

# IG Markets Limited

## Report and financial statements

31 May 2009

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**IG Markets Limited**

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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 directors have pleasure in submitting their report together with the financial statements of the Company for the year ended 31 May 2009.

### Principal activities

The Company trades as principal and market maker for foreign exchange and contracts for differences. The Company hedges unmatched trades including those for a group company, as considered appropriate, to ensure it is not unacceptably exposed to material losses.

The Company is a wholly-owned subsidiary of Market Data Limited and the ultimate parent company is IG Group Holdings plc. The Company is regulated by the Financial Services Authority.

### Results

The Company's profit for the year, after taxation, amounted to £48,110,302 (2008: £38,274,442).

### Dividends

Interim dividends amounting to £35,000,000 (2008: £17,000,000) were paid during the year.

### Review of business and future developments

The business performed strongly during the year with revenue increasing by 36% to £100,369,029 (2008: £74,037,704). Operating profit rose by 35% to £60,241,906 (2008: £44,762,233). During the year the Company extended its coverage in Europe, opening a small satellite office in Luxembourg and marketing into Portugal from the office in Madrid.

A key driver of revenue growth is determined by the number of accounts opened and those dealing for the first time. Account openings remain strong, and the directors are optimistic about the prospects for the Company. Further information on the Group's performance can be found in the annual report of the ultimate parent company, IG Group Holdings plc.

### Directors

The directors of the Company who held office during the year were as follows:

S Clutton  
P G Hetherington  
T A Howkins  
A R MacKay

All were directors throughout the financial year.

No director had any beneficial interest in the share capital of the Company during the year.

The ultimate parent company, IG Group Holdings plc, operates a long term incentive plan for management, including the directors of IG Markets Limited, further described in the financial statements of IG Group Holdings plc.

### Supplier payment policy and practice

It is the Company's policy to agree terms of payment with suppliers when agreeing the terms for each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice except where different terms have been agreed with the supplier at the outset. There are 3 creditor days of suppliers' invoices outstanding at the year-end (2008: 21) for the Company.

## **Directors' Report**

### **Risk management**

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 mainly 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 which include the key operational risks faced by the Company are set out in note 26 to the financial statements, as are the policies agreed by the Group Board for their management.

### **Donations**

The Company made no political donations (2008: £nil). The Company made charitable donations of £500 in the year (2008: £500) in relation to cancer research.

### **Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim.

### **Employee involvement**

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

The Group's intranet is used to communicate with staff. Employees participate directly in the success of the business through the Group's performance related bonus schemes and IG Group Holdings plc employee share plans.

### **Corporate and social responsibility**

The Company is committed to ensuring that interaction with key stakeholders and the wider environment is managed responsibly. The Company's approach to corporate and social responsibility is managed on a Group wide basis as disclosed in the financial statements of IG Group Holdings plc.

### **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' Report

### 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

27 AUGUST 2009

## **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 2006. 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**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF IG Markets Limited**

We have audited the financial statements of IG Markets Limited for the year ended 31 May 2009, which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in shareholders' equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditor's report

to the member of IG Markets Limited

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Simon Michaelson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 August 2009



## Income Statement

for the year ended 31 May 2009

	<i>Notes</i>	<i>2009</i> £	<i>2008</i> £
<b>Revenue</b>	3	100,369,029	74,037,704
Administrative expenses		(40,127,123)	(29,275,471)
<b>Operating profit</b>	4	60,241,906	44,762,233
Finance revenue	8	11,833,249	22,893,120
Finance costs	9	(5,079,417)	(13,563,316)
<b>Profit before taxation</b>		66,995,738	54,092,037
Tax expense	10	(18,885,436)	(15,817,595)
<b>Profit for the year</b>		48,110,302	38,274,442

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

The notes on pages 12 to 40 are an integral part of these financial statements.

## Statement of Changes in Shareholder's Equity

for the year ended 31 May 2009

	<i>Equity share capital (Note 20)</i>	<i>Capital reserve (Note 21) £</i>	<i>Retained earnings (Note 21) £</i>	<i>Total equity £</i>
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	21,281,295	21,332,930
At 31 May 2008	13,000,000	51,635	51,357,166	64,408,801
Profit for the year	—	—	48,110,302	48,110,302
Excess of tax deduction benefit on share-based payments recognised directly in equity	—	—	(6,852)	(6,852)
Total recognised income and expense for the year	—	—	48,103,450	48,103,450
Equity-settled employee share-based payments	—	67,983	—	67,983
Equity dividends paid	—	—	(35,000,000)	(35,000,000)
Movement in shareholder's equity	—	67,983	13,103,450	13,171,433
At 31 May 2009	13,000,000	119,618	64,460,616	77,580,234

The notes on pages 12 to 40 are an integral part of these financial statements.

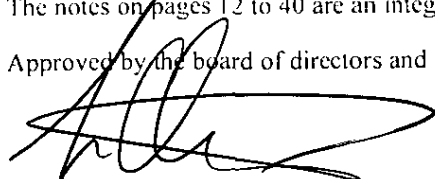
# Balance Sheet

at 31 May 2009

	Notes	2009 £	2008 £
<b>Non-current assets</b>			
Property, plant and equipment	12	417,026	352,971
Intangible assets	13	18,468	27,381
Investment in subsidiaries	14	3,254,890	3,254,890
Deferred tax asset	10	692,780	485,070
		<u>4,383,164</u>	<u>4,120,312</u>
<b>Current assets</b>			
Trade receivables	15	178,531,686	254,730,777
Prepayments and other receivables	16	40,923,936	14,360,047
Cash and cash equivalents	17	264,299,174	287,618,495
		<u>483,754,796</u>	<u>556,709,319</u>
<b>Total assets</b>		<u>488,137,960</u>	<u>560,829,631</u>
<b>Current liabilities</b>			
Trade payables	18	329,933,170	437,733,114
Other payables	19	61,142,354	51,306,304
Income tax payable		19,482,202	7,381,412
		<u>410,557,726</u>	<u>496,420,830</u>
<b>Total liabilities</b>		<u>410,557,726</u>	<u>496,420,830</u>
<b>NET ASSETS</b>		<u>77,580,234</u>	<u>64,408,801</u>
<b>Capital and reserves</b>			
Equity share capital	20	13,000,000	13,000,000
Capital reserve	21	119,618	51,635
Retained earnings	21	64,460,616	51,357,166
<b>TOTAL EQUITY</b>		<u>77,580,234</u>	<u>64,408,801</u>

The notes on pages 12 to 40 are an integral part of these financial statements.

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



Director

27 August 2009

## Cash Flow Statement

for the year ended 31 May 2009

	2009 £	2008 £
<b>Operating activities</b>		
Operating profit	60,241,906	44,762,233
<i>Adjustments to reconcile operating profit to net cash flow from operating activities</i>		
Depreciation of property, plant and equipment	138,061	292,484
Amortisation of intangible assets	11,080	280,862
Share-based payments expense	67,983	51,635
Property, plant and equipment written off	—	—
Intangible assets written off	—	—
Impairment of trade receivables	6,828,408	1,956,056
Decrease in trade and other receivables	3,457,366	90,597,216
(Decrease) in trade and other payables	(93,614,353)	(167,537,399)
Cash generated from / (used in) operations	(22,869,549)	(29,596,913)
Income taxes paid	(6,999,209)	(13,500,000)
<b>Net cash flow from operating activities</b>	<b>(29,868,758)</b>	<b>(43,096,913)</b>
<b>Investing activities</b>		
Interest received	11,833,249	23,323,993
Purchase of property, plant and equipment	(203,024)	(383,461)
Payments to acquire intangible assets	(1,371)	(5,853)
Purchase of subsidiary undertaking	—	—
Investment in subsidiary undertaking	—	(2,560,359)
<b>Net cash flow from investing activities</b>	<b>11,628,854</b>	<b>20,374,320</b>
<b>Financing activities</b>		
Interest paid	(5,079,417)	(14,172,713)
<b>Net cash flow from financing activities</b>	<b>(5,079,417)</b>	<b>(14,172,713)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(23,319,321)</b>	<b>(36,895,306)</b>
Cash and cash equivalents at the beginning of the year	287,618,495	324,513,801
<b>Net cash and cash equivalents at the end of year</b>	<b>264,299,174</b>	<b>287,618,495</b>

The notes on pages 12 to 40 are an integral part of these financial statements.

## Notes to the financial statements

at 31 May 2009

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

The financial statements of IG Markets Limited for the year ended 31 May 2009 were authorised for issue by the board of directors on 27 August 2009 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 2009 and applied in accordance with the provisions of the Companies Act 2006. 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 2009. 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 s400 of the Companies Act 2006 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 2009 applied in accordance with the provisions of the Companies Act 2006.

#### 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 2009

### 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 and other equipment-	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 2009

### 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 2009

### 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 2009

### 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 2009

### 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 26).

## Notes to the financial statements

at 31 May 2009

### 2. Accounting policies (continued)

#### Recent accounting developments

IFRIC interpretations effective for the year ended 31 May 2009 but are not relevant to the Company:

IFRIC 12 "Service concession arrangements"

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Standards and interpretations that 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. The Company expects to apply the following standards from their respective effective dates.

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 1 (Amendments) "Presentation of Financial Statements" applies to accounting periods beginning after 1 January 2009. The amendments prohibit the presentation of items of income and expense (that is "non-owner changes in equity") in the statement of changes in equity. The amendment also sets out the additional disclosure requirements for entities making restatement or reclassifications, and clarifies the classification of items 'held for trading' in accordance with IAS 39.

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.

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.

IAS 27 (Revised) "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. An amendment to the standard that applies to accounting periods beginning after 1 January 2009 clarifies the interaction of IFRS 5 and IAS 30 with regards to investments in subsidiary operations.

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

IFRS 5 (Amendment) "Non-current assets held-for-sale and discontinued operations" applies to accounting periods beginning after 1 July 2009. The amendment clarifies the disclosure requirements where the partial sale of a subsidiary results in a loss of control.

IAS 36 (Amendment) "Impairment of assets" applies to accounting periods beginning after 1 January 2009. The amendment requires that where fair value less costs to sell is calculated based on discounted cash flows disclosures equivalent to those for a value in use calculation should be made.

## Notes to the financial statements

at 31 May 2009

### 2. Accounting policies (continued)

#### Recent accounting developments

IAS 38 (Amendment) "Intangible Assets" applies to accounting periods beginning after 1 January 2009. The amendment allows the recognition of a prepayment only in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

IAS 19 (Amendment) "Employee benefits" applies to accounting periods beginning after 1 January 2009. The amendment clarifies certain accounting and valuation of defined benefit plans and alters the distinction of short term and long term employee benefits.

IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" applies to accounting periods beginning after 1 January 2009. The amendment clarifies certain definitions and aligns the example of a segment (for inter-segment hedging) with IFRS 8.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" applies to accounting periods beginning after 1 October 2008.

Standards and interpretations that are not yet effective and are not relevant to the Company's operations:

IAS 23 (Amendments) "Borrowing Costs" applies to accounting periods beginning after 1 January 2009. The amendments to the standard require 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. The amendments also align the definition of borrowing costs with that in IAS39.

IAS 16 (Amendment) "Property plant and equipment" and consequential amendment to IAS 7 "Statement of cash flows" applies to accounting periods beginning after 1 January 2009. The amendment relates to entities whose ordinary activities are renting and subsequently selling assets.

IAS 28 (Amendment) "Investments in Associates" applies to accounting periods beginning after 1 January 2009. The amendment requires that the investment in an associated is treated as a single asset for the purposes of impairment testing.

IAS 29 (Amendment) "Financial reporting in hyperinflationary economies" applies to accounting periods beginning after 1 January 2009.

IAS 31 (Amendment) "Interests in joint ventures" applies to accounting periods beginning after 1 January 2009.

IAS 38 (Amendment) "Intangible Assets" applies to accounting periods beginning after 1 January 2009. The amendment deletes wording that states that there is 'rarely, if ever' support for use of a method of amortisation that results in a lower rate than the straight line method

IAS 40 (Amendment) "Investment Property" applies to accounting periods beginning after 1 January 2009. The amendment brings property that is under construction or development for future use as an investment property within the scope of IAS 40.

IAS 41 (Amendment) "Agriculture" applies to accounting periods beginning after 1 January 2009. The amendment relates to the valuation methodologies for biological assets.

IAS 20 (Amendment) "Accounting for government grants and disclosure of government assistance" applies to accounting periods beginning after 1 January 2009. The amendment relates to accounting for the benefit of a below market rate government loan.

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

## Notes to the financial statements

at 31 May 2009

### 2. Accounting policies (continued)

#### Recent accounting developments

IFRIC 15 "Agreements for the Construction of Real Estate" applies to accounting periods beginning after 1 January 2009

IFRIC 17 "Distributions of Non-cash Assets to Owners" applies to accounting periods beginning after 1 January 2009

IFRIC 18 "Transfer of Assets from Customers" applies to asset transfers after 1 July 2009

### 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:

	2009	2008
	£	£
Rendering of services	100,369,029	74,037,704

Finance revenue is disclosed in note 8.

### 4. Operating profit

This is stated after charging:

	2009	2008
	£	£
Depreciation of property, plant and equipment	138,061	292,484
Amortisation of intangible assets	11,080	280,862
Operating lease rentals	1,409,582	682,413
Impairment of trade receivables	6,828,408	1,956,056
Foreign exchange differences	(2,751,742)	1,501,223
Advertising and marketing	8,876,550	5,600,051
Property, plant and equipment written off	—	—
Intangible assets written off	—	—

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 (2008: £28,000) are borne by a fellow group undertaking.

## Notes to the financial statements

at 31 May 2009

### 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.

	2009 £	2008 £
Emoluments	1,296,990	1,854,000
Pension contributions	188,181	725,000
	<u>1,485,171</u>	<u>2,579,000</u>
	2009 No.	2008 No.
Members of money purchase pension scheme	4	4
	<u>4</u>	<u>4</u>
	2009 £	2008 £
Highest paid director:		
Emoluments	431,613	795,434
Pension contributions	39,750	39,750
	<u>471,363</u>	<u>835,184</u>

### 7. Staff costs

The Company has direct employees in its overseas branches. The average monthly number of employees during the year was 46 (2008: 8). 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:

	2009 £	2008 £
Wages and salaries	2,890,500	698,269
Social security costs	739,114	129,552
Other pension costs	4,347	945
	<u>3,633,961</u>	<u>828,766</u>

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:

	2009 £	2008 £
Performance related bonuses	1,470,888	227,514
Equity settled share-based payments	67,983	51,635
	<u>1,538,871</u>	<u>279,149</u>

Staff costs recharged by the fellow group company amounted to £10,626,757 (2008: £10,686,409).

## Notes to the financial statements

at 31 May 2009

### 8. Finance revenue

	2009	2008
	£	£
Interest receivable from brokers	3,812,189	7,725,277
Interest receivable from clients	1,272,226	880,618
Bank interest receivable	6,748,834	14,287,225
	<u>11,833,249</u>	<u>22,893,120</u>

### 9. Finance costs

	2009	2008
	£	£
Interest payable to brokers	598,206	328,876
Interest payable to clients	4,331,625	13,234,440
Bank interest payable	149,586	—
	<u>5,079,417</u>	<u>13,563,316</u>

### 10. Taxation

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

##### Tax charged in the income statement

	2009	2008
	£	£
Current income tax:		
UK Corporation tax	19,367,346	16,391,400
Adjustment in respect of prior years	(267,347)	(619,933)
Total current income tax	<u>19,099,999</u>	<u>15,771,467</u>
Deferred tax:		
Origination and reversal of timing differences	(214,563)	46,128
Tax expense in the income statement	<u>18,885,436</u>	<u>15,817,595</u>

## Notes to the financial statements

at 31 May 2009

### 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 28% (2008: 29.67%). The differences are reconciled below:

	2009 £	2008 £
Accounting profit before taxation	66,995,738	54,092,037
Accounting profit multiplied by the UK standard rate of corporation tax at 28% (2008: 29.67%)	18,758,807	16,049,107
Effects of:		
Expenses not deductible for tax purposes	393,976	388,421
Tax under/(over) provided in previous years	(267,347)	(619,933)
Total tax expense reported in the income statement	18,885,436	15,817,595

The effective corporation tax rate is 28.6% (2008: 29.2%).

#### (c) Deferred income tax:

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

	2009 £	2008 £
Depreciation in excess of capital allowances	378,376	463,759
Share-based payments	33,493	21,311
Bad debt provision	280,911	—
	692,780	485,070

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:

	2009 £	2008 £
Decelerated capital allowances	(85,384)	(60,586)
Bad debt provision	280,911	—
Share-based payments	19,036	14,458
	214,563	(46,128)



## Notes to the financial statements

at 31 May 2009

### 10. Taxation (continued)

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

	£
At 1 June 2008	485,070
Income statement charge	214,563
Tax credited directly to equity	(6,853)
At 31 May 2009	692,780

### 11. Dividends

	2009	2008
	£	£
Ordinary:		
- Interim paid 269.2307692p per share (2008: 130.7692307p)	35,000,000	17,000,000

### 12. Property, plant and equipment

	<i>Leasehold improvements</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer, and other equipment</i>	<i>Total</i>
	£	£	£	£
<b>Cost:</b>				
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
Foreign currency adjustments	382	114	9,026	9,522
Additions	5,213	150,263	47,548	203,024
Written off	–	–	(2,234,134)	(2,234,134)
At 31 May 2009	347,862	154,711	129,369	631,942
<b>Depreciation:</b>				
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
Foreign currency adjustments	44	7	10,379	10,430
Provided during the year	69,025	26,015	43,021	138,061
Written off	–	–	(2,234,134)	(2,234,134)
At 31 May 2009	116,984	26,329	71,603	214,916
<b>Net book value:</b>				
At 31 May 2009	230,878	128,382	57,766	417,026
At 31 May 2008	294,352	4,027	54,592	352,971
At 1 June 2007	–	–	261,707	261,707

## Notes to the financial statements

at 31 May 2009

### 13. Intangible assets

	<i>Client list £</i>	<i>Development costs £</i>	<i>Software and licences £</i>	<i>Total £</i>
<b>Cost:</b>				
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
Foreign currency adjustments	–	14	–	14
External purchases	–	1,371	–	1,371
Written off	–	(2,357,237)	(615,140)	(2,972,377)
At 31 May 2009	261,722	760,254	249,246	1,271,222
<b>Amortisation:</b>				
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
Provided during the year	–	2,530	8,550	11,080
Foreign currency adjustments	–	(782)	–	(782)
Written off	–	(2,357,237)	(615,140)	(2,972,377)
At 31 May 2009	261,722	755,553	235,479	1,252,754
Net book value at 31 May 2009	–	4,701	13,767	18,468
Net book value at 31 May 2008	–	5,064	22,317	27,381
Net book value at 1 June 2007	125,474	85,044	68,673	279,191

### 14. Investment in subsidiaries

	<i>£</i>
<b>Cost:</b>	
At 1 June 2007	694,531
Additions	2,560,359
At 31 May 2008	3,254,890
Additions	–
At 31 May 2009	3,254,890

## Notes to the financial statements

at 31 May 2009

### 14. Investment in subsidiaries (continued)

No additional investments were made during the year.

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
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
Blackfriars AG	Germany	Ordinary shares	100%	German sales and marketing office

### 15. Trade receivables

	2009	2008
	£	£
Amounts due from brokers	176,960,963	251,188,734
Amounts due from clients	1,570,723	3,542,043
	<u>178,531,686</u>	<u>254,730,777</u>

### 16. Prepayments and other receivables

	2009	2008
	£	£
Other debtors	90,451	1,483,816
Prepayments	556,989	331,059
Amounts due from group companies	40,276,496	12,545,172
	<u>40,923,936</u>	<u>14,360,047</u>

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 2009

### 17. Cash and cash equivalents

	2009	2008
	£	£
Cash at bank and in hand	71,065,443	60,042,655
Client money held	193,233,731	227,575,840
	<u>264,299,174</u>	<u>287,618,495</u>

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 £4,939,664 (2008: £5,800,028).

Undrawn committed group borrowing facilities amounted to £120m (2008: £160m) at the balance sheet date.

### 18. Trade payables

	2009	2008
	£	£
Amounts due to clients	329,933,170	437,733,114

### 19. Other payables

	2009	2008
	£	£
Accruals and deferred income	7,020,898	5,697,645
Other taxes and social security	191,736	113,687
Amounts due to group companies	53,929,720	45,494,972
	<u>61,142,354</u>	<u>51,306,304</u>

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

### 20. Equity share capital

	2009	2008
	£	£
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 2009

### 21. Reserves

#### Retained earnings

Retained earnings include a credit for the excess of the tax deduction for employee share-based payments over the amounts charged to the income statement.

#### Capital reserve

Capital reserve represents the equity contribution by the ultimate parent company, IG Group Holdings plc, for the equity share-based payments made by IG Group Holdings plc to employees of the Company.

### 22. Employee share plans

The ultimate holding company, IG Group Holdings plc, operates long term incentive plans (LTIPs) for employees of IG Markets Limited which award employee shares in IG Group Holdings plc. The expense recognised in the income statement in respect of share-based payments made to employees of the Company was as follows:

	2009 £	2008 £
Equity settled share-based payment schemes	741,161	51,635
	<u>741,161</u>	<u>51,635</u>

#### LTIP awards

LTIPs allow the award of nil cost or nominal cost shares. LTIP awards made in the year ended 31 May 2009 are legally categorised as options. The fair value of awards made to staff in the year ended 31 May 2009 is calculated using the Black-Scholes option pricing model.

LTIPs vest if specific performance targets are achieved and are conditional upon continued employment at the vesting date. Performance is measured with respect to the compound annual growth rate in fully diluted earnings per share over the three year vesting period and also with respect to the share price of the ultimate parent company, IG Group Holdings plc, over a specified time period. For each award a minimum performance target must be achieved before any shares vest and the awards vest fully once the maximum performance target is achieved.

On 21 August 2007, when the share price was 304.00p awards were made to staff, conditional upon growth in diluted earnings per share in the three years to 31 May 2010 and upon growth in the IG Group Holdings plc share price in the three years to 31 May 2010. The vesting date of these awards is upon publication of the Group's results for the year ending 31 May 2010 which is expected to be 26 July 2010.

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

Type of award	Award date	Share price at award	Expected vesting date	At the start of the year No.	Awarded during the year No.	Lapsed during the year No.	Exercised during the year No.	At the end of the year No.
LTIP	21 Aug 2007	304.0p	26 Jul 2010	100,428	—	—	—	100,428
Year ended 31 May 2009				100,428	—	—	—	100,428
Year ended 31 May 2008				—	100,428	—	—	100,428

## Notes to the financial statements

at 31 May 2009

### 22. Employee share plans (continued)

The weighted average fair values of the awards made were as follows:

	<i>At the beginning of the year</i>	<i>Awarded during the year</i>	<i>Lapsed during the year</i>	<i>Exercised during the year</i>	<i>At the end of the year</i>
Year ended 31 May 2009	278.25p	–	–	–	278.25p
Year ended 31 May 2008	–	278.25p	–	–	278.25p

#### *Fair value of equity settled awards*

The fair value of equity-settled share-based payments to employees is determined at the grant date. For LTIP awards, the fair value is determined using the Black-Scholes model.

### 23. Obligations under leases

#### *Operating lease agreements where the Company is lessee*

The Company has entered into commercial leases on certain properties. The lessee has options of renewal on each of these leases with a notice period of three months. There were no restrictions placed upon the lease by entering into these leases. Future minimum rentals payable under non-cancellable operating leases are as follows:

	2009	2008
	£	£
<i>Future minimum payments due:</i>		
Not later than one year	306,886	138,591
After one year but not more than five years	1,097,703	507,515
After more than five years	236,287	346,338
	<u>1,640,876</u>	<u>992,444</u>

### 24. Transactions with directors

The directors of IG Markets Limited held shares of the ultimate parent company, IG Group Holdings plc, as disclosed in the directors' report. The Company had no other transactions with its directors other than in relation to the management of the Company.

## Notes to the financial statements

at 31 May 2009

### 25. 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:

	2009	2008
	£	£
Salaries and other short-term employee benefits	1,296,990	1,854,000
Post-employment benefits	188,181	725,000
Share-based payments	940,000	1,467,000
	<u>2,425,171</u>	<u>4,046,000</u>

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:

	<i>Expenses recharged to related party</i>	<i>Expenses recharged from related party</i>	<i>Amounts owed by related party</i>	<i>Amounts owed to related party</i>
	£	£	£	£
<i>Related party</i>				
Fellow Group companies				
2009	169,100	17,967,510	40,276,496	53,929,720
2008	–	21,456,718	12,545,172	45,494,972

Within amounts owed to related parties is £53,339,036 (2008: £44,281,586) relating to trading transactions with related parties. The highest trading balance during the year was £124,635,747 (2008: £103,676,607). 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 2009, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2008: nil).

# Notes to the financial statements

at 31 May 2009

## 26. 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):

	<i>Held for trading</i>	<i>Loans and receivables</i>	<i>Total carrying amount</i>	<i>Fair value</i>
	£	£	£	£
<b>As at 31 May 2009</b>				
<i>Financial assets</i>				
Cash and cash equivalents	–	264,299,174	264,299,174	264,299,174
Trade receivables – due from brokers	176,960,963	–	176,960,963	176,960,963
Trade receivables – due from clients	1,570,723	–	1,570,723	1,570,723
	<u>178,531,686</u>	<u>264,299,174</u>	<u>442,830,860</u>	<u>442,830,860</u>
<i>Financial liabilities</i>				
Trade payables – due to clients	329,933,170	–	329,933,170	329,933,170
	<u>329,933,170</u>	<u>–</u>	<u>329,933,170</u>	<u>329,933,170</u>
<b>As at 31 May 2008</b>				
<i>Financial assets</i>				
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
	<u>254,730,777</u>	<u>287,618,495</u>	<u>542,349,272</u>	<u>542,349,272</u>
<i>Financial liabilities</i>				
Trade payables – due to clients	437,733,114	–	437,733,114	437,733,114
	<u>437,733,114</u>	<u>–</u>	<u>437,733,114</u>	<u>437,733,114</u>

### 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 £176,960,963 at 31 May 2009 (2008: £251,188,734). 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 £100,369,029 (2008: £74,037,704).

Finance revenue totalled £11,833,249 (2008: £22,893,120). 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 £9,271,289 (2008: £19,034,468), part of which is held with brokers. Finance costs totalled £5,079,417 (2008: £13,563,316) which includes interest payable on client balances of £4,331,625 (2008: £13,234,440). 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 2009

### 26. 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 and risk departments report to the Finance Director and Chief Operating Officer respectively, who are responsible to the Board. These departments comprise risk management, financial planning, financial control and credit control. 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.

## Notes to the financial statements

at 31 May 2009

### 26. Financial instruments (continued)

#### Market risk (continued)

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.

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:

	2009 £000	2008 £000
Equity exposure at year end	8,868	12,920
Equity exposure limit at year end	15,000	15,000
Average equity exposure limit for the year	15,000	15,000

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 2009 £000	Movement applied %	Market revenue impact £000
Equities	8,868	10%	887

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 2009

### 26. 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:

	2009 £000	2008 £000
US Dollar	(2,095)	12,548
Euro	(98)	8,074
Australian Dollar	237	(313)
Yen	(209)	(1,497)
Other	1,068	(6,009)

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:

	2009 £	2008 £
<i>Floating rate</i>		
Trade receivables	178,531,686	254,730,777
Trade payables	(329,933,170)	(437,733,114)
Cash and cash equivalents	264,299,174	287,618,495
	<u>112,897,690</u>	<u>104,616,158</u>

## Notes to the financial statements

at 31 May 2009

### 26. 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 conducts business. The Group sets limits for its maximum exposure to each market counterparty and bank to which it has credit exposure.

The principal credit risk in respect of client's arises from a clients trading position going into deficit through incurring a loss in excess of the required margin deposit. The Group has no credit risk exposure to clients with Limited Risk accounts, which require each position to have a guaranteed stop such that the client's maximum loss is covered by the required deposit. Other types of accounts are permitted to deal in circumstances where they may be capable of suffering losses greater than the funds they have on their account, or in limited circumstances are allowed credit. The Group 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 Group to credit risk, including trading limits for each client and strict margining rules.

In order to mitigate credit risk the Group continually monitors credit exposures and the margin situation on all client accounts. Since October 2008, the Group has made changes to credit risk management and monitoring processes which have significantly reduced the level of bad debt experienced by the Group. For the majority of clients this is achieved via an automated margin calling and close-out process whereby a client's trading positions are trimmed to prevent the account going into deficit. The remaining minority of clients are not subject to automatic close-out, however these clients have a maximum period of 24 hours to provide additional margin once their account has moved into deficit.

#### 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:

	2009	2008
	£	£
Cash and cash equivalents	264,299,174	287,618,495
Trade receivables - due from brokers	176,960,963	251,188,734
Trade receivables - due from clients	1,570,723	3,542,043
	<u>442,830,860</u>	<u>542,349,272</u>

The fair value of collateral held at 31 May 2009 against amounts due from clients was £584,603 (2008: £1,387,781).

## Notes to the financial statements

at 31 May 2009

### 26. Financial instruments (continued)

#### Credit risk (continued)

The Group's largest credit exposure to any one individual broker at 31 May 2009 was £49,529,350 or 28% of the exposure to all brokers (2008: £71,614,202; 29%). The Company's largest credit exposure to any bank at 31 May 2009 was £65,923,354 or 25% of the exposure to all banks (2008: £90,016,129; 31%). 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.

The tables below, presents further detail on the Company's exposures to credit risk. External credit ratings (Standard and Poor'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.

## Notes to the financial statements

at 31 May 2009

### 26. Financial instruments (continued)

#### Credit risk (continued)

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.

	<i>Trade receivables – due from brokers</i>		<i>Trade receivables – due from clients</i>		<i>Cash and cash equivalents</i>		<i>Collateral held at fair value</i>	
	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£
<b>Individually impaired</b>								
Gross exposure	–	–	11,299,913	2,577,333	–	–	1,603	–
Allowance for impairment	–	–	(10,172,194)	(2,543,691)	–	–	–	–
	–	–	1,127,719	33,642	–	–	1,603	–
<b>Past due but not impaired</b>								
Ageing profile:								
0-3 months	–	–	26,083	103,764	–	–	–	–
4-6 months	–	–	7,036	13,869	–	–	–	–
7-9 months	–	–	65,418	–	–	–	–	–
10-12 months	–	–	123	16,970	–	–	–	–
Older	–	–	30,201	–	–	–	–	–
	–	–	128,861	134,603	–	–	–	–
<b>Neither past due nor impaired</b>								
Credit rating:								
AA+	–	–	–	–	–	5,823,257	–	–
AA	42,930,199	102,141,779	–	–	137,346,813	67,322,344	–	–
AA-	44,333,884	62,114,426	–	–	525,276	169,686,789	–	–
A+	22,449,098	–	–	–	109,993,811	43,634,927	–	–
A	65,604,594	71,546,734	–	–	16,212,034	1,151,141	–	–
BBB+	–	–	–	–	130,944	–	–	–
BBB	1,078,391	12,253,342	–	–	–	–	–	–
Unrated	564,797	3,132,453	314,143	3,373,798	90,296	37	583,000	1,387,781
	176,960,963	251,188,734	314,143	3,373,798	264,299,174	287,618,495	583,000	1,387,781
<b>Total carrying amount</b>								
	176,960,963	251,188,734	1,570,723	3,542,043	264,299,174	287,618,495	584,603	1,387,781

## Notes to the financial statements

at 31 May 2009

### 26. 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:

	2009 £	2008 £
Balance at beginning of year	2,543,691	1,410,460
Impairment loss for the year:		
- charge for the year	9,366,262	1,975,002
- recoveries	(1,643,368)	(18,946)
Write-offs	(94,391)	(822,825)
Balance at end of year	10,172,194	2,543,691

#### 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 2009

### 26. Financial instruments (continued)

#### Liquidity risk (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:

	2009 £000	2008 £000
Amounts due from brokers	178,261	252,522
Amounts due from clients	4,824	10,801
Cash and cash equivalents	520,421	471,722
Trade payables	(511,656)	(582,689)
	<u>191,850</u>	<u>152,356</u>

The Group's liquidity risk under stressed conditions is mitigated by its committed bank facilities which amounted to £120.0m (2008:£ 160.0m) at the year end, none of which were drawn. Extraordinary movements in world markets during October 2008 resulted in a short-term funding requirement coincided with large cash payments in respect of the interim dividend and acquisition of FXOnline and consequently the Group utilised its committed bank facilities for a period of 18 days, which were drawn to a peak of £88 million of an available £160 million.

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.

	<i>Repayable on demand</i>	
	2009 £	2008 £
Trade payables – due to clients	329,933,170	437,733,114



## Notes to the financial statements

at 31 May 2009

### 26. 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

Regulatory capital is managed centrally for the whole Group as disclosed in the Group financial statements. The Company's lead regulator is the Financial Services Authority (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:

	2009	2008
	£000	£000
Capital resources	70,930	60,413
Capital requirements	39,136	43,314
Surplus capital resources	31,794	17,099

The Group undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs. The outcome of the ICAAP is reviewed by the Audit Committee and subsequently approved by the board. The FSA periodically reviews the adequacy of the ICAAP and may set individual capital guidance resulting in additional capital requirements for the Group.

The regulatory capital requirements for credit risk and market risk are also calculated daily (or intra-daily if required) and monitored against expected ranges and available resources. The regulatory capital resources and net surplus are recalculated monthly and reported to the board of directors.

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