IG Markets Limited

Report and financial statements

31 May 2008

Registered No 4008957

Directors
S Clutton
P G Hetherington
T A Howkins
A R MacKay

Secretary
G Abbi

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Bank of Scotland
Citymark
150 Fountainbridge
Edinburgh EH3 9DE

Solicitors
Linklaters
One Silk Street
London EC2Y 8HQ

Brokers
UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registered Office
Friars House
157-168 Blackfriars Road
London SE1 8EZ

Directors' Report

The dırectors have pleasure ın submıttıng theır report together wıth the financıal statements of the Company for the year ended 31 May 2008

Principal activities

The Company trades as prıncıpal and market maker for foreıgn exchange and contracts for dıfferences The Company hedges unmatched trades ıncludıng those for a group company, as consıdered approprıate, to ensure ıt ıs not unacceptably exposed to materıal losses

The Company ıs a wholly-owned subsıdıary of Market Data Lımıted and the ultımate parent company ıs IG Group Holdıngs plc The Company ıs regulated by the Fınancıal Servıces Authorıty

Results

The Company's profit for the year, after taxatıon, amounted to £38,274,442 (2007 £26,914,616)

Dividends

Interım dıvıdends amountıng to £17,000,000 (2007 £33,500,000) were paıd durıng the year

Review of business and future developments

The busıness performed strongly durıng the year wıth revenue ıncreasıng by 52% to £74,037,704 (2007 £48,434,177) Operatıng profit rose by 42% to £44,762,233 (2007 £31,509,627) The Company opened two branches durıng the year ın order to facılıtate further growth, namely ın France and Spaın

A key drıver of revenue growth ıs determıned by the number of accounts opened and those dealıng for the first tıme, Account openıngs remaın strong, and the dırectors are optımıstıc about the prospects for the Company Further ınformatıon on the Group's performance can be found ın the annual report of the ultımate parent company, IG Group Holdıngs plc

Directors

The dırectors of the Company who held office durıng the year were as follows

S Clutton
P G Hetherıngton
T A Howkıns
A R MacKay

All were dırectors throughout the financıal year

No dırector had any beneficıal ınterest ın the share capıtal of the Company durıng the year

The ultımate parent company, IG Group Holdıngs plc, operates a long term ıncentıve plan for management, ıncludıng the dırectors of IG Markets Lımıted, further descrıbed ın the financıal statements of IG Group Holdıngs plc

Supplier payment policy and practıce

It ıs the Company's polıcy to agree terms of payment wıth supplıers when agreeıng the terms for each transactıon and to abıde by those terms Standard terms provıde for payment of all ınvoıces wıthın 30 days after the date of the ınvoıce except where dıfferent terms have been agreed wıth the supplıer at the outset There are 21 credıtor days of supplıers' ınvoıces outstandıng at the year-end (2007 18) for the Company

Directors' Report

Financial instruments

The principal activities of the Company outlined above give rise to exposure to financial risks in the ordinary course of business These risks are managed on a Group-wide basis as disclosed in the financial statements of IG Group Holdings plc

The objective of the risk department is to manage the Group's financial risk and to minimise the effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group

The main risks associated with the Company's financial assets and liabilities are set out in note 25 to the financial statements, as are the policies agreed by the Group Board for their management

Donations

The Company made no political donations (2007 £nil) The Company made charitable donations of £500 in the year (2007 £nil) in relation to worldwide poverty

Events since the balance sheet date

There have been no significant events since the balance sheet date

Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming annual general meeting

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed above Having made enquiries of fellow directors and of the Company's auditors, each of the directors confirms that

- to the best of each director's knowledge and belief, there is no information (that is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

Going concern

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

On behalf of the board

S Clutton
Director
28 August 2008

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report

to the member of IG Markets Limited

We have audited the Company financial statements of IG Markets Limited for the year ended 31 May 2008 which comprise the income statement, the statement of changes in shareholder's equity, the balance sheet, the cash flow statement and the related notes 1 to 27 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's member, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we are aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditor's report

to the member of IG Markets Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 May 2008 and of its profit for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
28/8/08

Income Statement

for the year ended 31 May 2008

	Notes	*2008* £	*2007* £
Revenue	3	74,037,704	48,434,177
Administrative expenses		(29,275,471)	(16,924,550)
Operating profit	4	44,762,233	31,509,627
Finance revenue	8	22,893,120	16,962,879
Finance costs	9	(13,563,316)	(11,309,798)
Profit before taxation		54,092,037	37,162,708
Tax expense	10	(15,817,595)	(10,248,092)
Profit for the year		38,274,442	26,914,616

All of the Company's revenue and profit for the year and prior year relate to continuing operations

The notes on pages 11 to 37 are an integral part of these financial statements

Statement of Changes in Shareholder's Equity

for the year ended 31 May 2008

	Equity share capital (Note 20)	*Capital reserve (Note 21)* £	*Retained earnings* £	*Total equity* £000
At 1 June 2006	13,000,000	–	36,661,255	49,661,255
Total recognised income and expense for the year	–	–	26,914,616	26,914,616
Equity dividends paid	–	–	(33,500,000)	(33,500,000)
At 1 June 2007	13,000,000	–	30,075,871	43,075,871
Profit for the year	–	–	38,274,442	38,274,442
Excess of tax deduction benefit on share-based payments recognised directly in equity	–	–	6,853	6,853
Total recognised income and expense for the year	–	–	38,281,295	38,281,295
Equity-settled employee share-based payments	–	51,635	–	51,635
Equity dividends paid	–	–	(17,000,000)	(17,000,000)
Movement in shareholder's equity	–	51,635	21,332,930	21,332,930
At 31 May 2008	13,000,000	51,635	51,408,801	54,408,801

The notes on pages 11 to 37 are an integral part of these financial statements

Balance Sheet

at 31 May 2008

	Notes	2008 £	2007 £
Non-current assets			
Property, plant and equipment	12	352,971	261,707
Intangible assets	13	27,381	279,191
Investment in subsidiaries	14	3,254,890	694,531
Deferred tax asset	10	485,070	524,345
		4,120,312	1,759,774
Current assets			
Trade receivables	15	254,730,777	347,151,362
Prepayments and other receivables	16	14,360,047	7,510,444
Cash and cash equivalents	17	287,618,495	324,513,801
		556,709,319	679,175,607
Total assets		560,829,631	680,935,381
Current liabilities			
Trade payables	18	437,733,114	602,113,823
Other payables	19	51,306,304	30,635,741
Income tax payable		7,381,412	5,109,946
Total liabilities		496,420,830	637,859,510
NET ASSETS		64,408,801	43,075,871
Capital and reserves			
Equity share capital	20	13,000,000	13,000,000
Capital reserve	21	51,635	–
Retained earnings	21	51,357,166	30,075,871
TOTAL EQUITY		64,408,801	43,075,871

The notes on pages 11 to 37 are an integral part of these financial statements

Approved by the board of directors and signed on their behalf by

Steve Clutton

Director

28 August 2008

Cash Flow Statement

for the year ended 31 May 2008

	Note	2008 £	2007 £
Operating activities			
Operating profit		44,762,233	31,509,627
Adjustments to reconcile operating profit to net cash flow from operating activities			
Depreciation of property, plant and equipment		292,484	453,100
Amortisation of intangible assets		280,862	439,098
Share-based payments expense		51,635	–
Property, plant and equipment written off		–	78,271
Intangible assets written off		–	249
Impairment of trade receivables		1,956,056	867,755
Decrease/(increase) in trade and other receivables		90,597,216	(260,489,741)
(Decrease)/increase in trade and other payables		(167,537,399)	425,079,779
Cash (used in)/generated from operations		(29,596,913)	197,938,138
Income taxes paid		(13,500,000)	(16,860,902)
Net cash flow from operating activities		(43,096,913)	181,077,236
Investing activities			
Interest received		23,323,993	15,695,454
Purchase of property, plant and equipment		(383,461)	(75,598)
Payments to acquire intangible assets		(5,853)	(267,239)
Purchase of subsidiary undertaking		–	(296,349)
Investment in subsidiary undertaking		(2,560,359)	–
Net cash flow from investing activities		20,374,320	15,056,268
Financing activities			
Interest paid		(14,172,713)	(9,692,852)
Net cash flow from financing activities		(14,172,713)	(9,692,852)
Net (decrease)/increase in cash and cash equivalents		(36,895,306)	186,440,652
Cash and cash equivalents at the beginning of the year		324,513,801	138,073,149
Net cash and cash equivalents at the end of year		287,618,495	324,513,801

The notes on pages 11 to 37 are an integral part of these financial statements

Notes to the financial statements

at 31 May 2008

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of IG Markets Limited for the year ended 31 May 2008 were authorised for issue by the board of directors on 28 August 2008 and the balance sheet signed on the board's behalf by S Clutton

The Company's financial statements have been prepared in accordance with International Financial Standards (IFRS) as adopted by the EU as they apply to the financial statements of the Company for the year ended 31 May 2008 and applied in accordance with the provisions of the Companies Act 1985 The principal accounting policies adopted by the Company are set out in note 2

2. Accounting policies

Basis of preparation

The accounting policies which follow have been applied in preparing the financial statements for the year ended 31 May 2008 The financial statements are presented in sterling

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year The nature of estimates means that actual outcomes could differ from those estimates

Parent company and Group financial statements

The parent company throughout the year was Market Data Limited which is a wholly owned subsidiary of IG Group Limited The ultimate parent company is IG Group Holdings plc

The Company is exempt under s228 of the Companies Act 1985 from preparing group financial statements because they have been included in the consolidated financial statements of IG Group Holdings plc, a company incorporated in the United Kingdom

The financial statements of IG Group Holdings plc and its subsidiary companies, which include the results of IG Markets Limited, may be obtained from Friars House, 157-168 Blackfriars Road, London SE1 8EZ The group financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the year ended 31 May 2008 applied in accordance with the provisions of the Companies Act 1985

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate prevailing on the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date Non-monetary assets and liabilities carried at fair value that are dominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Gains and losses arising on translation are taken to the income statement

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives Estimated residual value and useful lives are reviewed on an annual basis and residual values are based on prices prevailing at the balance sheet date Depreciation is charged on a straight line basis over the expected useful lives as follows

Leasehold improvements	-	over the lease term of up to 15 years
Office equipment, fixtures and fittings	-	over 5 years
Computer	-	over 2, 3 or 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset The gain or loss arising on derecognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the income statement in the period of derecognition

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses

Intangible assets acquired separately from a business are carried initially at cost An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred Development expenditure is recognised as an intangible asset only after all the following criteria are met

- the project's technical feasibility and commercial viability can be demonstrated,
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed, and
- the correlation between development costs and future revenue has been established

Following initial recognition, the historical cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows

• Client lists	-	over the expected trading life of 18 months
• Development costs	-	over 3 years
• Software and licences	-	over the contract term of up to 5 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Impairment of assets

At least annually, or when annual impairment testing is required, the directors review the carrying amounts of the Company's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount Impairment losses are recognised as an expense immediately

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised as income immediately

Financial instruments

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

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified as held for trading, or designated as such on inception, are included in this category and relate to trade receivables and trade payables as shown in the balance sheet Financial instruments are classified as held for trading if they are expected to settle in the short term The Company uses derivative financial instruments, in order to hedge exposures resulting from derivatives with clients, which are also classified as held for trading unless they are designated as hedging instruments

All financial instruments at fair value through the profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement

Determination of fair value

Bets and other derivative financial instruments are stated at fair value determined by reference to third party market values (bid prices for long positions and offer prices for short positions)

For all other derivative financial instruments where there is no underlying active market, the fair value is determined using an appropriate valuation technique as determined by the Company at the year end

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

Financial assets

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

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

Financial liabilities

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

Trade receivables and trade payables

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

Trade receivables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions result in an amount due to the Company A provision for impairment is established where there is objective evidence of non-collectability Reference is made to an aged profile of debt and the provision is subject to management review

Trade payables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions results in an amount payable by the Company

Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process A provision for impairment is established where there is objective evidence of non-collectability

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Cash and cash equivalents

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

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

Taxation

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

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

Deferred tax is generally accounted for on all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences may be utilised

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

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

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity

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

Other payables

Non trading financial liabilities are recognised initially at fair value and carried at amortised cost using the effective interest rate method if the time value of money is significant

Equity shares

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

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured

Rendering of services includes gains and losses on the running of betting markets and trading in financial markets, net of commissions expensed Open positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue as well as gains and losses realised on positions that have closed

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

Operating profit

Operating profit is the results of the principal activities of the Company after charging depreciation of property, plant and equipment, amortisation of intangible assets, impairment of trade receivables, foreign exchange differences, intercompany recharge of staff costs and other administrative expenses

Finance costs

The interest cost recognised in the income statement is accrued on a time basis by reference to the principal amount charged at the effective interest rate applicable The effective interest rate is the rate that exactly discounts the future expected cash flows to the carrying amount of the liability Issue costs are included in the determination of the effective interest rates

Retirement benefit costs

The Company operates a defined contribution scheme Contributions are charged in the income statement as and when they become payable according to the rules of scheme

Share-based payments

The ultimate parent company, IG Group Holdings plc, operates two employee share plans a Share Incentive Plan (SIP) and Long Term Incentive Plans (LTIPs) both of which are equity settled The cost of these awards is measured at fair value based on the market price of IG Group Holdings plc's shares at the date of the grant and are recognised as an expense in the income statement on a straight line basis over the vesting period based on estimated number of shares that will eventually vest

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

Critical accounting estimates and judgements

In the directors' opinion there are no critical accounting estimates or judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year

The accounting estimates or judgements that have the most significant impact on the financial statements are the estimation of share-based payment costs (see note 22), the impairment of trade receivables (see note 4) and the assessment of net market risk and associated disclosures (see note 27)

Notes to the financial statements

at 31 May 2008

2. Accounting policies (continued)

Recent accounting developments

IFRS 7 "Financial Instruments Disclosures" has been adopted with effect from 1 June 2007 IFRS 7 introduces new disclosure requirements for financial instruments, but has not affected the valuation or classification of the Company's financial instruments The comparative disclosures have been restated to comply with the requirements of IFRS 7

The following standards and interpretations have been issued with an effective date after the date of these financial statements The Company has not applied these standards and interpretations in the preparation of these financial statements The impact on the Company's financial statements of the future adoption of the standards and interpretations is still under review, but the Company does not expect any of these changes to have a material effect on the results or net assets of the Company in the period of initial application

IFRS 8 "Operating Segments" applies to accounting periods beginning after 1 January 2009 This standard replaces IAS 14 "Segment Reporting" and will not affect the results of the Company but will require a change in the disclosure of segmental information IFRS 8 amends the current segmental reporting requirements of IAS 14 and requires "management approach" to be adopted so that segmental information is presented on the same basis as that used for internal reporting purposes

IAS 23 (Amendment) "Borrowing Costs" applies to accounting periods beginning after 1 January 2009 The amendment to the standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset The option of immediately expensing borrowing costs is removed

IAS 1 (Amendment) "Presentation of Financial Statements" applies to accounting periods beginning after 1 January 2009 This amendment prohibits the presentation of items of income and expense (that is "non-owner changes in equity") in the statement of changes in equity Revised IAS 1 also sets out the additional disclosure requirements for entities making restatement or reclassifications

IFRS 2 (Amendment) "Share-based payment" applies to accounting periods beginning after 1 January 2009 This amendment clarifies that vesting conditions are service and performance conditions only It also specifies that all cancellations should receive the same accounting treatment whether cancelled by the entity or by other parties

IFRS 3 (Amendment) "Business Combinations" applies to accounting periods beginning after 1 July 2009 This standard includes significant changes to how the acquisition method is applied to business combinations

IAS 27 (Amendment) "Consolidated and separate financial statements" applies to accounting periods beginning after 1 July 2009 The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control

IAS 32 (Amendment) "Financial Instruments Presentation" and IAS 1(Amendment) "Presentation of Financial Statements – Puttable Instruments and Instruments with obligations arising on Liquidation" applies to accounting periods beginning after 1 January 2009

IFRIC 12 "Service concession arrangements" applies to accounting periods beginning after 1 January 2008

IFRIC 13 "Customer loyalty programmes" applies to accounting periods beginning after 1 July 2008

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" applies to accounting periods beginning after 1 January 2008

Notes to the financial statements

at 31 May 2008

3. Revenue

Revenue represents the net trading income from financial instruments carried at fair value through profit and loss The company trades as principal with its clients in foreign exchange and contracts for differences together with the net result of hedging its exposure by trading in futures, options, individual shares, foreign exchange and contracts for differences

The Group trades global financial markets from its London base and hedges its exposures with market counterparties based in the UK and overseas The choice of counterparty for hedging transactions is based on operational considerations at the time of the transaction In order to provide an analysis by location it would be necessary to match bets with their hedges The directors consider this is not feasible as the Group hedges on a portfolio basis and counterparties to trades may not be in the same location Accordingly, no geographical split of results is given

Revenue disclosed in the income statement is analysed as follows

	2008	*2007*
	£	*£*
Rendering of services	74,037,704	48,434,177

Finance revenue is disclosed in note 8

4. Operating profit

This is stated after charging

	2008	*2007*
	£	*£*
Depreciation of property, plant and equipment	292,484	453,100
Amortisation of intangible assets	280,862	439,098
Operating lease rentals	682,413	–
Impairment of trade receivables	1,956,056	867,755
Foreign exchange differences	1,501,223	612,715
Property, plant and equipment written off	–	78,271
Intangible assets written off	–	249

All of the above except foreign exchange differences are included in the administrative expenses of the income statement Foreign exchange differences are included in revenue

5. Auditors' remuneration

Audit fees in relation to audit of financial statements of the Company amounting to £28,000 (2007 £25,000) are borne by a fellow group undertaking

Notes to the financial statements

at 31 May 2008

6. Directors' emoluments

Directors' emoluments represent amounts paid to directors for services to the Group Only a proportion of these relate to services to IG Markets Limited

	2008	*2007*
	£	*£*
Emoluments	1,854,000	1,565,000
Pension contributions	725,000	498,000

	2008	*2007*
	No	*No*
Members of money purchase pension scheme	4	4

	2008	*2007*
	£	*£*
Highest paid director		
Emoluments	795,434	609,326
Pension contributions	39,750	36,500

7. Staff costs

The Company has direct employees in its overseas branches The average monthly number of employees during the year was 8 (2007 – nil) Aside from this, the Company had other employees during the year as all employees in the UK are employed by a fellow group company The staff costs for the year were as follows

	2008	*2007*
	£	*£*
Wages and salaries	698,269	–
Social security costs	129,552	–
Other pension costs	945	–
	828,766	–

Wages and salaries include the following amounts in respect of performance related bonuses, inclusive of national insurance and share-based payments charged to the income statement

	2008	*2007*
	£	*£*
Performance related bonuses	227,514	–
Equity settled share-based payments	51,635	–
	279,149	–

Staff costs recharged by the fellow group company amounted to £10,686,409 (2007 £9,093,228)

Notes to the financial statements

at 31 May 2008

8. Finance revenue

	2008	2007
	£	£
Interest receivable from brokers	7,725,277	5,154,882
Interest receivable from clients	880,618	386,986
Bank interest receivable	14,287,225	11,421,011
	22,893,120	16,962,879

9. Finance costs

	2008	2007
	£	£
Interest payable to brokers	328,876	174,401
Interest payable to clients	13,234,440	11,135,397
	13,563,316	11,309,798

10. Taxation

(a) Tax on profit on ordinary activities·

Tax charged in the income statement

	2008	2007
	£	£
Current income tax		
UK Corporation tax	16,391,400	11,109,946
Adjustment in respect of prior years	(619,933)	(1,248,855)
Total current income tax	15,771,467	9,861,091
Deferred tax		
Origination and reversal of timing differences	46,128	387,001
Tax expense in the income statement	15,817,595	10,248,092

Notes to the financial statements

at 31 May 2008

10. Taxation (continued)

(b) Reconciliation of the total tax charge

The rate of corporation tax in the UK was reduced from 30% to 28% from 1 April 2008 The tax expense in the income statement for the year is different to the standard rate of corporation tax in the UK of 29 67% (2007 30%) The differences are reconciled below

	2008	*2007*
	£	*£*
Accounting profit before taxation	54,092,037	37,162,708
Accounting profit multiplied by the UK standard rate of corporation tax at 29 67% (2007 30%)	16,049,107	11,148,812
Effects of		
Expenses not deductible for tax purposes	388,421	348,135
Tax overprovided in previous years	(619,933)	(1,248,855)
Total tax expense reported in the income statement	15,817,595	10,248,092

The effective corporation tax rate is 29 2% (2007 27 6%)

(c) Deferred income tax·

The deferred income tax assets included in the balance sheet are as follows

	2008	*2007*
	£	*£*
Depreciation in excess of capital allowances	463,759	524,345
Share-based payments	21,311	-
	485,070	524,345

Share-based payments awards have been charged to the income statement but are not allowable as a tax expense until the awards vest The excess of tax relief in future periods over the amount charged to the income statement is recognised as a credit directly to equity The deferred income tax (charge)/credit included in the income statement is made up as follows

	2008	*2007*
	£	*£*
Decelerated capital allowances	(60,586)	(7,669)
Open positions valuation at bid or offer	–	(379,332)
Share-based payments	14,458	–
	46,128	(387,001)

The gross movement in the deferred income tax included in the balance sheet is as follows

	£
At 1 June 2007	524,345
Income statement charge	(46,128)
Tax credited directly to equity	6,853
At 31 May 2008	485,070

Notes to the financial statements
at 31 May 2008

11. Dividends

	2008 £	2007 £
Ordinary		
- Interim paid 130 7692308p per share (2007 257 6923077p)	17,000,000	33,500,000
	17,000,000	33,500,000

12. Property, plant and equipment

	Leasehold improvements £	*Office equipment, fixtures and fittings £*	*Computer, and other equipment £*	*Total £*
Cost				
At 1 June 2006	–	–	2,377,363	2,377,363
Foreign currency adjustments	–	–	(1,227)	(1,227)
Additions	–	–	75,598	75,598
Written off	–	–	(183,883)	(183,883)
At 1 June 2007	–	–	2,267,851	2,267,851
Foreign currency adjustments	–	–	2,218	2,218
Additions	342,267	4,334	36,860	383,461
At 31 May 2008	342,267	4,334	2,306,929	2,653,530
Depreciation				
At 1 June 2006	–	–	1,659,270	1,659,270
Foreign currency adjustments	–	–	(614)	(614)
Provided during the year	–	–	453,100	453,100
Written off	–	–	(105,612)	(105,612)
At 1 June 2007	–	–	2,006,144	2,006,144
Foreign currency adjustments	–	–	1,931	1,931
Provided during the year	47,915	307	244,262	292,484
At 31 May 2008	47,915	307	2,252,337	2,300,559
Net book value:				
At 31 May 2008	294,352	4,027	54,592	352,971
At 31 May 2007	–	–	261,707	261,707
At 1 June 2006	–	–	718,093	718,093

Notes to the financial statements

at 31 May 2008

13. Intangible assets

	Client list £	*Development costs* £	*Software and licences* £	*Total* £
Cost				
At 1 June 2006	–	3,117,133	834,886	3,952,019
External purchases	237,739	–	29,500	267,239
Written off	–	(6,743)	–	(6,743)
At 31 May 2007	237,739	3,110,390	864,386	4,212,515
Foreign currency adjustments	23,983	(137)	–	23,846
External purchases	–	5,853	–	5,853
At 31 May 2008	261,722	3,116,106	864,386	4,242,214
Amortisation				
At 1 June 2006	–	2,792,007	708,713	3,500,720
Provided during the year	112,265	239,833	87,000	439,098
Written off	–	(6,494)	–	(6,494)
At 31 May 2007	112,265	3,025,346	795,713	3,933,324
Provided during the year	149,457	85,049	46,356	280,862
Foreign currency adjustments	–	647	–	647
At 31 May 2008	261,722	3,111,042	842,069	4,214,833
Net book value at 31 May 2008	–	5,064	22,317	27,381
Net book value at 31 May 2007	125,474	85,044	68,673	279,191
Net book value at 1 June 2006	–	325,126	126,173	451,299

Notes to the financial statements

at 31 May 2008

14. Investment in subsidiaries

	£
Cost	
At 1 June 2006	398,182
Additions	296,349
At 1 June 2007	694,531
Additions	2,560,359
At 31 May 2008	3,254,890

The additions during the year relate to additional investment in IG Asia Pte Limited

Name of company	*Country of incorporation*	*Holding*	*Proportion of voting rights held*	*Nature of business*
IG Nominees Ltd	UK	Ordinary shares	100%	Nominee company
ITS Market Solutions Ltd	UK	Ordinary shares	60%	Software and development sales
IG Asia Pte Limited	Singapore	Ordinary shares	100%	Margin trading
IG Markets (Deutschland) AG	Germany	Ordinary shares	100%	German sales and marketing office

15. Trade receivables

	2008 £	*2007* £
Amounts due from brokers	251,188,734	344,488,762
Amounts due from clients	3,542,043	2,662,600
	254,730,777	347,151,362

16. Prepayments and other receivables

	2008 £	*2007* £
Other debtors	1,483,816	1,388,723
Prepayments	331,059	53,701
Amounts due from group companies	12,545,172	6,068,020
	14,360,047	7,510,444

Interest is charged only on net balances due from a fellow group company, IG Australia Pty Limited, at a rate of 1% over base The amounts due from other group companies are interest free There is no security over any inter-company balances and are repayable on demand

Notes to the financial statements

at 31 May 2008

17. Cash and cash equivalents

	2008 £	2007 £
Cash at bank and in hand	60,042,655	56,415,360
Client money held	227,575,840	268,098,441
	287,618,495	324,513,801

Cash and cash equivalents are deposited for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates The fair value of cash and cash equivalents is not materially different from the book value

Net interest receivable on client balances amounted to £5,800,028 (2007 £2,512,834)

Undrawn committed group borrowing facilities amounted to £160m (2007 £106m) at the balance sheet date

18. Trade payables

	2008 £	2007 £
Amounts due to clients	437,733,114	602,113,823
	437,733,114	602,113,823

19. Other payables

	2008 £	2007 £
Accruals and deferred income	5,697,645	5,314,899
Other taxes and social security	113,687	108,109
Amounts due to group companies	45,494,972	25,212,733
	51,306,304	30,635,741

The amounts due to group companies are unsecured, interest free and are repayable on demand

20. Equity share capital

	2008 £	2007 £
Authorised		
13,000,000 ordinary shares of £1 each	13,000,000	13,000,000
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	13,000,000	13,000,000

Notes to the financial statements

at 31 May 2008

21. Reserves

Retained earnings

Retaıned earnıngs ınclude a credıt for the excess of the tax deductıon for employee share-based payments over the amounts charged to the ıncome statement

Capıtal reserve

Capıtal reserve represents the equıty contrıbutıon by the ultımate parent company, IG Group Holdıngs plc, for the equıty share-based payments made by IG Group Holdıngs plc to employees of the Company

22. Employee share plans

The ultımate holdıng company, IG Group Holdıngs plc, operates long term ıncentıve plans (LTIPs) for employees of IG Markets Lımıted whıch award employee shares ın IG Group Holdıngs plc The expense recognısed ın the ıncome statement ın respect of share-based payments made to employees of the Company was as follows

	2008	*2007*
	£	*£*
Equıty settled share-based payment schemes	51,635	–
	51,635	–

LTIP awards

LTIPs allow the award of nıl cost or nomınal cost shares LTIP awards made ın the year ended 31 May 2008 are legally categorısed as optıons The faır value of awards made to staff ın the year ended 31 May 2008 are calculated usıng the Black-Scholes optıon prıcıng model

LTIPs vest ıf specıfic performance targets are achıeved and are condıtıonal upon contınued employment at the vestıng date Performance ıs measured wıth respect to the compound annual growth rate ın fully dıluted earnıngs per share over the three year vestıng perıod and also wıth respect to the share prıce of the ultımate parent company, IG Group Holdıngs plc, over a specıfied tıme perıod For each award a mınımum performance target must be achıeved before any shares vest and the awards vest fully once the maxımum performance target ıs achıeved

On 21 August 2007, when the share prıce was 304 00p awards were made to staff, condıtıonal upon growth ın dıluted earnıngs per share ın the three years to 31 May 2010 and upon growth ın the IG Group Holdıngs plc share prıce ın the three years to 31 May 2010 The vestıng date of these awards ıs upon publıcatıon of the Group's results for the year endıng 31 May 2010 whıch ıs expected to be 26 July 2010

The maxımum numbers of shares that vest based on the awards made are as follows

Type of award	Award date	Share prıce at award	Expected vestıng date	At the start of the year	Awarded durıng the year	Lapsed durıng the year	Exercısed durıng the year	At the end of the year
				No	No	No	No	No
LTIP	21 Aug 2007	3014 0p	26 Jul 2010	–	100,428	–	–	100,428
Year ended 31 May 2008				–	100,428	–	–	100,428
Year ended 31 May 2007				–	–	–	–	–

Notes to the financial statements

at 31 May 2008

22. Employee share plans (continued)

The weıghted average faır values of the awards made were as follows

	At the beginnıng of the year	*Awarded durıng the year*	*Lapsed durıng the year*	*Exercısed durıng the year*	*At the end of the year*
Year ended 31 May 2008	–	278 25p	–	–	278 25p
Year ended 31 May 2007	–	–	–	–	–

Faır value of equıty settled awards

The faır value of equıty-settled share-based payments to employees ıs determıned at the grant date The weıghted average faır value of the equıty settled awards granted durıng the year was £279,443 (2007 £nıl For LTIP awards, the faır value ıs determıned usıng the Black-Scholes model

23. Net funds

	At 1 June 2006 £	*Cash flow* £	*At 1 June 2007* £	*Cash flow* £	*At 31 May 2008* £
Cash at bank and ın hand	34,501,718	21,913,642	56,415,360	3,627,295	60,042,655
Clıent money held	103,571,431	164,527,010	268,098,441	(40,522,601)	227,575,840
	138,073,149	186,440,652	324,513,801	(36,895,306)	287,618,495

24. Obligations under leases

Operatıng lease agreements where the Company ıs lessee

The Company has entered ınto commercıal leases on certaın propertıes The lessee has optıons of renewal on each of these leases wıth a notıce perıod of three months There were no restrıctıons placed upon the lease by enterıng ınto these leases Future mınımum rentals payable under non-cancellable operatıng leases are as follows

Future mınımum payments due	*2008* £	*2007* £
Not later than one year	138,591	–
After one year but not more than five years	507,515	–
After more than five years	346,338	–
	992,444	–

25. Transactions with directors

The dırectors of IG Markets Lımıted held shares of the ultımate parent company, IG Group Holdıngs plc, as dısclosed ın the dırectors' report The Company had no other transactıons wıth ıts dırectors other than ın relatıon to the management of the Company

Notes to the financial statements

at 31 May 2008

26. Related party transactions

The directors are considered to be the key management personnel of the Group in accordance with IAS 24 The total compensation for key management personnel was as follows

	2008	*2007*
	£	*£*
Salaries and other short-term employee benefits	1,854,000	1,565,000
Post-employment benefits	725,000	498,000
Share-based payments	1,467,000	648,000
	4,046,000	2,711,000

Compensation for key management personnel represents amounts paid to directors for services to the Group Only a portion of these relate to services to IG Markets Limited

During the year the Company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 May with other related parties, are as follows

	Expenses recharged to related party	*Expenses recharged from related party*	*Amounts owed by related party*	*Amounts owed to related party*
	£	*£*	*£*	*£*
Related party				
Fellow Group companies				
2008	-	21,456,718	12,545,172	45,494,972
2007	-	15,955,138	6,068,020	25,212,733

Within amounts owed to related parties is £44,281,586 (2007 £24,531,352) relating to trading transactions with related parties The highest trading balance during the year was £103,676,607 (2007 £36,381,428) The disclosure of the year-end balance and the highest balance during the year is considered to be the most meaningful information to represent trading transactions entered into with related parties during the year

Terms and conditions of transactions with related parties

Expenses recharges between related parties are made at arm's length prices Outstanding balances with entities are unsecured and interest free (other than net balances due from a fellow group company, IG Australia Pty Limited, with interest charged at a rate of 1% over base) and placed on inter-company accounts with no specified credit period and are repayable on demand During the year ended 31 May 2008, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2007 nil)

Notes to the financial statements

at 31 May 2008

27. Financial instruments

Accounting classifications and fair values

The table below sets out the classification of each class of financial assets and liabilities and their fair values (excluding accrued interest)

	Held for trading £	*Loans and receivables* £	*Total carrying amount* £	*Fair value* £
As at 31 May 2008				
Financial assets				
Cash and cash equivalents	-	287,618,495	287,618,495	287,618,495
Trade receivables – due from brokers	251,188,734	-	251,188,734	251,188,734
Trade receivables – due from clients	3,542,043	-	3,542,043	3,542,043
	254,730,775	287,618,495	542,349,272	542,349,272
Financial liabilities				
Trade payables – due to clients	437,733,114	-	437,733,114	437,733,114
	437,733,114	-	437,733,114	437,733,114
As at 31 May 2007				
Financial assets				
Cash and cash equivalents	-	324,513,801	324,513,801	324,513,801
Trade receivables – due from brokers	344,488,762	-	344,488,762	344,488,762
Trade receivables – due from clients	2,662,600	-	2,662,600	2,662,600
	347,151,362	324,513,801	671,665,163	671,665,163
Financial liabilities				
Trade payables – due to clients	602,113,823	-	602,113,823	602,113,823
	602,113,823	-	602,113,823	602,113,823

Broker margin

Amounts due from brokers, included in trade receivables, represent balances with counterparties where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group The cash held on account with counterparties comprises margin and surplus funds which mitigate each counterparty's credit risk exposure to the Company, and amounted to £251,188,734 at 31 May 2008 (2007 £344,488,762) These transactions are conducted under terms that are usual and customary to standard margin trading activities

Items of income, expense, gains or losses

Gains and losses arising from financial assets and liabilities classified as held for trading amounted to net gains of £74,037,704 (2007 £44,434,177)

Finance revenue totalled £22,893,120 (2007 £16,962,879) The entire amount represents interest income on financial assets not at fair value through profit or loss and includes interest receivable in respect of segregated and non-segregated client balances of £19,034,468 (2007 £13,648,231), part of which is held with brokers Finance costs totalled £13,563,316 (2007 £11,309,798) which includes interest payable on client balances of £13,234,440 (2007 £11,135,397) The entire amount represents interest expense on financial liabilities not at fair value through profit or loss

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Nature and extent of risks arising from financial instruments

The principal activities of the Company outlined in the Directors' Report give rise to exposure to financial risks in the ordinary course of business These risks are managed on a Group-wide basis

The Board is responsible for reviewing the Group's system of internal control and risk management and approving any changes to the Group's risk management policy which materially increases the risk profile of the Group Limits as to the acceptable level of risk are established and regularly reviewed by the Board Under authority delegated by the Board, the Executive Directors formulate high-level Group risk management policy All changes to the Group's risk management policies are approved by the Chief Executive and the Finance Director

The Group's finance department, headed by the Finance Director, who is responsible to the Board, comprises risk management, financial planning, financial control and credit departments, which are responsible for the operation of the Group's controls in these areas The risk management department reports daily to the Group's senior management The objective of the risk department is to manage the Group's financial risk and to minimise the effects of fluctuations in financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group

The Group has exposure to the following risks from its use of financial instruments

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments

Management of market risk

Market risk is managed on a Group-wide basis The Group's products can be divided into two groups those which relate to a liquid financial market in which it is normally easy for the Group to hedge and those for which there is not an easily accessible and cost effective hedge The Group's revenue model for each of these product groups is set out below

The Group does not take proprietary positions based on an expectation of market movements However, not all client transactions are hedged and as a result the Group may have a net position in any of the markets on which it offers products

The Group has a formal risk policy which includes limits, or a methodology for setting limits, for every single financial market which the Group trades, as well as certain groups of markets which the directors consider to be correlated These limits determine the net exposure arising from client activity and hedging which the Group is prepared to carry The Group's exposure monitor allows it to continually monitor its exposure against these limits If the Group's exposure exceeds these limits, the policy requires that sufficient hedging is carried out to bring the exposure back within the defined limit or, if the market is closed, as soon as it re-opens

Changes to the market risk policy require approval by the Group's Risk Committee, which comprises the Chief Executive, the Finance Director, the Risk Director and the Credit Director Changes to the market risk policy which may result in a significant increase in market risk require approval of the Board

Where the Group has positions in markets for which it has not been possible or cost-effective to hedge, the Group's Risk Committee determines the appropriate action and reviews these exposures regularly

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Market risk (continued)

Sports spread bets and binary bets are difficult or not cost-effective to hedge and there is often no direct underlying market which can be utilised in setting the price which the Group quotes The Group normally undertakes no hedging for these markets but can lay off large positions if considered necessary The directors aim to reduce the volatility of revenue from these markets by offering a large number of different betting opportunities, the results of which should, to some extent, offset each other irrespective of the underlying market outcome The overwhelmingly short-term nature of these bets means that risk on these markets at any point in time is not considered to be significant

Exposure to market risk

The Group has exposure to market risk to the extent that it has a residual un-hedged position

The Group's exposure to market risk at any point in time depends primarily on short-term market conditions and client activities during the trading day The exposure at each balance sheet date is therefore not considered representative of the market risk exposure faced by the Group over the year The Group's exposure to market risk is determined by the exposure limits described above which change from time to time

The most significant market risk faced by the Group is on equity positions including shares and indices which are highly correlated and managed on a portfolio basis Other exposures, including foreign exchange, commodities and interest rates do not give rise to significant market risk The equity exposure at the balance sheet date and details of the exposure limit at the year end and for the year then ended is as follows

	2008	*2007*
	£000	*£000*
Equity exposure at year end	12,920	10,015
Equity exposure limit at year end	15,000	15,000
Average equity exposure limit for the year	15,000	13,750

The Group has no significant concentration of market risk

Sensitivity analysis

The following sensitivity analysis shows the potential impact of large moves in equity markets on revenue The percentage applied is based upon the Group's assessment of movements in equity markets and the percentages applied are considered to represent single day market falls that are reasonably possible

	Equity exposures 2008	*Market movement applied*	*Potential revenue impact*
	£000	*%*	*£000*
Equities	12,920	5%	646

Reasonably possible movements in other markets have no significant impact on the Group's revenue

Changes in risk variables have no direct impact on the Group's equity as the Group has no financial instruments classified as available for sale, or designated in hedging relationships

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Market risk (continued)

Foreign currency risk

Foreign currency exposures arise in the normal course of business and the management of this risk forms part of the risk policies outlined above Limits on the exposures which the Group will accept in each currency are set by the Risk Committee and the Group hedges its exposures as necessary with market counterparties Foreign currency risk is managed on a Group-wide basis

The Group's currency exposures are measured and managed in Sterling

The Group's exposure monitor measures foreign currency risks including currency balance sheet exposures, equity, commodity, interest and other positions denominated in foreign currencies and bets and trades on foreign currencies The Group's net exposure to foreign exchange risk based on notional amounts at each balance sheet date was as follows

	2008	*2007*
	£000	*£000*
USD	12,548	(8,155)
EUR	8,074	707
AUD	(313)	376
Other	(7,506)	3,367

No sensitivity analysis is presented for foreign exchange risk as the impact of reasonably possible market movements on the Group's revenue and equity are immaterial

Interest rate risk

The Group has interest rate risk arising from its trading activities which is hedged as part of the overall market risk management The Group offers bets and contracts for difference (CFDs) on interest rate derivatives and hedges its exposure using exchange traded futures and options Exposure limits are set by the Risk Committee for each product, and also for groups of products where it is considered that their price movements are likely to be positively correlated Interest rate risk arising from trading activities is not considered to be significant by the directors and is measured by the Group's exposure monitor on a Group wide basis

The Group also has interest rate risk relating to financial instruments not at fair value through profit and loss such as cash held with banks which are not included in the Group's exposure monitor These exposures are not significant and are not hedged

The interest rate risk profile of the Company's financial assets and liabilities as at the balance sheet date was as follows

	2008	*2007*
	£	*£*
Floating rate		
Trade receivables	254,730,777	347,151,362
Trade payables	(437,733,114)	(602,113,823)
Cash and cash equivalents	287,618,495	324,513,801
	104,616,158	69,551,340

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Market risk (continued)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year Trade receivables and payables include client and broker balances upon which interest is paid or received based upon market rates Cash and cash equivalents includes client money equivalent to the amount included with trade payables Other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk

No sensitivity analysis is presented for interest rate risk as the impact of reasonably possible market movements on the Company's revenue and equity are immaterial

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

Management of credit risk

Credit risk is managed on a Group-wide basis as disclosed in the Group financial statements The Company has credit exposure to the banks with which it deposits funds and the market counterparties with which it hedges The Group sets limits for its maximum exposure to each market counterparty and bank to which it has credit exposure Certain balances with brokers are held in segregated accounts with banks

Clients are permitted to deal in circumstances where they may be capable of suffering losses greater than funds they have on their account, or in limited circumstances are allowed credit The Company has a formal credit policy which determines the financial and experience criteria which a client must satisfy before being given an account which exposes the Company to credit risk, including trading limits for each client and strict margining rules The Company accepts collateral from clients in the form of shares or other securities which mitigate credit risk and all such assets are individually assessed and discounted for expected market risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure without taking account of any collateral held or other credit enhancements such as personal guarantees The maximum exposure to credit risk at the reporting date was

	2008	*2007*
	£	*£*
Cash and cash equivalents	287,618,495	324,513,801
Trade receivables - due from brokers	251,188,734	344,488,762
Trade receivables - due from clients	3,542,043	2,662,600
	542,349,272	671,665,163

The fair value of collateral held at 31 May 2008 against amounts due from clients was £1,387,781 (2007 - £7,909,115)

The Group's largest credit exposure to any one individual broker at 31 May 2008 was £71,614,202, or 29% of the exposure to all brokers (2007 £107,659,130, 31%) The Company's largest credit exposure to any bank at 31 May 2008 was £90,016,129 or 31% of the exposure to all banks (2007 £105,344,802, 32%) The Company has no significant exposure to any one particular client

The balance of cash and cash equivalents and trade receivables – due from brokers, will fluctuate over the course of the reporting period

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Credit risk (continued)

The tables below, presents further detail on the Company's exposures to credit risk External credit ratings (Moody's long term ratings or equivalent) are available for exposures to brokers and banks, and these are shown below No external credit rating of clients is available and therefore the balances are unrated

Amounts due from clients are considered past due from the date that positions are closed and are aged from that date If debtors arise on open positions the amounts due from clients are considered neither past due nor impaired unless impairment is provided

	Trade receivables – due from brokers		*Trade receivables – due from clients*		*Cash and cash equivalents*		*Collateral held at fair value*	
	2008	*2007*	*2008*	*2007*	*2008*	*2007*	*2008*	*2007*
	£	*£*	*£*	*£*	*£*	*£*	*£*	*£*
Individually impaired								
Gross exposure	–	–	2,577,333	1,918,277	–	–	–	86,600
Allowance for impairment	–	–	(2,543,691)	(1,410,460)	–	–	–	–
	–	–	33,642	507,817	–	–	–	86,600
Past due but not impaired								
Ageing profile								
0-3 months	–	–	103,764	18,530	–	–	–	–
4-6 months	–	–	13,869	3,305	–	–	–	–
7-9 months	–	–	-	15	–	–	–	–
10-12 months	–	–	16,970	36	–	–	–	–
	–	–	134,603	21,886	–	–	–	–
Neither past due nor impaired								
Credit rating								
Aaa	3,811,599	2,801,060	–	–	42,985,164	25,750,097	–	–
Aa1-Aa3	160,444,606	94,403,310	–	–	235,698,346	287,406,429	–	–
A1-A3	71,546,734	240,583,548	–	–	8,934,948	11,357,275	–	–
Baa1 – Baa3	12,253,342	–	–	–	–	–	–	–
Unrated	3,132,453	6,700,844	3,373,798	2,132,897	37	–	1,387,781	7,822,515
	251,188,734	344,488,762	3,373,798	2,132,897	287,618,495	324,513,801	1,387,781	7,822,515
Total carrying	251,188,734	344,488,762	3,542,043	2,662,600	287,618,495	324,513,801	1,387,781	7,909,115

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Credit risk (continued)

The Company records specific impairments of trade receivables due from clients in a separate allowance account Impairments are recorded where the Company determines that it is probable that it will be unable to collect all amounts owing according to the contractual terms of the agreement There are no collective impairments taken, and no other assets are considered impaired Below is a reconciliation of changes in the separate allowance account during the period

	2008 £	*2007* £
Balance at beginning of year	1,410,460	727,973
Impairment loss for the year		
- charge for the year	1,975,002	884,427
- recoveries	(18,946)	(16,672)
Write-offs	(822,825)	(185,268)
Balance at end of year	2,543,691	1,410,460

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities

Management of liquidity risk

Liquidity risk is managed centrally for the whole Group by the Risk department as disclosed in the Group financial statements The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its broker margin requirements and liabilities when due, under both normal circumstances and stressed conditions

In order to monitor and manage this risk, the Group's Risk Department records the available funds daily and undertakes monthly liquidity stress testing The liquidity testing simulates what would happen to the Group's cash resources should there be a large single market fall and a sequential three day market fall This testing requires a number of assumptions regarding the impact of large market moves on client and broker positions and balances and the resulting behaviour of clients and brokers in terms of maintaining or closing positions and settling margin requirements

There were no changes in the management of liquidity risk during the year

Exposure to liquidity risk

Positions can be closed at any time by clients and can also be closed by the Group, in accordance with the Group's margining rules If after closing a position a client is in surplus, then the amount owing is repayable on demand by the Group When client positions are closed, corresponding positions relating to the hedged position are closed with brokers Accordingly the Group releases cash margin, which is repaid by brokers to the Group on demand

In the event of a significant movement in world markets, IG could have a short-term funding requirement to meet its payment obligations to market counterparties or winning clients before payment would be received from losing clients Any failure by IG to meet its payment obligations could result in market counterparties closing IG's hedge positions which would have materially adverse consequences for the Group's business

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

The key measure used by the Group for managing liquidity risk is the level of working capital for the Group as a whole as this determines the level of funds available to each Company within the Group For this purpose working capital is the net of all trade receivables, cash and cash equivalents and trade payables Group working capital at the balance sheet date was as follows

	2008	*2007*
	£000	*£000*
Amounts due from brokers	252,522	345,076
Amounts due from clients	10,801	7,552
Cash and cash equivalents	471,722	484,556
Trade payables	(582,689)	(726,144)
	152,356	111,040

The Group's liquidity risk under stressed conditions is mitigated by its committed bank facilities which amounted to £160 0m (2007 - £80 0m) at the year end In the directors' opinion the Group has sufficient funds available to meet all operational requirements in the event of a large market movement Liquidity management is also dependent on credit risk management described above

Residual contractual maturities of financial liabilities

The following are the contractual maturities of financial liabilities, excluding estimated interest payments Given the nature of trade payables (representing liabilities to clients in respect of trading margin deposited, unrealised profits on open positions and surpluses held on account) and the fact that open positions can be closed immediately, trade payables are presented in the table below as on demand

	Repayable on demand	
	2008	*2007*
	£	*£*
Trade payables – due to clients	437,733,114	602,113,823

Notes to the financial statements

at 31 May 2008

27. Financial instruments (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above The Group directors are responsible for managing operational risk on a Group-wide basis The Group's exposure to these risks is disclosed in the Group financial statements

Capital management

Regulatory capital

The Company's lead regulator is the Financial Services Authority (FSA) Two of the Group's UK operating subsidiaries are regulated by the FSA which imposes a minimum level of regulatory capital which must be retained

Capital resources are largely comprised of share capital and reserves, net of intangible assets and treasury shares Capital requirements are derived from credit risk, operational risk, counterparty risk and market risk considerations Capital resources, capital requirements and surplus capital at the balance sheet dates were as follows

	2008	*2007*
	£000	*£000*
Capital resources	60,413	45,630
Capital requirements	43,314	35,067
Surplus capital resources	17,099	10,563

There have been no material changes in the Company's management of capital during the year