

## Diluted earnings per share

Diluted earnings per share increased by 3.6% to 40.18p from 38.80p (for further details please refer to note 5 of the financial information).

Diluted earnings per share is used as a primary measure of our underlying profitability and as a financial measure in relation to the new Executive Director and Senior Management share plans.

## Dividend policy

The Group continues to be a highly cash-generative business, which allows for both investment in strategic growth initiatives and a progressive dividend policy. With this in mind, the Board is proposing to increase the ordinary dividend pay-out ratio to approximately 70%, from the current level of 60%, with effect from the 2014 financial year, whilst retaining a progressive dividend policy. Simultaneously the Board will adopt a new policy of paying the interim dividend each year calculated at approximately 30% of the prior year's full year dividend. The Board has recommended a final ordinary dividend of 22.40 pence, taking the full year ordinary dividend per share to 28.15 pence, up by 21.1% and representing 70.1% of diluted earnings per share; this reflects both the growth in earnings in the year and the enhancement to the ordinary dividend policy.

The Board will continue to monitor the capital structure of the business closely and allow sufficient headroom for the planned investment in growth initiatives, whilst retaining the ability to respond to any changes in the regulatory or financial environment.

## Summary Group Cash Flow

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 'cash' assets, both amounts due from brokers and financial investments held in the Group's liquid assets buffer 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 section. A more detailed version of the cash flow presented below is provided in note 9 to the financial information.

	2014 £000	2013 £000
<b>Operating activities</b>		
Profit before tax	194,723	192,208
Depreciation and amortisation	9,697	12,166
Other cash and non-cash adjustments	3,897	3,204
Income taxes paid	(47,761)	(53,247)
<b>Own funds generated from operations</b>	<b>160,556</b>	<b>154,331</b>
Movement in working capital	(3,298)	(12,038)
Outflow from investing and financing activities	(96,815)	(100,732)
<b>Increase in own funds</b>	<b>60,443</b>	<b>41,561</b>
Own funds at 1 June	429,291	388,221
Exchange losses on own funds	(2,453)	(491)
<b>Own funds at 31 May</b>	<b>487,281</b>	<b>429,291</b>

The year ending 31 May 2014 saw strong cash flow, where own funds generated from operations increased to £160.6 million (2013: £154.3 million). The cash conversion rate, calculated as own funds generated from operations divided by profit before tax, also increased to 82.4% (2013: 80.3%).

'Own funds' increased by £60.4 million (2013: £41.6 million), after adjustments for movements in working capital balances and significant outflows in relation to investing and financing activities. The outflow from investing and financing activities includes £11.5 million in relation to capital expenditure (2013: £16.8 million) and £84.8 million (2013: £81.6 million) in relation to the final 2013 and interim 2014 dividend payments. The Group made investments of £8.1 million on a combination of IT development, software assets and domain names (2013: £12.0million). Cash investment in tangible fixed assets totalled £3.4 million and includes £2.5 million of spend on IT hardware and £0.7 million on the fit-out of newly leased offices.

## Own funds

The Group's liquid assets, as set out in the table below, 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.

Own funds include financial investments 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 13.5% to £487.3 million (2013: £429.3 million) in the year to 31 May 2014, reflecting the high level of cash generation set out earlier in this report. An analysis of own funds is provided in the following table, and in more detail in note 9 of the financial information:

	2014 £000	2013 £000
Own cash and title transfer funds	101,487	98,345
Amounts due from brokers	303,861	283,940
Financial investments – liquid assets buffer	82,457	50,468
Other amounts due to the Group	20,450	15,003
<b>Liquid assets</b>	<b>508,255</b>	<b>447,756</b>
Liquid assets are analysed as:		
Own funds	487,281	429,291
Title transfer funds	20,974	18,465

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 2014 the unavailable cash increased by £1.6 million from that unavailable in the prior year to £49.1 million (2013: £47.5 million), as a result of higher prudent margins held to ensure appropriate segregation of client card transactions.

Available liquid assets 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 £290.3 million (2013: £297.5 million), the requirement to hold a liquid assets buffer, the continued growth of the business, the Group's commitment to segregation of individual client's money and the final proposed dividend for the year ending 31 May 2014, all of which draw upon the Group's liquidity.

The Group's available liquidity ('Net available liquidity') is disclosed in the following table and is inclusive of the liquid assets buffer, title transfer funds and after the payment of broker margin.

	2014 £000	2013 £000
<b>Liquid assets</b>	<b>508,255</b>	<b>447,756</b>
Less amounts required to ensure appropriate client money segregation - other amounts due to the Group	(20,450)	(15,003)
Less amounts required for regulatory and working capital of overseas subsidiaries	(28,666)	(32,542)
<b>Available liquid assets</b>	<b>459,139</b>	<b>400,211</b>
Less broker margin requirement	(285,102)	(245,689)
<b>Net available liquidity</b>	<b>174,037</b>	<b>154,522</b>
Of which held as a liquid assets buffer	82,457	50,468

In order to mitigate liquidity risks, the Group regularly stress-tests its three-year liquidity forecast to both validate the appropriate level of committed unsecured bank facilities held and to meet the requirements of the Group's lead regulator the Financial Conduct Authority. During the year, the Group renegotiated its liquidity facility with a syndicate of three banks. As a result, the Group increased the size of the overall facility to £200.0 million (2013: £180.0 million) and established a longer term liquidity funding arrangement - £80.0 million of the facility is committed for a period of three years. These facilities were drawn to a maximum of £50.0 million for a period of 30 days but partially repaid down to £25.0 million for a further 32 days in October to December 2013 following the reduction in available liquidity after payment of £63.8 million of dividend and at a time of relatively high levels of broker margins. In the year ended 31 May 2013 the facilities were drawn down to a maximum of £25.0 million for a period of 22 days in April 2013 where the broker margin requirement reached a level of £294.7 million.

A detailed analysis of the Group's liquidity and our approach to the management of liquidity risk are provided in note 9 to the financial information.

### Regulatory capital resources

Throughout the year, the Group maintained a significant excess over the Pillar 1 capital resources requirement, both on a consolidated and individual regulated-entity basis.

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

	2014 £m	2013 £m
Total Tier 1 capital	570.8	508.4
Less: Intangible assets	(122.7)	(120.5)
Less: Investment in own shares	(1.1)	(1.5)
Less: Deferred tax assets	(5.7)	-
<b>Total capital resources (CR)</b>	<b>441.3</b>	<b>386.4</b>
Capital resources requirement (CRR)	(115.4)	(115.1)
<b>Pillar 1 Surplus</b>	<b>325.9</b>	<b>271.3</b>

## Summary Group Statement of Financial Position

	2014 £000	2013 £000
Property, plant and equipment	13,038	14,469
Intangible assets	122,670	120,479
Financial investments	32,150	-
Deferred tax assets	5,711	9,470
<b>Non-current assets</b>	<b>173,569</b>	<b>144,418</b>
Trade and other receivables	339,765	310,914
Cash and cash equivalents	101,487	98,345
Financial investments	50,307	50,468
<b>Current assets</b>	<b>491,559</b>	<b>459,727</b>
<b>TOTAL ASSETS</b>	<b>665,128</b>	<b>604,145</b>
Trade and other payables	75,236	72,828
Income tax payable	20,178	24,289
<b>Current liabilities</b>	<b>95,414</b>	<b>97,117</b>
Redeemable preference shares	40	40
<b>Non-current liabilities</b>	<b>40</b>	<b>40</b>
<b>Total liabilities</b>	<b>95,454</b>	<b>97,157</b>
<b>Total equity</b>	<b>569,674</b>	<b>506,988</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>665,128</b>	<b>604,145</b>

### Non-current assets

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 purchased during the year include £1.8 million (2013: £4.0 million, including IG.com), for a suite of country-code and generic top-level domains that are directly relevant to our business.

Intangible assets also include goodwill of £106.7 million (2013: £107.3 million), primarily arising on the acquisition of IG Group Plc and its subsidiaries in 2003, the goodwill associated with the acquisition of Nadex of £4.5 million (2013: £5.0 million) and the goodwill arising on the acquisition of our South African business of £1.2 million (2013: £1.4 million).

Capitalised investment in relation to development costs and software and licenses amounted to £6.1 million (2013: £7.3 million) and includes investment relating to the development of the stockbroking platform. During the year the Group also invested £3.4 million in property, plant and equipment (2013: £4.4 million) including £2.5 million (2013: £2.5 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 £303.9 million (2013: £283.9 million) primarily as a result of higher broker margins than at the prior year-end driven by the Group's hedging of clients' futures and options positions. The intra-year high broker margin requirement was £290.3 million (2013: £297.5 million).

## **Client money**

Total monies held on behalf of clients at year-end was £879.4 million (2013: £842.0 million), of which £858.4 million (2013: £823.5 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 corporate clients of £21.0 million (2013: £18.5 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.

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 client ability and propensity to trade.

## **Liabilities**

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

Trade and other payables increased by £2.4 million mainly due to an increase in the number of title transfer clients. Income tax payable has decreased by £4.1 million following the reduction in the effective tax rate as discussed earlier in this section.

## Financial information

### Group Income Statement

For the year ended 31 May 2014

	<i>Note</i>	<i>2014</i> £000	<i>2013</i> £000
Trading revenue		407,899	397,946
Interest income on segregated client funds		5,817	8,477
<b>Revenue</b>		413,716	406,423
Interest expense on segregated client funds		(317)	(289)
Introducing partner commissions		(37,491)	(36,089)
Betting duty and financial transaction taxes		(3,873)	(5,204)
Other operating income	3	2,132	3,067
<b>Net operating income</b>		374,167	367,908
<i>Analysed as:</i>			
<b>Net trading revenue</b>	2	370,408	361,857
<b>Other net operating income</b>		3,759	6,051
Administrative expenses		(178,912)	(175,980)
<b>Operating profit</b>		195,255	191,928
Finance income		1,456	2,036
Finance costs		(1,988)	(1,756)
<b>Profit before taxation</b>		194,723	192,208
Taxation	4	(47,688)	(50,460)
<b>Profit for the year</b>		147,035	141,748
Profit for the year attributable to:			
Owners of the parent		147,035	141,692
Non-controlling interests		-	56
		147,035	141,748
<b>Earnings per ordinary share</b>		<i>2013</i>	<i>2012</i>
	<i>Note</i>		
Basic	5	40.32p	39.02p
Diluted	5	40.18p	38.80p

## Group Statement of Comprehensive Income

For the year ended 31 May 2014

	2014		2013	
	£000	£000	£000	£000
<b>Profit for the year</b>		147,035		141,748
<b>Other comprehensive (expense)/income:</b> <i>Items that may be subsequently reclassified to profit or loss:</i>				
Change in value of available-for-sale financial assets	59		(38)	
Foreign currency translation on overseas subsidiaries	(6,452)		(4,578)	
Other comprehensive expense for the year, net of tax		(6,393)		(4,616)
<b>Total comprehensive income for the year</b>		140,642		137,132
<b>Total comprehensive income attributable to:</b>				
Owners of the parent		140,642		137,079
Non-controlling interests		-		53
		140,642		137,132

All items of other comprehensive income or expense may be subsequently reclassified to profit or loss.

The items of comprehensive income noted above are stated net of related tax effects.

## Group Statement of Financial Position

As at 31 May 2014

		2014	2013
	Note	£000	£000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		13,038	14,469
Intangible assets		122,670	120,479
Financial investments		32,150	-
Deferred tax assets		5,711	9,470
		<u>173,569</u>	<u>144,418</u>
<b>Current assets</b>			
Trade receivables	7	327,478	300,636
Prepayments and other receivables		12,287	10,278
Cash and cash equivalents	8	101,487	98,345
Financial investments		50,307	50,468
		<u>491,559</u>	<u>459,727</u>
<b>TOTAL ASSETS</b>		<u>665,128</u>	<u>604,145</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables		21,902	19,047
Other payables		53,334	53,781
Income tax payable		20,178	24,289
		<u>95,414</u>	<u>97,117</u>
<b>Non-current liabilities</b>			
Redeemable preference shares		40	40
		<u>40</u>	<u>40</u>
<b>Total liabilities</b>		<u>95,454</u>	<u>97,157</u>
<b>Equity attributable to owners of the parent</b>			
Share capital		18	18
Share premium		206,758	206,758
Other reserves		85,468	84,990
Retained earnings		277,430	215,222
<b>Shareholders' equity</b>		<u>569,674</u>	<u>506,988</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>665,128</u>	<u>604,145</u>

## Group Statement Changes in Equity

For the year ended 31 May 2014

	Share capital	Share premium account	Other reserves	Retained earnings	Shareholders' equity	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000
<b>At 1 June 2012</b>	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	-	-	(4,613)	-	(4,613)	(3)	(4,616)
Total comprehensive (expense) / income for the year	-	-	(4,613)	141,692	137,079	53	137,132
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)	-
Movement in equity	-	467	(553)	60,077	59,991	(146)	59,845
<b>At 31 May 2013</b>	18	206,758	84,990	215,222	506,988	-	506,988
Profit for the year	-	-	-	147,035	147,035	-	147,035
Other comprehensive expense for the year	-	-	(6,393)	-	(6,393)	-	(6,393)
Total comprehensive (expense) / income for the year	-	-	(6,393)	147,035	140,642	-	140,642
Equity-settled employee share-based payments	-	-	6,556	-	6,556	-	6,556
Utilisation of own shares	-	-	348	-	348	-	348
Exercise of US share incentive plans	-	-	(3)	-	(3)	-	(3)
Purchase of own shares	-	-	(30)	-	(30)	-	(30)
Equity dividends paid	-	-	-	(84,827)	(84,827)	-	(84,827)
Movement in equity	-	-	478	62,208	62,686	-	62,686
<b>At 31 May 2014</b>	18	206,758	85,468	277,430	569,674	-	569,674

## Group Cash Flow Statement

For the year ended 31 May 2014

	Note	2014 £000	2013 £000
<b>Cash generated from operations</b>	10	176,465	66,402
Income taxes paid		(47,761)	(53,247)
Interest received on segregated client funds		5,996	9,013
Interest paid on segregated client funds		(301)	(289)
<b>Net cash flow from operating activities</b>		<u>134,399</u>	<u>21,879</u>
<b>Investing activities</b>			
Interest received		1,462	2,155
Purchase of property, plant and equipment		(3,428)	(4,813)
Payments to acquire intangible assets		(8,076)	(11,949)
Purchase of a non-controlling interest		-	(1,319)
Proceeds from maturity of financial investments		59,380	-
Purchase of financial investments		(91,294)	(50,486)
<b>Net cash flow used in investing activities</b>		<u>(41,956)</u>	<u>(66,412)</u>
<b>Financing activities</b>			
Interest paid		(1,988)	(3,175)
Equity dividends paid to owners of the parent		(84,827)	(81,615)
Proceeds from draw down of committed banking facility		80,000	-
Repayment of committed banking facility		(80,000)	-
Purchase of own shares		(30)	(461)
Proceeds from the issuance of shares		-	467
Payment of redeemable preference share dividends		(3)	(3)
<b>Net cash flow used in financing activities</b>		<u>(86,848)</u>	<u>(84,787)</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		5,595	(129,320)
Cash and cash equivalents at the beginning of the year		98,345	228,156
Exchange loss on cash and cash equivalents		(2,453)	(491)
<b>Cash and cash equivalents at the end of the year</b>		<u><u>101,487</u></u>	<u><u>98,345</u></u>

For the purposes of the cash flow statement cash and cash equivalents is stated gross of the drawdown of the committed banking facility (31 May 2014 and 31 May 2013: £nil).

## Notes

As at 31 May 2014

### 1. Basis of preparation

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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 2013 or 31 May 2014. The financial statements are prepared on a going concern basis and the accounting policies are consistent with the Group's 2013 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 2014 and statutory accounts for 2014 will be delivered to the Registrar of Companies following the company's Annual General Meeting on 16 October 2014.

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 2014. 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](http://www.iggroup.com).

#### Critical accounting estimates and judgments

The preparation of financial statements requires the Group to make estimates and judgments 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 judgments that have the most significant impact on the measurement of items recorded in the financial statements remain the impairment of goodwill, the useful economic life applied to the intangible assets and the calculation of the Group's current corporation tax charge.

The judgments in relation to the assessment of goodwill for impairment largely relate to the assumptions underlying the calculation of the value-in-use of the US cash generating unit (CGU). The US CGU comprises both the Nadex exchange and associated market making business (the 'Nadex exchange business') as well as the wider commercial use of the exchange technology within the Group. Whilst the Nadex exchange business remains loss making, the wider commercial use of the technology by the Group provides other significant economic benefits which taken alone support the carrying value of the goodwill. For this reason the Directors consider that a reasonably possible change in a key assumption would not cause the units' carrying amount to exceed its recoverable amount. In the event of the Nadex exchange business failing to generate sufficient profits the deferred tax asset of £1.7 million held in relation to carry forward tax losses might suffer impairment.

The assessment of the useful economic life of the Group's internally developed and acquired software, licenses, domain name and generic top-level domain based intangible assets is judgmental and can change due to obsolescence as a result of unforeseen technological developments. The useful life for licenses represents management's view of the expected term over which the Group will receive benefits from the software, and does not exceed the licence term. For internally developed and acquired software and domain assets the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful economic life.

The calculation of the Group's current corporation tax charge involves a degree of estimation and judgment 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.

The measurement of the Group's net trading revenue is predominately based on quoted market prices and accordingly involves little judgment. 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.

## 2. Segment information

<b>Year ended 31 May 2014</b>	<i>UK</i>	<i>Australia</i>	<i>Europe</i>	<i>Rest of World</i>	<i>Central</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Segment net trading revenue	192,693	52,169	82,142	43,404	-	370,408
Interest income on segregated client funds	-	-	-	-	5,817	5,817
<b>Revenue from external customers</b>	<b>192,693</b>	<b>52,169</b>	<b>82,142</b>	<b>43,404</b>	<b>5,817</b>	<b>376,225</b>
Interest expense on segregated client funds	-	-	-	-	(317)	(317)
Other operating income	-	-	-	-	2,132	2,132
Betting duty and financial transaction taxes	(3,519)	(56)	(298)	-	-	(3,873)
<b>Net operating income</b>	<b>189,174</b>	<b>52,113</b>	<b>81,844</b>	<b>43,404</b>	<b>7,632</b>	<b>374,167</b>
<b>Segment contribution</b>	<b>160,552</b>	<b>43,707</b>	<b>51,631</b>	<b>25,162</b>	<b>(76,100)</b>	<b>204,952</b>
Allocation of central income and costs	(38,030)	(11,096)	(17,648)	(9,326)	76,100	-
Depreciation and amortisation	(5,004)	(1,262)	(2,113)	(1,318)	-	(9,697)
<b>Operating profit</b>	<b>117,518</b>	<b>31,349</b>	<b>31,870</b>	<b>14,518</b>	<b>-</b>	<b>195,255</b>
Net finance costs						(532)
<b>Profit before taxation</b>						<b>194,723</b>

## 2. Segment information (continued)

Year ended 31 May 2013	UK	Australia	Europe	Rest of World	Central	Total
	£000	£000	£000	£000	£000	£000
Segment net trading revenue	186,450	56,251	71,047	48,109	-	361,857
Interest income on segregated client funds	-	-	-	-	8,477	8,477
<b>Revenue from external customers</b>	<b>186,450</b>	<b>56,251</b>	<b>71,047</b>	<b>48,109</b>	<b>8,477</b>	<b>370,334</b>
Interest expense on segregated client funds	-	-	-	-	(289)	(289)
Other operating income	-	-	-	-	3,067	3,067
Betting duty and financial transaction taxes	(5,204)	-	-	-	-	(5,204)
<b>Net operating income</b>	<b>181,246</b>	<b>56,251</b>	<b>71,047</b>	<b>48,109</b>	<b>11,255</b>	<b>367,908</b>
<b>Segment contribution</b>	<b>151,337</b>	<b>49,297</b>	<b>43,870</b>	<b>31,288</b>	<b>(71,698)</b>	<b>204,094</b>
Allocation of central income and costs	(35,251)	(11,165)	(15,074)	(10,208)	71,698	-
Depreciation and amortisation	(5,888)	(1,544)	(2,170)	(2,564)	-	(12,166)
<b>Operating profit</b>	<b>110,198</b>	<b>36,588</b>	<b>26,626</b>	<b>18,516</b>	<b>-</b>	<b>191,928</b>
Net finance income						280
<b>Profit before taxation</b>						<b>192,208</b>

## 3. Other operating income

	2014	2013
	£000	£000
Revenue share arrangement <sup>(1)</sup>	1,421	1,333
Inactivity fees <sup>(2)</sup>	711	484
Settlement income <sup>(3)</sup>	-	1,250
	<u>2,132</u>	<u>3,067</u>

<sup>(1)</sup> The Group receives income under a revenue share agreement with Spreadex Limited in relation to the client list of the former Sport business, calculated by reference to the revenue that Spreadex Limited generates from clients on the list. This arrangement ended on 23 June 2014.

<sup>(2)</sup> The Group charges inactivity fees for those accounts on which clients have not traded for two years.

<sup>(3)</sup> 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:

	2014	2013
	£000	£000
<b>Current income tax:</b>		
UK Corporation Tax	42,419	43,680
Foreign tax	3,575	4,197
Adjustment in respect of prior years	(1,808)	174
<b>Total current income tax</b>	<u>44,186</u>	<u>48,051</u>
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences	526	2,409
Adjustment in respect of prior years	2,301	-
Impact of change in tax rates on deferred tax	675	-
<b>Total deferred income tax</b>	<u>3,502</u>	<u>2,409</u>
Tax expense in the income statement	<u><u>47,688</u></u>	<u><u>50,460</u></u>

##### (b) Reconciliation of the total tax charge

The standard rate of corporation tax in the UK changed from 23 to 21% with effect from 1 April 2014. Accordingly, the effective corporation tax is calculated at 22.67% (2013: 23.83%) 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:

	2014	2013
	£000	£000
Profit before taxation	<u>194,723</u>	<u>192,208</u>
Profit multiplied by the UK standard rate of corporation tax of 22.67% (2013: 23.83%)	44,144	45,803
Expenses not deductible not taxable for tax purposes	73	1,892
Impact of timing differences not recognised	1,275	1,428
Higher taxes on overseas earnings	1,028	1,163
Adjustment in respect of prior years	493	174
Impact of change in tax rates on deferred tax	675	-
Total tax expense reported in the income statement	<u><u>47,688</u></u>	<u><u>50,460</u></u>

The effective tax rate is 24.5% (2013: 26.3%).

#### 4. Taxation (continued)

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##### (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 judgment with respect to the recognition of deferred tax assets 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%. Further reductions to 21% on 1 April 2014 and 20% on 1 April 2015 became enacted through the 2013 Finance Act on 17 July 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

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Basic earnings per share is calculated by dividing the profit for the year attributable to owners 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:

	2014	2013
	£000	£000
Profit for the year	147,035	141,748
Earnings attributable to non-controlling interests	-	(56)
Earnings attributable to owners of the parent	<u>147,035</u>	<u>141,692</u>
<b>Weighted average number of shares</b>		
Basic	364,710,756	363,172,810
Dilutive effect of share-based payments	<u>1,213,527</u>	<u>2,016,025</u>
Diluted	<u>365,924,283</u>	<u>365,188,835</u>
	2014	2013
Basic earnings per share	40.32p	39.02p
Diluted earnings per share	<u>40.18p</u>	<u>38.80p</u>

## 6. Dividends

	2014	2013
	£000	£000
<b>Declared and paid during the year:</b>		
Final dividend for 2013 at 17.50p per share (2012: 16.75p)	63,834	60,769
Interim dividend for 2014 at 5.75p per share (2013: 5.75p)	20,993	20,846
	<u>84,827</u>	<u>81,615</u>
<b>Proposed for approval by shareholders at the AGM:</b>		
Final dividend for 2014 at 22.40p per share (2013: 17.50p)	<u>81,814</u>	<u>63,767</u>

The final dividend for 2014 of 22.40p per share amounting to £81,814,000 was proposed by the Board on 18 July 2014 and has not been included as a liability at 31 May 2014. This dividend will be paid on 18 November 2014, following approval at the Company's AGM, to those members on the register at the close of business on 24 October 2014.

## 7. Trade receivables

	2014	2013
	£000	£000
Amounts due from brokers <sup>(1)</sup>	303,861	283,940
Other amounts due to the Group <sup>(2)</sup>	21,283	15,003
Amounts due from clients <sup>(3)</sup>	<u>2,334</u>	<u>1,693</u>
	<u>327,478</u>	<u>300,636</u>

<sup>(1)</sup> 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 2014 the actual broker margin requirement was £285.1million (2013: £245.7 million) with the balance being excess cash held at brokers.

<sup>(2)</sup> 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. 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.

<sup>(3)</sup> 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

	2014	2013
	£000	£000
Gross cash and cash equivalents <sup>(1)</sup>	959,906	921,869
Less: Segregated client funds <sup>(2)</sup>	(858,419)	(823,524)
Own cash and title transfer funds <sup>(3)</sup>	101,487	98,345

<sup>(1)</sup> Gross cash and cash equivalents includes each of the Group's own cash, proceeds from any drawdown of the committed banking facility, as well as all client monies held including both segregated client and title transfer funds.

<sup>(2)</sup> Segregated client funds comprise individual client funds held in segregated client money accounts established under the UK's Financial Conduct Authority (FCA) '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.

<sup>(3)</sup> 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. 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 brokers, 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 - 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 available liquidity:** This measure is the total of the Group's liquid assets and the Group's undrawn committed banking facilities.

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. On 15 July 2014 the Group completed the renewal negotiations of the liquidity facility with a syndicate of three banks. In doing so the Group has maintained the size of the overall facility at £200.0 million. Of the total committed banking facility £120.0 million is available for a period of one year and £80.0 million is available for three years. The drawings made under the Group's facility in the year ended 31 May 2014 are disclosed in note 9(c).

Additionally the Group's Japanese business, IG Securities Limited has a Yen 300 million (£1.8 million) liquidity facility as at 31 May 2014 (2013: Yen 300 million).

The following notes have been provided to further explain the derivation of liquid assets, own funds, available liquid assets, net available liquidity and total available liquidity. The generation of own funds is disclosed in note 9(d).

**a) Liquid assets and own funds**

'Liquid assets', stated net of borrowings, and 'own funds' are the key measures the Group uses to monitor the overall level of liquidity available to the Group. The derivation of both liquid assets and own funds are shown in the following table:

		2014	2013
	<i>Note</i>	<i>£000</i>	<i>£000</i>
Cash held, including title transfer funds <sup>(1)</sup>	8	101,487	98,345
Amounts due from brokers <sup>(2)</sup>		303,861	283,940
Financial investments – liquid assets buffer <sup>(3)</sup>		82,457	50,468
Other amounts due to the Group <sup>(4)</sup>		20,450	15,003
<b>Liquid assets</b>		<b>508,255</b>	<b>447,756</b>
Less:			
Draw down of committed banking facility		-	-
Title transfer funds		(20,974)	(18,465)
<b>Own funds</b>		<b>487,281</b>	<b>429,291</b>

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

<sup>(2)</sup> 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 policy.

<sup>(3)</sup> Financial investments represent UK Government securities held in accordance with the BIPRU 12 liquidity standards and the Group's regulatory oversight by the UK's Financial Conduct Authority (FCA). This is the Group's 'liquid assets buffer'.

<sup>(4)</sup> 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 FCA 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates. 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 asset 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 the regulatory and working capital of overseas businesses, as they are not considered to be available for the purposes of central market and liquidity risk management.

These requirements are analysed in the following table:

	<i>Note</i>	<i>2014</i>	<i>2013</i>
		<i>£000</i>	<i>£000</i>
<b>Liquid assets</b>	9(a)	<b>508,255</b>	<b>447,756</b>
Less amounts required to ensure appropriate client money segregation		(20,450)	(15,003)
Less amounts required for regulatory and working capital of overseas businesses <sup>(1)</sup>		(28,666)	(32,542)
<b>Available liquid assets</b>		<b>459,139</b>	<b>400,211</b>
Less broker margin requirement <sup>(2)</sup>		(285,102)	(245,689)
<b>Net available liquidity</b>		<b>174,037</b>	<b>154,522</b>
Of which is:			
Held as a liquid assets buffer <sup>(3)</sup>		82,457	50,468
Draw down of committed banking facility <sup>(4)</sup>		-	-

<sup>(1)</sup> 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. It is anticipated that following the granting of a regulatory license in Switzerland the overseas regulatory and working capital balances will increase.

<sup>(2)</sup> Positions are held with external brokers in order to hedge client market risk exposures in accordance with the Group's market risk management policies.

<sup>(3)</sup> 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.

<sup>(4)</sup> The short term banking facility was undrawn at 31 May 2014 and 31 May 2013.

### 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 potentially required to fund higher margin requirements at brokers to hedge increased underlying client positions. These additional requirements are funded from the Group's available liquid assets 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.

These facilities were drawn to a maximum of £50.0 million for a period of 30 days but partially repaid down to £25.0million for a further 32 days in October to December 2013, and for £30.0 million for 28 days during February and March 2014 following the reduction in available liquidity after payment of dividends and at a time of relatively high levels of broker margin. In the year ended 31 May 2013 the facilities were drawn down to a maximum of £25.0 million for a period of 22 days in April 2013 where the broker margin requirement reached a level of £294.7 million and the Group held a liquid assets buffer of £50.5 million.

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 expected liquidity requirements.

Additionally the Group's Japanese business, IG Securities Limited has a Yen 300 million (£1.8 million) liquidity facility as at 31 May 2014 (2013: Yen 300 million (£2.0 million)).

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 liquidity is calculated as set out in the following table inclusive of the undrawn committed facility.

	2014 £000	2013 £000
<b>Liquid assets</b>	<b>508,255</b>	<b>447,756</b>
Undrawn committed banking facilities <sup>(1)</sup>	200,000	180,000
<b>Total available liquidity (including facilities)<sup>(2)</sup></b>	<b>708,255</b>	<b>627,756</b>

<sup>(1)</sup>Draw down of the committed banking facility is capped at 80% of the actual broker margin requirement on the draw down date. The maximum available draw down was £200.0 million at 31 May 2014 (2013: £180.0 million) based on the broker margin requirements on those dates, of which £nil was drawn down as at 31 May 2014 (31 May 2013: £nil).

<sup>(2)</sup>Stated inclusive of the liquid assets buffer of £82.5 million (2013: £50.5 million) 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 liquidity enables the funding of large broker margin requirements when required – the total available liquidity that can be utilised for market risk management at 31 May 2014 should be considered in light of the intra-period high broker margin requirement of £290.3 million (2013: £297.5 million), the requirement to hold a liquid assets buffer, the continued growth of the business (both for client trading and geographic expansion), the Group's commitment to segregation of individual clients money as well as the declared final dividend for the year ending 31 May 2014 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 cash resources. The derivation of own funds is explained in note 9(a), and is stated net of amounts drawn on the Group's committed banking facility.

	2014 £000	2013 £000
<b>Operating activities</b>		
Profit before tax	194,723	192,208
Depreciation and amortisation	9,697	12,166
Other non-cash adjustments <sup>(1)</sup>	3,897	3,204
Income taxes paid	(47,761)	(53,247)
<b>Own funds generated from operations</b>	<b>160,556</b>	<b>154,331</b>
<b>Movement in working capital<sup>(1)</sup></b>	<b>(3,298)</b>	<b>(12,038)</b>
<b>(Outflow)/inflow from investing activities</b>		
Interest received	1,537	2,172
Purchase of property, plant and equipment and intangible assets	(11,504)	(16,762)
Purchase of non-controlling interests	-	(1,319)
<b>Outflow from financing activities</b>		
Interest paid	(1,988)	(3,175)
Equity dividends paid to owners of the parent	(84,827)	(81,615)
Other outflow from financing activities	(33)	(33)
<b>Total outflow from investing and financing activities</b>	<b>(96,815)</b>	<b>(100,732)</b>
<b>Increase in own funds</b>	<b>60,443</b>	<b>41,561</b>
Own funds at 1 June	429,291	388,221
Exchange losses on own funds	(2,453)	(491)
<b>Own funds at 31 May</b>	<b>487,281</b>	<b>429,291</b>

<sup>1)</sup> For the comparative year 31 May 2013 £1,043,000 has been reclassified in order to include the recovery or impairment of trade receivables within working capital rather than other non-cash adjustments reducing 'Other non-cash adjustments' from £4,247,000 to £3,204,000 and reducing the 'Movement in working capital' from £13,081,000 to £12,038,000.

## 10. Cash generated from operations

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	2014	2013
<i>Operating activities</i>	£000	£000
Operating profit	195,255	191,928
<i>Adjustments to reconcile operating profit to net cash flow from operating activities:</i>		
Net interest income on segregated client funds	(5,500)	(8,188)
Depreciation of property, plant and equipment	4,656	6,050
Amortisation of intangible assets	5,041	6,116
Non-cash foreign exchange losses / (gains) in operating profit	8,572	(2,399)
Share-based payments	6,556	4,309
(Increase) in trade and other receivables <sup>(1)</sup>	(40,934)	(78,372)
Increase / (decrease) in trade and other payables	2,819	(52,228)
Decrease in provisions	-	(202)
Other non-cash items	-	(612)
<b>Cash generated from operations</b>	<b>176,465</b>	<b>66,402</b>

<sup>(1)</sup> For the comparative year of 31 May 2013 £1,043,000 relating to 'Recovery of trade receivables' has been reclassified into 'Increase in trade and other receivables' reducing 'Increase in trade and other receivables' from £79,415,000 to £78,372,000.

## 11. Subsequent events

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The Group has on 15 July 2014 completed the renegotiation of the £200.0 million liquidity facility with a syndicate of three banks. In doing so the Group has renewed the £120.0 million element of the facility available for a period of one year (with an option to extend for a further year) and renegotiated the £80.0 million element of the facility to be available for a further three years respectively from 31 July 2014.