ANNUAL REPORT 2012

IG Group Holdings plc | 31 May 2012

CONTENTS

We have offices in 14 countries, with headquarters located in the centre of London's financial district.

SETTING THE STANDARD

We are a global leader in derivative trading services, providing financial contracts for difference, spread betting and exchange-traded derivatives to retail investors across the globe.(1)

Our reputation is built on quality of service, transparency in dealing and award-winning technology. We are an established member of the FTSE 250, with clients in more than 130 countries and a market capitalisation of £1.6 billion (as at 31 May 2012).

Financial strength

Building on a long history of profitability, we maintain a liquid capital surplus and a debt-free balance sheet.

Our capital resources are in excess of regulatory requirements, whilst our dividend cover and cash flow conversion are strong. When required, we are also able to fund large hedging positions with brokers, due to our substantial liquidity.

The trading volume generated by our 143,000 global clients, together with our financial strength, enables us to deal at wholesale prices with our hedging counterparties.

A robust risk management strategy underpins our financial strength, and we have not experienced a loss-making day since May 2008. We do not initiate speculative positions in the market, and we have no exposure to corporate or sovereign debt.

Protecting our clients' money

In all of the jurisdictions where we operate, we meet, and in some cases exceed, the statutory requirements relating to client money protection.

All individual clients' money is kept entirely separate from our own funds. It is 'ring-fenced' and held in segregated accounts with a range of major banks. This ensures that the money cannot be treated as a recoverable asset by our general creditors.

We only use our own funds for hedging and we never pass individual clients' money to counterparties or to any part of the business as working capital.

Net trading revenue(2)

+17.3%

£366.8m 2012

£312.7m 2011

Profit before tax(3)

+13.8%

£185.7m 2012

£163.2m 2011

Diluted earnings per share (EPS)(3)

+15.3%

37.54p 2012

32.57p 2011

Total dividend per share

+12.5%

22.5p 2012

20.0p 2011

Amsterdam

Beijing

Chicago

Dusseldorf

Johannesburg

Luxembourg

Madrid

Melbourne

Milan

Paris

Singapore

Stockholm

Tokyo

---

(1) For detailed practical examples of a contract for difference (CFD) trade and a spread bet, please see the Investor Resources and Other Information section. Definitions can be found in the glossary of terms

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

(3) The comparative profit before tax, diluted EPS and the percentage increases calculated thereon are based on an adjusted measure excluding the amortisation and impairment of intangible assets associated with the Group's Japanese business. The comparatives have been restated to remove the Group's Sport business, which was closed during the year and is shown as a discontinued operation

CHAIRMAN'S STATEMENT

I am pleased to report another record year for the Group. Our revenue(1) has increased by 17.3% to £366.8 million (2011: £312.7 million) whilst diluted earnings per share(2) increased 15.3% to 37.54p (2011: 32.57p).

We continue to build upon our long history of profitability and have not had a loss-making day since 2008. We maintain a strong debt-free balance sheet and our capital resources significantly exceed regulatory requirements. We are a highly cash-generative business and this both allows for investment in technology and enables us to maintain a high level of dividend payout.

As a result, at the forthcoming AGM, your Board will recommend the payment of a final dividend of 16.75p per share. This will bring the total dividends for the year to 22.5p, an increase of 12.5% on last year, and represents 60% of our earnings for the year. Your Board plans to continue with the present policy of distributing approximately 60% of earnings each year.

REGULATION

As a global financial services business that operates in highly regulated markets, we recognise the importance of being in compliance with regulatory and legal obligations at all times. As the regulatory environment changes, often in reaction to market events, we understand the importance of maintaining collaborative relationships with the relevant authorities.

One area of focus has been client money, and during the year we have strengthened our stewardship of client money, creating a Client Money Committee under the chairmanship of our CFO, Chris Hill, to ensure that we continue to meet the highest standards of client care in this regard. A further example is working with regulators to introduce strict rules regarding the protection of client money: in Australia we are working with the CFD Forum to establish best practice in this area which is substantially higher than present regulation demands.

I am disappointed to report that, despite our best efforts, the Group's annual charges from the Financial Services Compensation Scheme (FSCS) have remained at the elevated level of £5.0 million. We continue to press our case that firms such as IG Group, who act as principal, should not be included in the same compensation category as firms who deal as agents and offer advice.

BOARD EVALUATION AND COMPOSITION

As foreshadowed in my statement last year, the Board appointed, after a detailed review of potential providers, Dr Tracy Long of Boardroom Review to conduct a full evaluation of the Board and its subsidiary committees, being Audit, Nomination and Remuneration, commensurate with principle A.6 of the Combined Code on Corporate Governance.

Dr Long's review included interviews with all Board members and the secretariat, and attendance at a Board meeting and various Board committee meetings. I am pleased to report that no major issues were raised and that her recommendations for improvement will be followed up by the Board. It is the present view of the Board to continue the practice of appointing an independent firm to conduct a full board evaluation every third year, whilst relying on internal reviews in the intervening period.

Nat le Roux will step down as Deputy Chairman at this year's AGM. Nat began his career with IG in 1992, and was CEO from 2002 to 2006, prior to taking up his present position. Nat's contribution to the success of IG has been immense; your Board will miss his wise counsel and wisdom.

In searching for a replacement for Nat, the Board recognises that it is important to consider diversity (of gender, skills, knowledge and experience) when appointing new members to the Board, especially following publication of the Davies' review on Women on Boards.

Andrew MacKay, Director of Corporate Strategy, has decided to step down from the Board and leave the Company to pursue other interests. Andrew joined IG in 1999 as Group Legal Counsel and was appointed to the Board in 2003. He spent three years as Head of Asia Pacific, before his most recent appointment as Head of Corporate Strategy.

Your Board is sorry to lose him and we are exceptionally grateful for the help and guidance he has provided over many years. He has played a key role in IG's development for over a decade, and has been central to the Company's global expansion.

We wish them both the very best for the future.

These changes to our Board mean that after our 2012 AGM we will be fully compliant with Code Provision A.3.2 of the Combined Code.

It is again our intention this year to put every Board Director, with the exception of Nat and Andrew, up for re-election at the AGM, in compliance with paragraph B.7.1 of the UK Corporate Governance Code.

REMUNERATION

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

We are continuing with an element of deferral in the Executive Directors' and Code Staff's bonus structure, reflecting the Financial Services Authority's remuneration principles and commensurate with our previous commitments. There are no proposed changes this year to the value-sharing plan, our long-term incentive scheme; however, there have been changes to the Executive Directors' performance-related bonus scheme, details of which are set out in the Directors' remuneration report.

CONCLUSION

We have continued this year with our core strategies, which combine technological excellence with client service to drive growth in new and established markets.

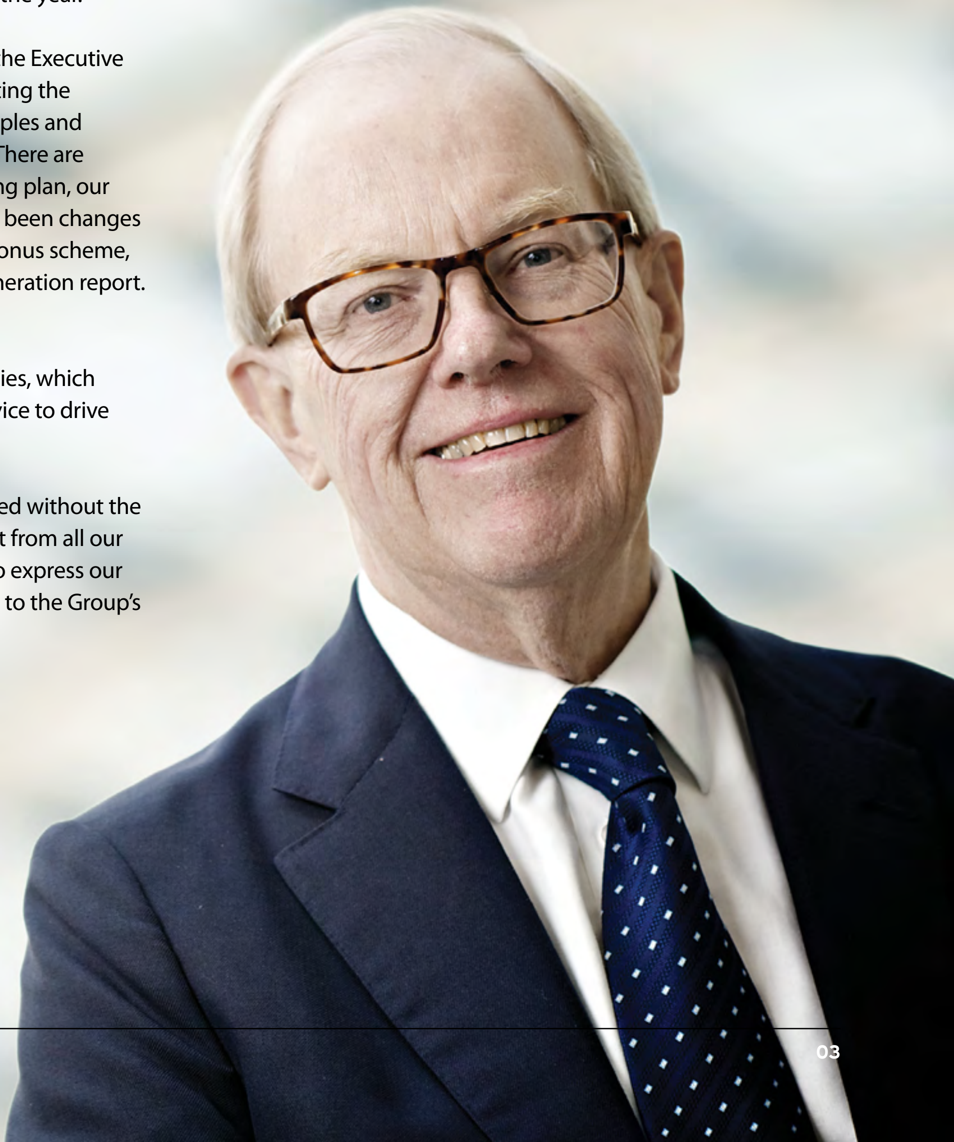
As always, our results could not have been achieved without the relentless focus on client service and commitment from all our employees. I and my fellow Directors would like to express our gratitude to them for their personal contributions to the Group's success this year.

Jonathan Davie, Chairman
17 July 2012

Diluted EPS Growth
15.3%

Final dividend per share
16.75p

Dividend payout
60.0%



---

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

(2) The comparative diluted EPS and the percentage increases calculated thereon are based on an adjusted measure excluding the amortisation and impairment of intangible assets associated with the Group's Japanese business. Diluted EPS has been presented for the continuing business, excluding the discontinued Sport business

CHIEF EXECUTIVE'S REVIEW

We experienced varying conditions through the year and this was reflected in a range of growth rates across the Group. For the year as a whole we increased revenue(1) by 17.3%. This was split into 28% growth in the first half, 1.5% in the third quarter and then 12% for the final quarter. High levels of market volatility in August 2011 resulted in record monthly revenues. This effect was greatest in our southern hemisphere businesses in Australia and Singapore. In the northern hemisphere the impact was more muted as it coincided with the summer holidays. Elevated client activity continued to a lesser extent for the remainder of the first half. As is often the case, this period of prolonged elevated client activity was followed by a more subdued period as many of our clients reduced their trading activity. This effect was exacerbated by the extended seasonal holiday period in December and January. This resulted in a muted third quarter. The year ended on a stronger note with good year-on-year growth in the final quarter, particularly in April and May.

There is a trade-off between the number of active clients and average revenue per client, and for the last 18 months our focus, particularly in our longer-established markets, has been on improving the quality of our client base. We have sought to recruit higher-value new clients, and have ensured that our very largest clients receive a dedicated personal service. I was therefore pleased that during this financial year we achieved improvements in revenue per client of 10%, 9% and 30% respectively in the UK, Australia and Singapore.

In Europe revenue per client is some 20% higher than it is in our much longer-established UK market, reflecting the relative immaturity of our European businesses, where high-value early adopters still raise the average. Revenue per client in Europe fell by 5% this year in a continuation of what is now a clear trend. Over time I would expect revenue per client for the established and newer markets to slowly converge.

PERFORMANCE OF OUR MAIN BUSINESS UNITS

Our UK business continues to deliver good levels of growth, with revenue up 15% for the year, driven by a 10% increase in revenue per client and a 5% growth in active clients.

We saw faster growth in Australia, up 22%, driven in almost equal measure by growth in active clients of 11% and increased revenue per client of 9%.

Europe saw 26% growth with a 32% increase in active clients, partially offset by a 5% fall in revenue per client. Germany and Italy were the strongest-growing in the first half, but in the second half produced weaker growth, while our Iberian business accelerated to become the fastest growing of our European businesses.

Singapore achieved 49% growth, mainly driven by a 30% increase in revenue per client. South Africa produced revenue of £4.0 million, compared to £2.7 million for the nine months it was included in the prior year.

There are signs that our Japanese business has stabilised after the leverage restrictions introduced in August. Revenue per quarter has been steady at around £4.0 million in each of the last three quarters. We have reduced the cost base for this business to a level appropriate for its revenue, and it continues to generate a reasonable level of profit.

Our US business, Nadex, remains a long-term project, but we are seeing some very early signs that it is gaining traction, with a steady increase in the number of members trading over the second half of the year, albeit from a small base. This growth was principally driven by direct client recruitment.

EXTRABET

During July 2011 we closed our Sport business, extrabet, and sold part of its client list to Spreadex under an arrangement where we receive a share in the revenue that they generate from those clients for three years after the sale. During the year this arrangement produced income of £1.0 million, which is reported within other income.

The closure of extrabet has enabled us to focus single-mindedly on our core financial business and has had several benefits, including increasing our ability to carry out systems maintenance and development over the weekends.

REGULATION AND TAX

During the year we have seen a focus from a number of regulators globally on client money protection, and also on capital adequacy. These are both areas of competitive advantage for us and we welcome this increased regulatory focus. In Australia a number of competitors have moved to full UK-style client money segregation, something we have always offered our Australian clients.

The Monetary Authority of Singapore (MAS) has indicated an intention to reduce leverage on forex from 50 times to 20 times. While we do not welcome this development, we believe that the impact it will have on our revenue will be significantly less than similar changes previously made in Japan, as the MAS rules are more flexible and recognise the positive impact that stops have on reducing client risk.

Several countries in continental Europe have indicated an intention to bring in a financial transaction tax which is similar in style and scope to UK stamp duty. Initial indications are that it will not apply to derivative transactions and, as with UK stamp duty, it may therefore result in a competitive advantage when comparing trading CFDs on individual equities with us to trading conventional cash equities. We continue to monitor developments in this area closely.

INTERNATIONAL GROWTH

This was the first full year of operation for our Amsterdam office, which we opened in May 2011, and our South African office, which was established in September 2010 when we acquired the business and client list of Ideal CFDs. Both businesses performed well during the year and by the end of the year were achieving monthly revenues of £100,000 and £400,000 respectively.

We intend to continue to expand geographically and our corporate development team, under the leadership of Andrew MacKay, has developed plans for our ongoing international rollout. For competitive reasons I believe it would be counterproductive to provide further detail until shortly before any new country is due to go live.

I would like to add my thanks to those of our Chairman for Andrew's contribution to IG over the past 13 years, and in particular the major part he has played in shaping our international expansion to date and providing a plan and the infrastructure which will enable us to continue to expand in the coming years.

European contribution to Group revenue

19%

Growth in active clients (excluding Japan)

11%

Percentage of clients using mobile technology

43%

---

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

CHIEF EXECUTIVE'S REVIEW (continued)

INVESTMENT IN TECHNOLOGY

Our ongoing investment in technology remains key to driving our continued market leadership and our continued growth. The majority of this investment is the direct employment cost of our in-house IT department. By the end of the financial year we had 397 people in IT, and their cost including bonus payments for the year was £28.6 million, compared to £23.5 million the year before.

One of our key initiatives over the last two years has been the development of apps for all of the major mobile platforms. During the last year we completed the initial roll-out of apps for iPhone, iPad, Android, BlackBerry and Windows Phone 7. All of these have been developed as native apps, meaning that they are developed specifically for each mobile operating system and therefore conform closely to the normal user experience for that device. This approach allows us to make full use of all the features that each operating system provides and will enable us to continue to develop increasingly rich-featured apps. Client usage of these apps has been increasing progressively, and last month 21% of all client initiated transactions were made using one of these mobile apps, while 43% of the clients who dealt with us last month executed at least one transaction using a mobile app. I believe that mobile will become an ever more important channel for our industry going forward, and we intend to continue to invest appropriately to ensure that we are at the forefront of this key technology.

Two other long-term IT development projects also came to fruition this year: charts and Insight.

Charts are an important tool which many of our clients use to inform and track their trading decisions, and we took the decision three years ago that we should reduce our dependence on external providers and increase our flexibility by bringing our charting in house. This work is largely complete, and the charts which the vast majority of our clients use, both on our web-based platform and within our mobile apps, were developed and are maintained fully in house. We continue to add features to these in response to client feedback.

Insight is a new resource tool which we provide to our clients. It brings together a wide range of information about each financial market which our clients can trade, including information about overall client sentiment. Initial client feedback has been extremely positive and we continue to develop and enhance Insight.

CLIENT SERVICE

Another key development that we have been working on for some time is the ongoing improvement of our price delivery and deal execution; this enables us to deliver a superior service to clients. We continue to improve the speed at which we deliver price ticks to clients and the level of automation of our deal execution. I believe this ongoing improvement is one of a number of factors which has helped to drive our improving revenue per client.

STRONGLY POSITIONED

IG remains extremely strong financially. Perhaps just as importantly we maintain a strong corporate culture with very high levels of employee engagement. During the year we conducted two employee surveys and approximately two thirds of our global employees responded. These surveys provide us with valuable feedback and we continue to make changes so as to further improve employee engagement. I was particularly pleased to see in the most recent survey that roughly 85% of our employees say they are excited about where IG is going, with similar percentages saying that they are proud of IG, that IG is a company full of great people and that we have a positive working culture. Our talented and highly-motivated employees have played a crucial role in driving the success of IG for many years, and I believe will continue to be the main driving force of the business going forward.

CURRENT TRADING AND OUTLOOK

Revenue in the first six weeks of the current financial period has been lower than the same period last year, as dull markets in this period have presented our clients with fewer trading opportunities. As we have previously commented, comparatives are increasingly challenging for the remainder of the current quarter and the beginning of the next. Against this backdrop, revenue this year is forecast to be more weighted towards the second half than historically. Under normal market conditions, we continue to expect modest growth in revenue for the year as a whole. We remain committed to investing appropriately in the capabilities of our business, in technology, marketing and geographic and product development, to position the business for long-term growth. I remain confident in the prospects for the business going forward.

Tim Howkins, Chief Executive
17 July 2012

BUSINESS REVIEW

→

WHAT WE DO

We are a world-leading provider of contracts for difference (CFDs) and spread betting on over 14,000 financial markets, including forex, stock indices, shares, commodities, binaries, options and interest rates.

We provide access to the financial markets via our award-winning trading platforms, with the flexibility to deal across multiple asset classes from one account. Our range of customised apps for mobile devices enables clients to trade on the move, with 24-hour account access.

In the US, where statutory regulations restrict the provision of our traditional products, we operate a unique derivatives exchange business.

Contracts for difference (CFDs)

- We offer global CFD trading with direct market access (DMA)
- We are the market-leading CFD provider in the UK, Australia and France(1)(2)(3)

Spread betting

- We are the largest and longest-running spread betting provider in the world
- We are the market-leading spread betting provider in the UK(1)

North American Derivatives Exchange (United States)

- Nadex is the only US-based retail-oriented exchange to list binary options and limited-risk derivative contracts on forex, indices, commodities and economic events
- We offer a range of mobile trading apps tailored for Nadex clients

OUR HISTORY

1974	Our founding company, IG Index, is established – becoming the UK's first financial spread betting provider
1982	We are the first company in the UK to offer spread betting on the FT30
1995	We expand our services to include spread betting on individual shares – another world first
1998	We launch the first online dealing platform for financial spread betting
2002	We become Australia's first CFD provider
2003	We widen our product range to include binary betting. IG Group plc is privatised by management and CVC Capital Partners
2005	IG Group Holdings plc is listed on the FTSE
2006	New offices: Germany, Singapore
2007	Our browser-based trading platform is launched. New offices: Spain, France, United States
2008	New offices: Italy, Japan
2009	Nadex.com is launched in the US. We introduce the UK's first browser-based direct market access (DMA) service. New offices: Sweden, Luxembourg
2010	We launch our iPhone app for spread betting and CFD trading. New offices: Portugal, South Africa
2011	We expand our mobile offering to include DMA and launch apps for iPad, BlackBerry, Android and Windows Phone 7. New office: Netherlands
2012	We introduce Insight – a new online research tool. We launch our Nadex mobile trading app to iPhone, Windows Phone 7 and Android

---

(1) Investment Trends: '2011 UK Financial Spread Betting & CFD Trading Report' (October 2011)

(2) Investment Trends: '2011 Australia CFD Report' (July 2011)

(3) Investment Trends: '2012 France CFD & FX Report' (May 2012)

OUR STRATEGY

Our four strategic objectives combine technological excellence with client service to drive growth in new and established markets.

STRATEGIC OBJECTIVE

MAINTAIN OUR MARKET LEADERSHIP

We are a leading global provider of derivative trading services to retail investors.

We are maintaining our position at the forefront of the industry, building on our key advantages and strengthening the retail lead we have established in the major markets where we operate.

SUSTAIN OUR LEADERSHIP IN TECHNOLOGY

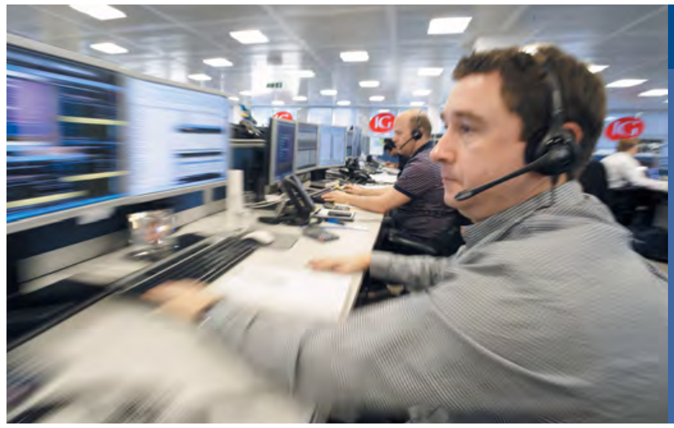
Our financial strength has enabled us to invest in IT development and build superior technology.

We focus on fulfilling our clients' needs, and we work continually to enhance the platform performance and proven resilience that underpin our market-leading position. We offer a highly automated trading platform that enables 24 hour trading even when some markets are closed.

STRENGTHEN OUR GLOBAL PRESENCE

Having established offices in several new countries, we are building a growing client base in the markets that can be targeted from these regions.

We identify and pursue new business opportunities in territories that offer a favourable regulatory environment and sizeable potential for long-term growth and market penetration.



DELIVER QUALITY SERVICE

We are committed to maintaining absolute integrity in our relationship with clients, and have received top ratings for customer satisfaction in independent research.(1)

We deliver speed and reliability of deal execution to our clients. We give clients 24-hour service with our help and support portal and our comprehensive range of educational resources. We are fully committed to the FSA's Treating Customers Fairly (TCF) initiative, ensuring our pricing strategy remains competitive, fair and transparent.

We monitor a suite of Key Performance Indicators (KPIs) to ensure we are achieving our objectives and maximising return for our shareholders.

KEY PERFORMANCE INDICATORS (KPIs)

Revenue and profit generation

'Net trading revenue' represents overall Group turnover from commissions, spreads and financing on client trades, and is our primary KPI. 'Profit before taxation' and 'diluted earnings per share' are used to measure the quality of our profitability at a Group level.

- Net trading revenue (total, daily and by asset class)
- Profit before taxation (PBT)(2)
- Diluted earnings per share (EPS)(2)

Client trading activity metrics

There are a number of important client trading KPIs, with 'number of active clients' and 'revenue per client' being the key drivers of revenue growth. We also commission independent research to evaluate our market share performance, measured on a primary account basis.

- Market share percentage
- Number of active clients
- Average revenue per client

see page 14

Trading systems performance

We carry out ongoing assessments to measure the performance of key operating systems, especially at peak trading times.

- Average trade execution time
- Core platform uptime

Technology usage

We observe the deployment and adoption of IT developments closely, with particular focus currently on customer usage of mobile technology.

- Percentage of clients using mobile devices
- Percentage of revenue generated from mobile devices

see page 16

Performance in newer markets

We use many of the KPIs listed above to evaluate our success in newer territories. This includes comparing current performance against the more established markets at a similar stage of maturity.

- Geographic net trading revenue
- Active client base growth, relative to more mature markets

Geographical profitability evaluation

We measure EBITDA (earnings before interest, taxes, depreciation, and amortisation) by geographical area.

- Geographic EBITDA

see page 18

Treating Customers Fairly (TCF)

We use a scorecard of TCF measures to ensure that we treat customers fairly.

- Percentage of automated transactions

Customer service market research

We commission external research to assess how we perform against peers and client expectations.

- Customer surveys including Net Promoter Score

see page 20

(1) Investment Trends '2011 UK Financial Spread Betting and CFD Trading Report' (October 2011)

(2) The comparative profit before tax and diluted earnings per share are based on an adjusted measure excluding the amortisation and impairment of intangible assets associated with the Group's Japanese business and impairment of the goodwill associated with the Group's Sport business. Comparative diluted EPS also excludes the taxation related to the amortisation of intangible assets associated with the Group's Japanese business

OUR STRATEGY (continued)

MAINTAINING OUR MARKET LEADERSHIP

ESTABLISHED GLOBAL LEADER

We hold a market-leading position in many countries, including the UK, Australia and France.

Independent research company Investment Trends has confirmed we are the largest single provider of CFD accounts in the UK, Australia and France, with our market share of primary accounts at 24%(1), 34%(2) and 23%(3) respectively. In the UK we are also the largest spread betting provider, with a market share of 41%(1) of primary accounts.

We maintain our market-leading position through growth in active clients, focus on client quality and continued development of our product offering.

In the current year our active client base has continued to grow in our more mature markets: in the UK by 5% and Australia by 11%. In France, our client base has grown by 26%.

AWARD WINNING BUSINESS

We have been recognised with industry awards, endorsing our product offering, overall quality of service and superior technology, on multiple occasions. Recent examples include:

- **Britain's Most Admired Companies (UK)**
  2011: Ranked No.1 for Quality of Marketing, Quality of Management and Capacity to Innovate
  2010 and 2011: Ranked No.1 for Quality of Marketing and Speciality & Other Finance
- **What Investment Magazine Awards (UK)**
  2011 Spread Betting Provider of the Year
- **2011 Financial Times/Investors Chronicle Awards (UK)**
  Best Spread Betting App
- **2012 TheBull 'Stockies' Awards (Australia)**
  Best CFD Provider – awarded for the fourth consecutive year

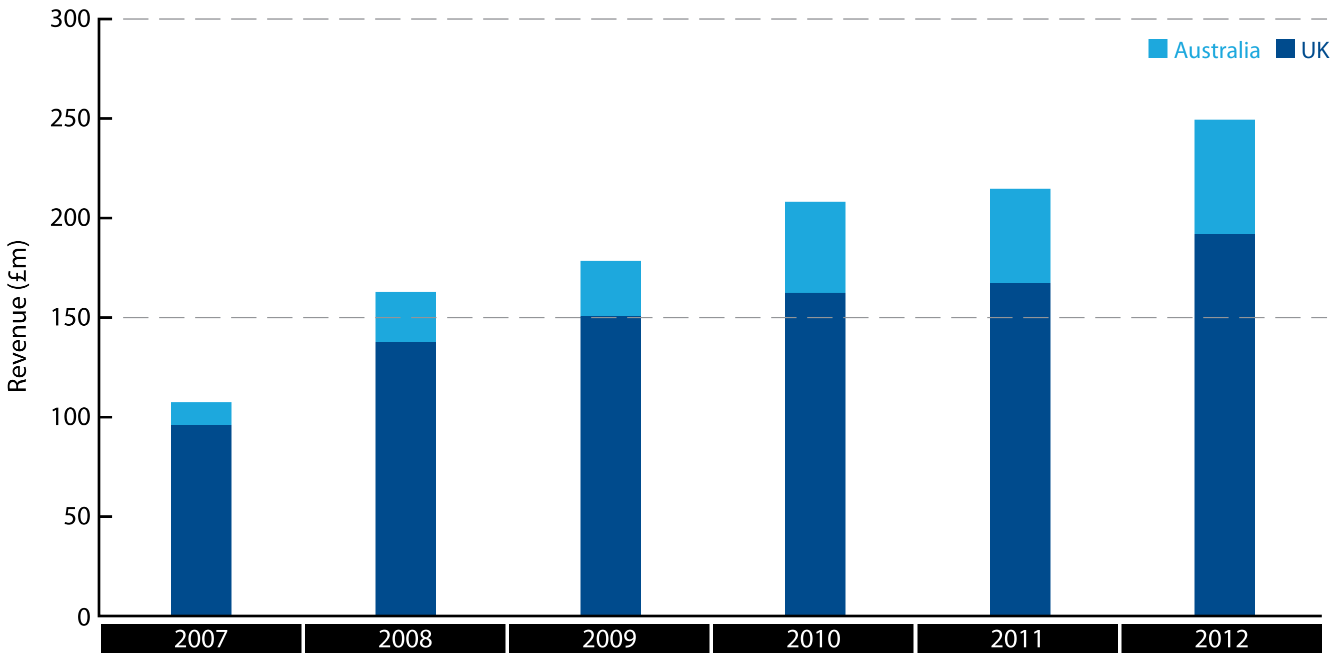
---

(1) Investment Trends: '2011 UK Financial Spread Betting & CFD Trading Report' (October 2011)

(2) Investment Trends: '2011 Australia CFD Report' (July 2011)

(3) Investment Trends: '2012 France CFD & FX Report' (May 2012)

Revenue growth 2007 to 2012



BUILDING ON OUR STRENGTHS

We capitalise on the size and stability of our business as well as our heritage and reputation. The following areas are key to maintaining our market-leading position, enabling us to attract and retain clients and increase our revenue per client:

Security and integrity

Our clients look to us to provide a secure and trusted way to trade, and we respond by taking an industry-best stance on client money protection.

We take a best practice approach to client money protection and offer full segregation of all individual client funds, including those in territories where the regulations do not require the level of protection stipulated by the UK's FSA. In Australia we have voluntarily adopted full UK-style segregation of client funds.

Superior technology

Extensive investment in IT development has enabled us to develop our trading platforms and launch initiatives that keep us at the forefront of the industry.

The quality and resilience of our technology is a major factor in maintaining high levels of client retention.

Marketing capability

Our marketing initiatives can increase the average revenue per client by improving the quality of our new accounts. We target individuals who are already familiar with derivative trading products, and we use sophisticated marketing technologies to tailor our messages to their needs.

Our in-house marketing team produces high-profile advertising campaigns across multiple channels. Most recently, we have developed our online marketing capability, using the latest technologies.

COMPETITIVE ADVANTAGE

The scale of our operations and the strength of our balance sheet enable us to invest continuously in technological advancement and high-quality marketing. This, in turn, helps us maintain and increase our lead, driving sustainable competitive advantage and stronger results.

OUR STRATEGY (continued)

SUSTAINING OUR LEADERSHIP IN TECHNOLOGY

ADVANCED TRADING PLATFORMS

We have won multiple awards for our trading technology, and more than 143,000 clients use our platforms to make over a million transactions each month.

Security, reliability and speed remain key to platform performance, with 99.39% of automated trades executed in less than 0.1 seconds, and 99.94% core platform uptime.(1)

IT INVESTMENT

In the past year, we have grown our team of in-house developers to almost 300 staff, allowing us to advance multiple technology initiatives.

The efficiency and stability of our systems allows us to achieve consistent platform performance in volatile market conditions and during peak periods of trading activity.

Over the last two years we have invested £17 million in IT hardware and software.

RECENT ENHANCEMENTS

We aim to maximise the efficiency of our technology, ensuring that we can respond well to changes in client trading activity.

Client-focused inititatives

This year we launched Insight, a tool that provides clients with market data, live news and expert analysis all in one place. Insight is now used by our clients in the UK, Singapore and Australia.

Mobile dealing solutions are a key focus, and we have released customised apps for all major mobile devices, with 43% of clients now using mobile technology to execute at least one transaction. Furthermore, 23% of all client transactions are now placed using a mobile device (2011: 13%). For spread betting clients, who were first to have access to mobile platforms, 21% of revenue is now generated from mobile.

System upgrades

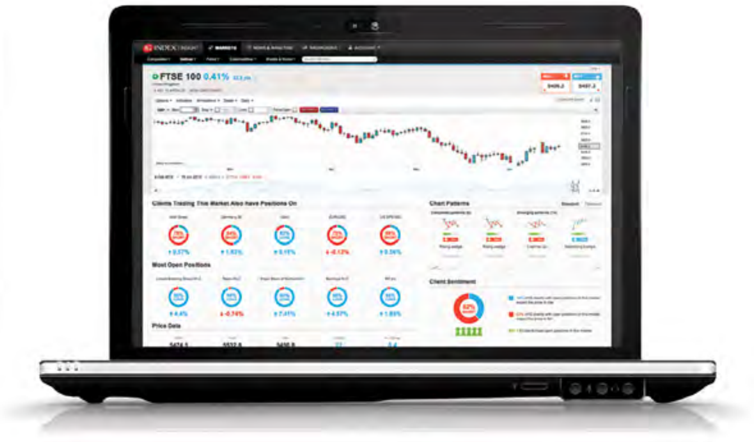
We have increased our platform's capability to handle periods of high demand, and enabled the more efficient transmission of prices to international clients by reducing latency.

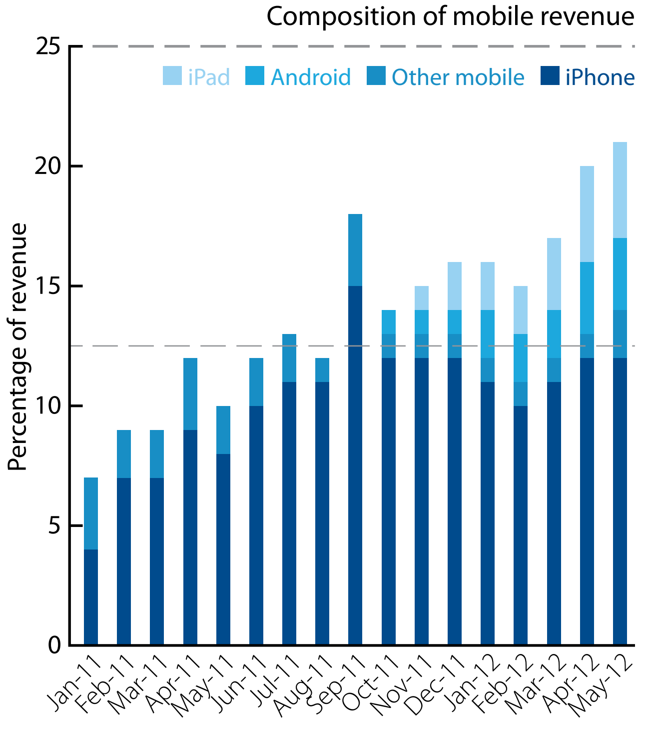
---

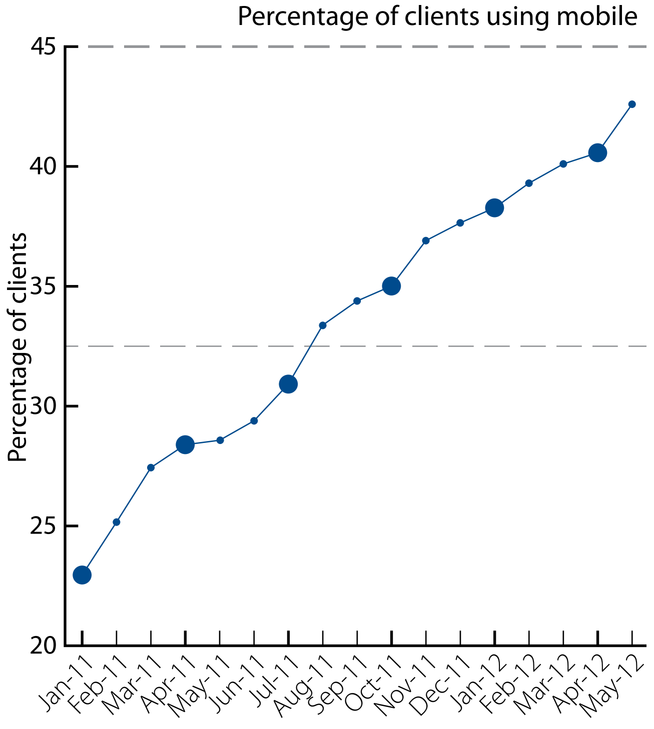
(1) Execution speed and platform uptime figures relate to the year ended 31 May 2012.

Trading platform

Insight







We offer tailored apps for all major mobile devices

BlackBerry

iPhone

Android

Windows Phone 7

iPad

OUR STRATEGY (continued)

STRENGTHENING OUR GLOBAL PRESENCE

INCREASED MARKET PENETRATION

Over the past six years, we have opened 11 new offices around the world.

We continue to grow our client base in markets where we already have an established commercial presence. Our network of global offices enables us to drive further growth by targeting regional markets from the countries where we already operate.

We also continue to explore new territories, where regulatory markets are favourable or are expected to become favourable.

During the year, we grew the number of active clients by 32% in Europe. Spain and Italy hit record levels for client recruitment during the year, despite the economic gloom. The new office in the Netherlands now has 411 active clients after 12 months of trading.

For the financial year ended 31 May 2012, revenue in South Africa has more than doubled compared to the 12 months prior to our acquisition of the Johannesburg-based business Ideal CFDs in September 2010. Singapore has also shown strong growth, with a 49% increase in revenue since last year.

In most of the countries where we operate, we expect our products to reach market penetration levels similar to those achieved in our more established markets.

NADEX

We continue to develop our US subsidiary, Nadex, and produce integrated marketing campaigns across multiple channels to promote our unique product range. In February this year, the launch of the new Nadex website marked the completion of a business-wide rebrand. Most recently, we have launched a range of customised mobile apps.

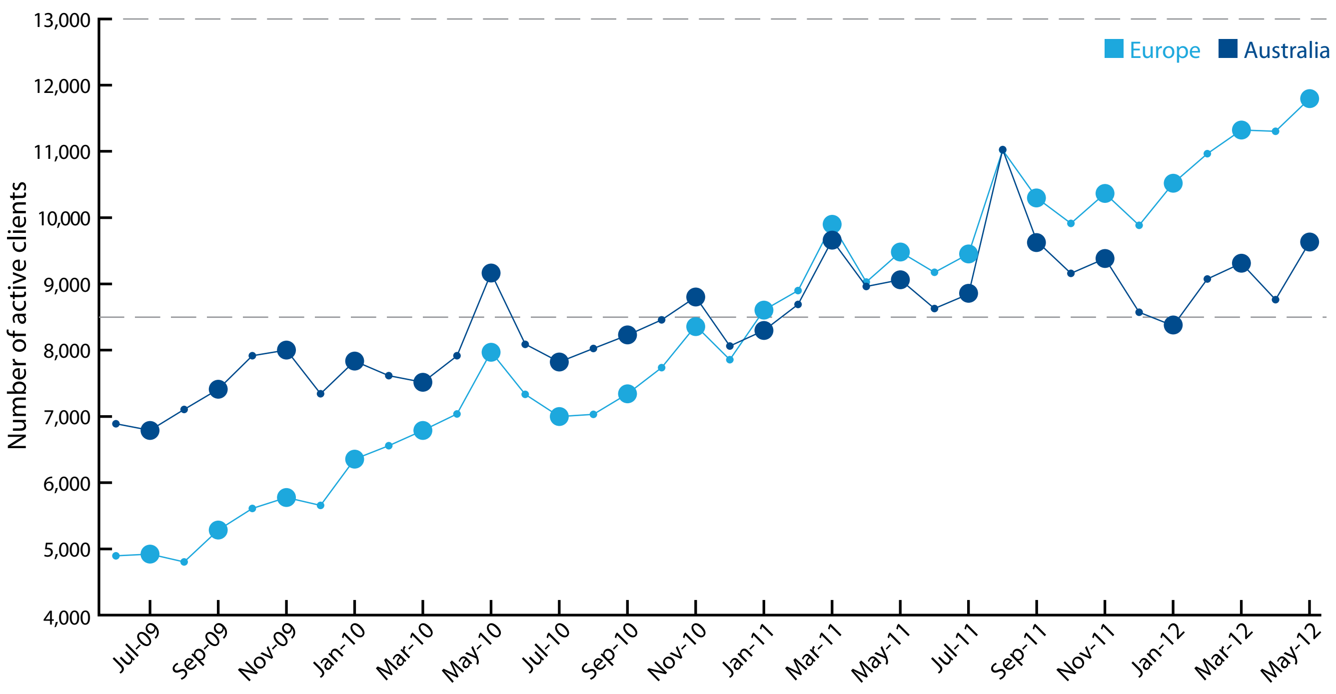
We continue to optimise our technology to facilitate more client introductions from other brokers and futures commission merchants.

CENTRALISED OPERATIONS

Our centralised operating model promotes the effective management of our global businesses. It supports organic growth and ensures that our commercial activities are both low-cost and capital-efficient.

We continue to invest in targeted marketing initiatives and have been working closely with a specialist consultancy to enhance brand reach across all territories.

Active client base growth relative to more mature markets



OUR STRATEGY (continued)

DELIVERING QUALITY SERVICE

CLIENT MONEY PROTECTION

Our best-practice approach to client money protection follows the client-asset rules set by the UK's Financial Services Authority (FSA). In other jurisdictions we adhere to similar rules set by local regulators, including the Monetary Authority of Singapore (MAS), the Australian Securities and Investments Commission (ASIC) and the Japanese Financial Services Authority (JFSA).

In the UK, Europe and Australia we go above and beyond regulatory requirements, ensuring that all individual clients' funds are segregated into 'client money' bank accounts.

- ✓ We hold **all** individual client money in segregated accounts with a range of major banks
- ✓ We only use our **own** funds for hedging
- ✓ We do not pass individual client money through to hedging counterparties
- ✓ We are regulated by the FSA in the UK, as well as other major regulators in our overseas locations

COMPETITIVE AND TRANSPARENT PRICING

We offer competitive prices, without compromising on the quality of our service. Our spreads start from just 0.8 pips on the major currency pairs and our commission rates start from 0.1% on UK equities.

We source prices from Europe's top multilateral trading facilities (MTFs), including Turquoise and BATS – as well as from the major European exchanges, such as the London Stock Exchange and Euronext. This enables us to offer narrow market spreads derived from the best underlying bid and offer prices available and also the liquidity accessed in these markets.

TREATING CUSTOMERS FAIRLY

We are proud of our reputation for excellent customer service and client support, and are always seeking ways to improve. We have developed a unique set of measures to help us monitor our treatment of clients, demonstrating our commitment to the FSA's Treating Customers Fairly (TCF) initiative.

The quality of our clients' trading experience is central to our own TCF policy. We offer high-speed execution, we never re-quote prices, and we accept orders even if the market moves against the client between the time they place the order and the time it is executed (within our set margin of tolerance). This price-improvement technology can also secure clients a better price if one becomes available during this time. Last year, this technology saved our clients over £13.7 million(1). Additionally 99%(1) of all executed client orders are now fully automated.

CLIENT SUPPORT AND EDUCATION

We recognise the importance of educating and supporting our clients. Our extensive range of client resources includes:

- An introductory education programme promoting responsible trading
- A wide range of client seminars and webinars, available online and in person
- Daily research bulletins on major financial markets
- A comprehensive online help portal
- Regular technical analysis from our in-house team and third-party sources
- Insight – our new research tool

NET PROMOTER SCORE

Our Net Promoter Score (NPS) is one of the Key Performance Indicators (KPIs) that we use to gauge how successfully we are achieving our strategic objectives.

Independent research company Investment Trends measured satisfaction among spread betting and CFD trading clients via the NPS method, asking if they would recommend their provider to a friend or colleague. The study found that we currently have the highest NPS of all UK spread betting companies, with a score of 19 for spread betting and 19 for CFD trading.(2)

The quality of our customer service is widely recognised across all the regions in which we operate, with Australia achieving an NPS of 17 and Germany achieving an NPS of 4.(3)(4)

The NPS is calculated by asking respondents: 'How likely are you to recommend this company to a friend or colleague?' Respondents reply on a 0-10 scale, with the final NPS calculated as the percentage of promoters (those answering 9 or 10) minus the percentage of detractors (those answering 0 to 6).

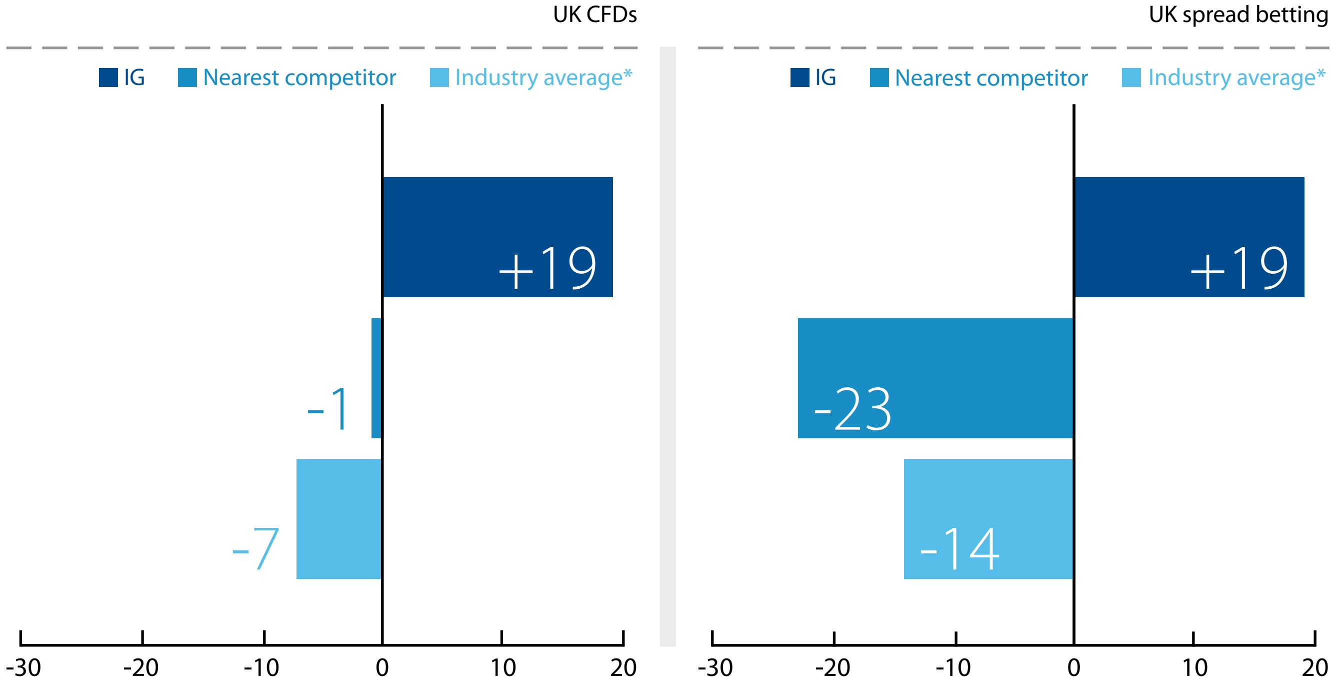
(1) Price improvement and automated client order figures are for the year ended 31 May 2012

(2) Investment Trends: '2011 UK Financial Spread Betting & CFD Trading Report' (October 2011)

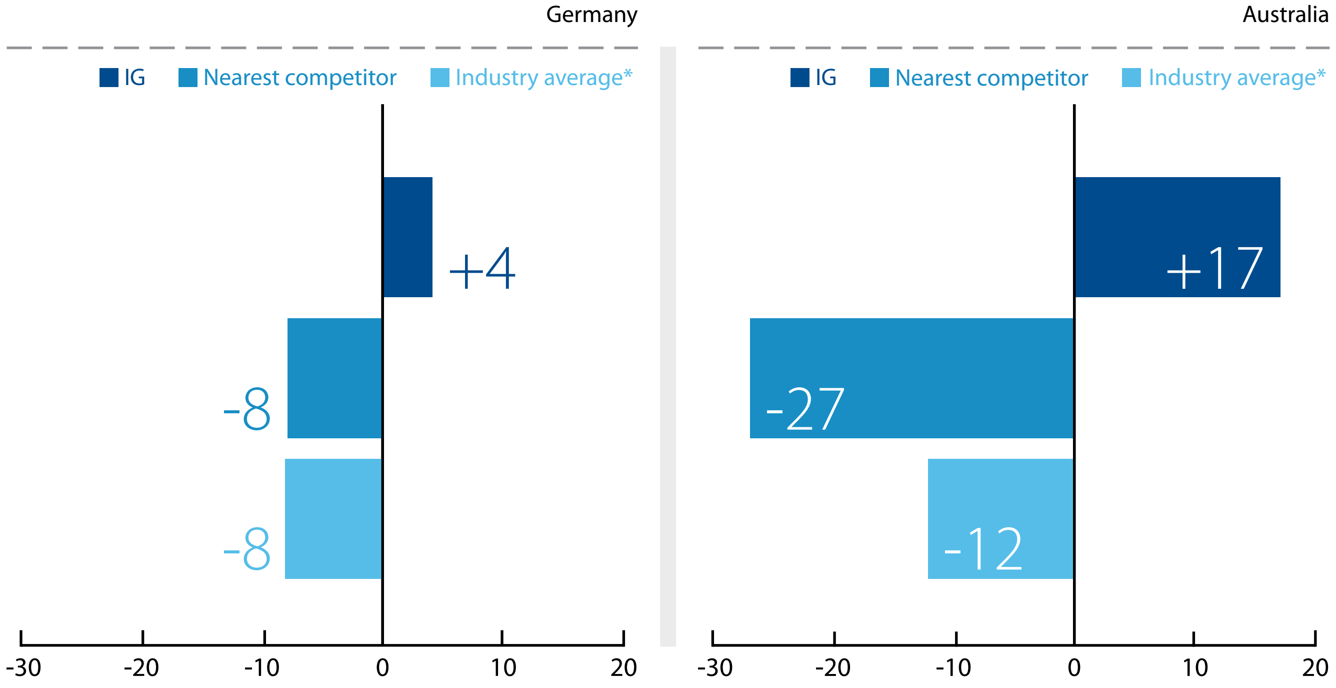
(3) Investment Trends: '2011 Australia CFD Report' (July 2011)

(4) Investment Trends: '2012 Germany CFD & FX Report' (June 2012)

Net Promoter Score



* Weighted by primary market share



* Weighted by primary market share

OUR STRATEGY (continued)

OUR BUSINESS MODEL

OUR CLIENTS

An international network of offices and high-quality partners, supported by targeted advertising campaigns, enables us to attract clients globally.

- Over 67,000 clients recruited in the 2012 financial year
- Over 143,000 clients currently trading
- 14 international sales offices
- Online presence in 20 countries
- 294 global business partners

OUR PRODUCTS

Our award-winning platform is equipped with a suite of features to provide a superior trading experience.

Our clients gain access to thousands of financial markets through the derivative services we offer:

- Contracts for difference (CFDs)
- Financial spread betting
- Exchange-traded derivatives – USA

Financial markets

Forex • Indices • Shares • Commodities • Binaries • Options • Interest rates • Bonds • ETFs

OUR CORE STRENGTHS

We grow and retain our client base by offering a superior trading experience, peerless service, and the assurance only a market leader can provide.

Strength & stability

- Established FTSE 250 member with surplus liquid regulatory capital
- Consistent profitability enables investment in technology and marketing

Authority & expertise

- Market leader for 38 years
- Multiple awards won every year
- One of Britain's top employers, attracting high-calibre staff

Superior technology

- Professional-quality trading platforms
- High-speed execution
- Tailored solutions for all mobile devices

Client focus

- 24/7 customer service
- Comprehensive range of educational resources
- Commitment to FSA's treating customers fairly (TCF) initiative

We deliver our strategic objectives through a commercial model developed to harness the demand for derivative trading services.

We offer a wide range of products, which we complement with quality execution and a fast and stable trading platform. This enables our clients to access global financial markets and trade with efficiency and confidence.

Our management processes and continued profitability mean that we can reinvest in technology and infrastructure to improve our offering and attract new clients.

OUR EARNINGS

Our systems and processes are designed to manage market and credit risk and ensure that we consistently generate high-quality earnings.

Revenue sources

- Initial spread or commission for each trade
- Client funding charges to reflect leveraged trading
- Interest on cash balances
- Revenue is earned across multiple asset classes

Risk management

- Scale of operations creates natural hedging, with client positions offsetting each other
- Our liquidity enables funding of large hedging positions with brokers when necessary
- Clients must provide margin up-front, and positions are closed out if margin is significantly eroded
- Real-time mark-to-market trading platform calculates client profit and loss continuously, enabling risk management

Consistent performance

- Risk-averse hedging process ensures we can profit whether markets rise or fall, as long as clients keep trading
- No loss-making days since May 2008

MANAGING OUR BUSINESS RISK

Effective management of our business risks is critical to the successful delivery of our strategy. It is imperative that we identify the nature and potential impact of these risks, in order to maintain a risk-controlled environment throughout the business.

The following section outlines how we manage risk in accordance with our risk appetite statement and Risk Management Framework. It also explains in detail the key risks we face, the governance structure for risk, and the reporting cycle that we use to monitor and report on risk.

RISK APPETITE STATEMENT AND KEY RISK INDICATORS

We take responsibility for risk management at all levels of the Group. Our risk appetite statement is defined by the Board and provides guidelines for risk management throughout the business. To help define our risk appetite statement, we have identified three major categories of risk:

Business model risks

These are risks we actively manage and are able to measure, control, and assign limits and parameters to:

Client credit risk
Market risk
Liquidity risk

Industry risks

These are risks we accept as a consequence of operating in the financial services sector. For these risks we set a tolerance rather than an appetite. They include (but are not limited to):

Financial institution credit risk
Operational risk
Regulatory risk

Environmental risks

These are risks over which we have minimal control. They include (but are not limited to):

- Natural disasters such as floods, earthquakes and disease epidemics
- Strikes and civil unrest

RISK APPETITE STATEMENT

We aim to maintain a conservative risk-reward profile and have developed a risk appetite statement based on the following four key principles:

- The Board will adopt measures to ensure a low level of volatility in revenues and earnings
- The Board will promote orderly business operations to guard against a loss of confidence by shareholders, clients, staff and partners
- The Board will adopt measures to minimise regulatory risk
- The Board will review the risk profile of strategic projects against the risk profile of the core business

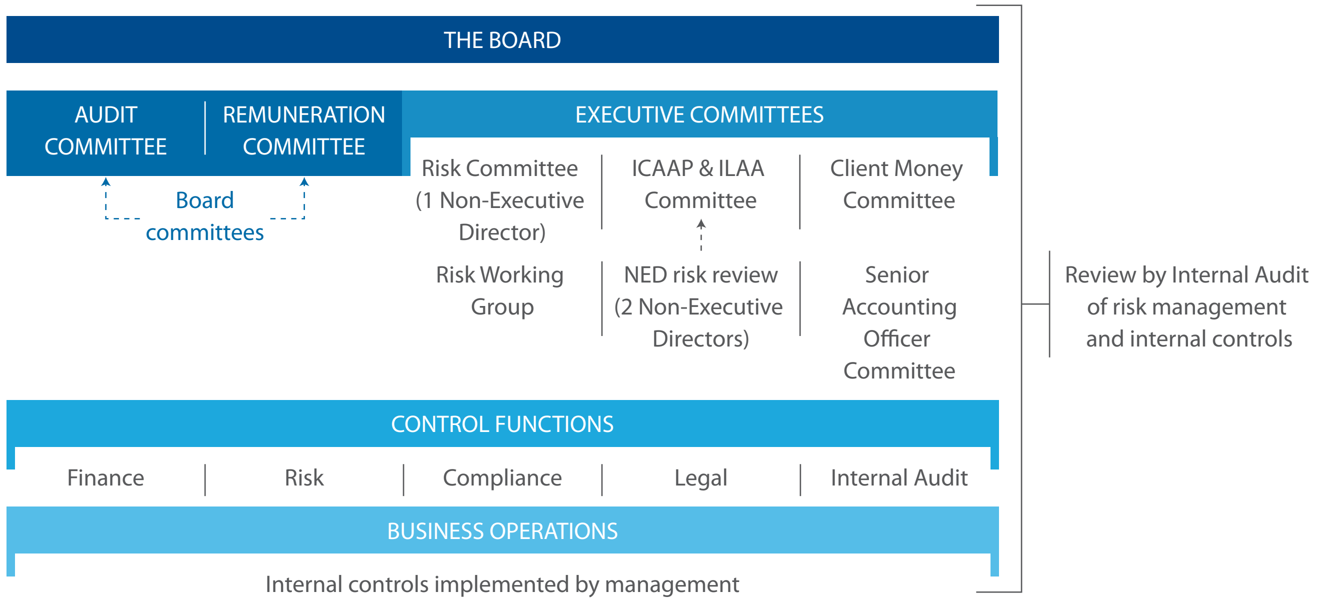
To report the performance against the risk appetite statement, the Board has implemented a set of Key Risk Indicators (KRIs). The Board reviews the KRIs in conjunction with the risk appetite statement twice a year. Taken together, the KRIs are a balanced mix of quantitative and qualitative measures that provide an important indication of increasing or decreasing levels of risk.

OUR RISK MANAGEMENT FRAMEWORK

In order to establish an effective environment for risk control, we have developed a Risk Management Framework to identify, measure, manage and monitor risks faced by the business. Our Risk Management Framework provides the Board with assurance that our risks are understood and managed within appropriate boundaries, and comprises both our Risk Governance Framework and Risk Reporting Cycle.

Our Risk Governance Framework

The following Risk Governance Framework diagram sets out the framework for the Board and executive committees, Non-Executive Director (NED) review, independent control functions and ongoing business operations that exercise governance over risk.



The Board

The responsibilities of the Board in relation to risk management are to:

- Set and review the risk appetite statement
- Approve the Key Risk Indicators
- Review and challenge biannual updates from the Risk department
- Review and challenge the system of internal control and risk management
- Review and challenge capital and liquidity stress testing, including the FSA required ICAAP and ILAA
- Approve the Corporate Governance Report in the Annual Report

Board committees

The Board is supported in its monitoring of the Risk Framework by the Audit and Remuneration Committees. The Audit Committee's responsibilities in relation to risk management are to:

- Review the design and effectiveness of the Group's internal control and risk management system
- Approve the Key Risk Indicators in conjunction with the Board
- Approve the internal audit programme
- Review internal audit reports and the external audit control report

The Remuneration Committee's responsibility in relation to risk management is to review remuneration levels throughout the business and assess the impact of remuneration on risk.

An overview of both the Audit and Remuneration Committees' main duties and activity during the financial year is set out in the Corporate Governance Report.

MANAGING OUR BUSINESS RISK (continued)

Executive committees and independent review

Risk Committee

The Risk Committee meets on a weekly basis, and if any material risks are identified will inform the Board. Members of the Risk Committee receive a monthly risk event report from the risk department.

An overview of the Risk Committee's main responsibilities and activity during the financial year is set out in the Corporate Governance Report.

Client Money Committee

Regulatory authorities have recently placed an increased emphasis on client money segregation. The FSA in particular now requires that all firms designate a named individual, who is responsible for overseeing processes and controls over the segregation of client funds. In response to this requirement, we established the Client Money Committee during the financial year to monitor the effectiveness of our global processes and controls for segregating client money.

The Client Money Committee meets fortnightly and receives periodic reports from a number of control functions.

An overview of the Client Money Committee's main duties and activity during the financial year is set out in the Corporate Governance Report.

ICAAP and ILAA Committee

In addition to the management of individual risks, we undertake stress and scenario testing as part of the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA). These assessments are the responsibility of the ICAAP and ILAA Committee, and stress-test the potential impact on capital and liquidity of a series of combined risk events, to ensure that the business is prepared for any major changes in strategy or our operating environment.

The ICAAP and ILAA are prepared according to FSA requirements and are subject to independent review by a sub-group of the Non-Executive Directors (NEDs).

The ICAAP and ILAA Committee is an executive committee that also receives the monthly Key Risk Indicator reporting.

Risk Working Group

The Risk Working Group comprises managers from across the business and provides a forum for sharing cross-functional feedback on the management of risk in the business.

Non-executive risk review

Twice a year, a sub-group of the NEDs conducts a review of the most significant risks and controls across the business, in discussion with the Chief Risk Officer and control functions. The NEDs are a step removed from the daily operations of the business, enabling them to assess and challenge the risk management processes from an independent standpoint.

Senior Accounting Officer Committee

The Senior Accounting Officer (SAO) Committee meets quarterly, and is responsible for the review and challenge of processes and controls put in place to ensure compliance with HMRC requirements in certifying that each of our UK subsidiaries 'had appropriate tax arrangements throughout the financial year'. The committee reports to the Chief Financial Officer, who is the designated SAO.

Control functions

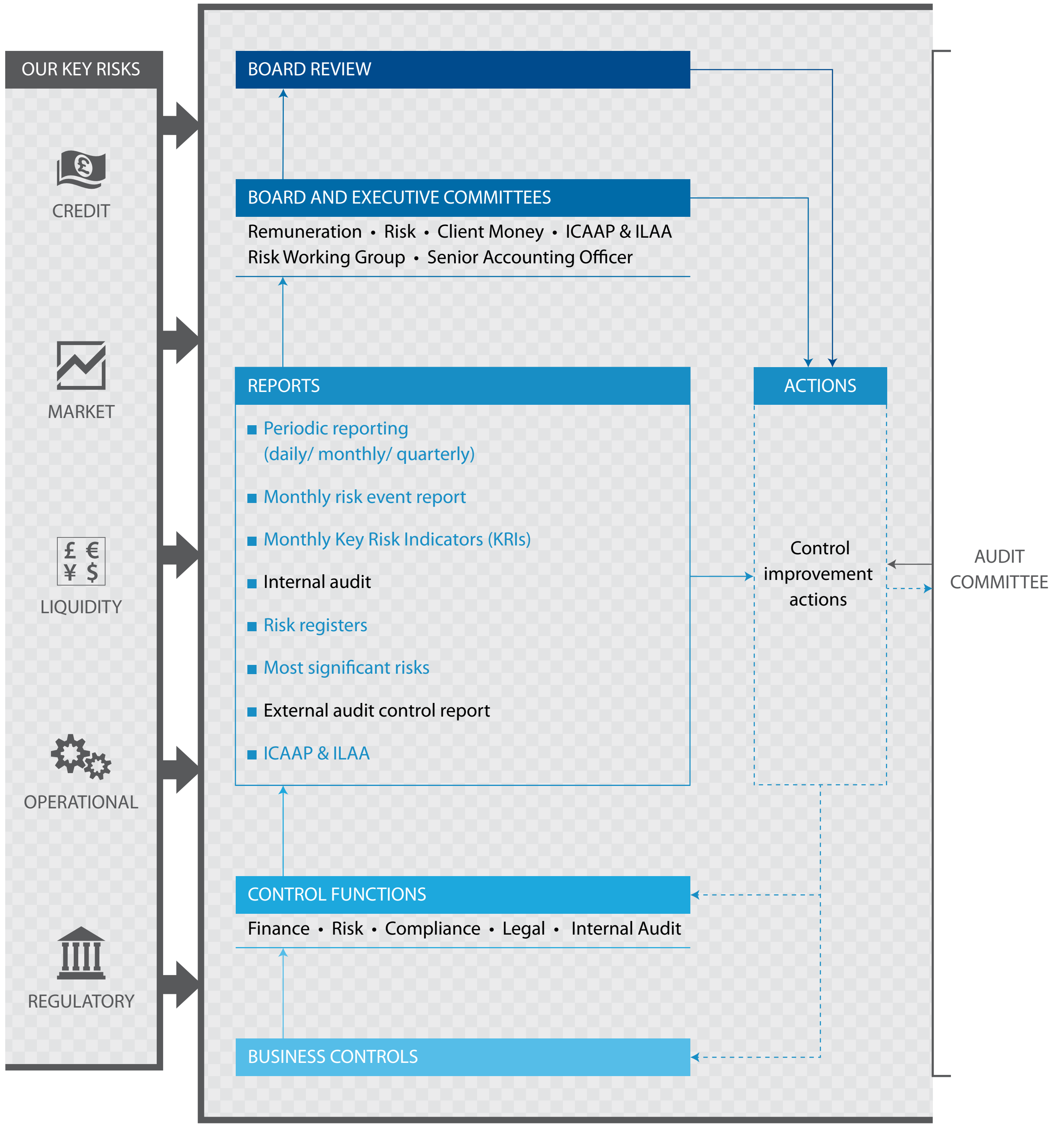
Additional levels of assurance are provided by control functions which are independent of the business, namely finance, risk, compliance, legal and internal audit. The control functions provide periodic reporting to the Board and the Board and executive committees as appropriate.

Business operations

In addition to the control functions, we have embedded much of our risk management into underlying business operations. Heads of department are responsible for maintenance of risk registers and, where necessary, taking action to mitigate risks and enhance the control environment. The risk and compliance control functions use these registers in co-ordinating the identification, measurement and monitoring of risk across the business.

Our Risk Reporting Cycle

This diagram represents the flow of information and feedback that supports the Risk Governance Framework.



MANAGING OUR BUSINESS RISK (continued)

OUR KEY RISKS

The following section describes the key risks that we face and the steps that we take in order to manage these risks.

Credit risk

Credit risk is the risk that a counterparty fails to perform its obligations, resulting in financial loss. Our credit risk is managed on a Group-wide basis. The principal sources of credit risk to our business are from financial institutions and individual clients.

Financial institution credit risk

All financial institutions with whom the Group has a relationship are subject to a credit review. Exposure limits are set and approved by the Risk Committee. We also maintain multiple brokers for each asset class. Where possible, we negotiate for our funds to receive client money protection, which can reduce direct credit exposure.

We monitor a number of key metrics on a daily basis in respect of financial institution credit risk, including: balances held, change in short- and long-term credit rating and any change in credit default swap (CDS) price.

The Group is responsible, under various regulatory regimes, for the stewardship of client monies. These responsibilities include the appointment and periodic review of institutions where we deposit client money. Our policy is that all financial institutions holding client money must have a minimum Standard and Poor's short-term and long-term rating of A-2 and A- respectively. In some operating jurisdictions it can be problematic to find a counterparty satisfying these requirements, and in these cases we seek to use the best available counterparty. We also use these target minimum ratings for financial institutions where we hold our own bank accounts.

The majority of deposits that we make to these institutions are on an overnight or breakable term basis, which enables us to react immediately to any downgrade of credit rating status or material widening of CDS spreads. Deposits of an unbreakable nature or requiring notice are held only with a subset of counterparties which have been approved by the Risk Committee.

Client credit risk

Client credit risk principally arises when a client's total funds deposited are insufficient to cover any trading losses incurred. In particular, client credit risk can arise where there are significant, sudden movements in the market, due to high general market volatility or specific volatility relating to an instrument in which the client has an open position.

We mitigate client credit risk in a number of ways. We only accept clients that pass certain suitability criteria, and our training programme aims to educate clients in all aspects of trading and risk management and encourages them to collateralise their accounts to an appropriate level.

We offer a number of risk management tools that enable clients to manage their exposures, including: guaranteed and non-guaranteed stops; stop and order limits; the ability to hedge positions; the availability of liquid, tradable contracts when underlying markets are closed (eg 24-hour quoted indices) and full trading capability on a wide range of mobile devices.

In addition, we manage our overall credit risk exposure through real-time monitoring of client positions via our 'close-out monitor' and through the use of tiered margining. For more information refer to note 36 to the financial statements. We also perform pre-deal credit checking of every client order.

The provision for new doubtful debts recognised in the year was £2.3 million, representing less than 0.6% of revenue (2011: £1.2 million, less than 0.4% of revenue).

Market risk

Market risk is the risk that the fair value of financial assets and financial liabilities will change due to movements in market prices.

Market risk is managed on a real-time basis, with all client positions monitored against market risk limits set by the Risk Committee. The Group operates within these limits by hedging the market risk exposure as and when required. We do not take proprietary positions based on the expectation of market movement.

Our technology enables us to monitor our market exposure against these limits constantly and in real time. If exposures exceed these limits, our risk management policy requires that we hedge the positions to bring the exposure back in line.

Our conservative management of market risk, and the consistency and distribution of our daily revenue, can be seen in the chart in the Operating and Financial Review. For more information, including our risk limits and residual exposures at 31 May 2012, refer to note 36 of the financial statements.

MANAGING OUR BUSINESS RISK (continued)

Liquidity risk

Liquidity risk is the risk that we will be unable to meet payment obligations as they fall due.

We manage liquidity risk by ensuring that we have sufficient liquidity to meet our broker margin requirements and other financial liabilities when due, under both normal and stressed conditions. We carried out an Individual Liquidity Adequacy Assessment (ILAA) during the year, and while this applies specifically to the Group's FSA regulated entities, it provides the context within which liquidity is managed throughout the business.

Due to the very short-term nature of our financial assets and liabilities, we do not have any material mismatches in our liquidity maturity profiles. Short-term liquidity 'gaps' can arise, however, in special circumstances, due to our commitment to segregate all individual client funds. If there are significant market falls we are required to fund margin payments to brokers prior to releasing funds from segregation. During periods of very high client activity, or significant global market increases, we are required to fund higher margin requirements with our brokers to hedge increased underlying client positions. These additional requirements are funded from our own available cash resources.

We also have available liquidity, including committed unsecured facilities after the payment of broker margin, of £311.5 million as at 31 May 2012 (2011: £218.8 million). We monitor total available liquidity on a daily basis, including our committed unsecured facilities.

We perform daily stress tests and regularly stress test our three-year liquidity forecast to validate the correct level of committed unsecured bank facilities held. At the year-end, these amounted to £180.0 million (2011: £180.0 million) and were not drawn upon during the current nor prior year other than for testing purposes. Additionally, our Japanese business IG Markets Securities has a ¥300 million (£2.5 million) liquidity facility as at 31 May 2012.

For more information on how we calculate our total available liquidity see note 36 to the financial statements.

Operational risk

Operational risk is the risk of financial loss due to inadequate or failed internal processes and systems. It can also arise from human error or external events that we cannot influence.

Our approach to managing operational risk is governed by the risk appetite statement and Risk Management Framework. We have designed and implemented a system of internal controls to manage, rather than eliminate, operational risk.

The reliability of our client trading platforms is key to delivering our strategy, and we invest significantly in IT infrastructure to ensure that these platforms are resilient. On a monthly basis, the Risk Committee reviews our Key Risk Indicators, which includes monitoring levels of core system uptime and deal latency.

To ensure that we provide our clients with a consistent and uninterrupted level of service, we run a complete disaster recovery solution, which involves a fully-functional secondary site with real-time replication of all systems across the two locations. We support these systems with ongoing business continuity planning and regular testing. All our IT and data security systems conform to the ISO27001:2005 Information Security Management System standards.

Regulatory risk

Regulatory risk is the risk of non-compliance with, and future changes to, regulatory rules potentially impacting our business in the markets in which we operate.

Our products have several features which make them higher-risk when compared to traditional forms of trading. They are leveraged, derivative products, are not listed on any exchange (apart from Nadex products) and are not assignable or tradable with any other third party. Consequently, our regulatory licenses, which enable us to trade our products with retail clients, are subject to a large number of rules. Compliance with these rules is fundamental to the business, and we invest significant resources to ensure that we comply with both the letter and the spirit of these rules.

The regulatory environment continues to evolve and there are currently a number of policy initiatives and proposals in development that may impact or have already impacted our sector, as described below:

- The European Commission is reviewing the Markets in Financial Instruments Directive (MiFID), having released draft legislation in the second half of 2011. Based on this draft legislation, we do not believe that the MiFID review will pose a threat to our UK and European businesses but we are monitoring the situation carefully
- The Australian Securities and Investments Commission (ASIC) has carried out a large amount of policy work in our industry over the past year. A number of changes have or will come into effect in the coming year as a result of this work, including regulatory capital changes, disclosure changes and client suitability changes. We have engaged closely with ASIC on these issues and we do not expect the changes to have a substantial impact on our business
- The Monetary Authority of Singapore (MAS) has recently released a consultation paper detailing proposed new rules to regulate providers of retail over-the-counter (OTC) derivatives. The proposals include strengthening client money protection, reducing leverage on FX contracts with no stop level attached and increasing the regulatory capital requirements of licence holders. We are responding to the MAS consultation and assessing the impact that the draft proposals might have on our Singaporean business
- The MAS has also recently issued two consultation papers in relation to proposed changes to technology risk management by financial institutions. One consultation paper relates to the introduction of mandatory requirements relating to critical systems and protecting customer information from unauthorised access. The other consultation paper relates to the introduction of updated technology risk management guidelines that are industry best practices for financial institutions. It is likely that we will need to expend some time and resource on upgrading our IT systems in order to comply with the proposed changes if they are introduced, and therefore we are consulting with MAS on the proposals
- A number of our regulators, including the European Commission, MAS, ASIC and the US Commodity Futures Trading Commission (CFTC), are considering proposals to strengthen the regulations governing OTC markets. This is as a result of the G20's commitment to bringing large parts of the OTC market onto exchanges and/or through clearing houses by the end of 2012. It is unlikely that such proposals will apply to our retail OTC contracts, but we are monitoring the situation carefully
- A number of EU member states are considering or have brought in transactional taxes for example, the French stamp duty on equity instruments (expected to be 0.2%). There are also continued discussions at an EU level about the introduction of an EU-wide financial transactions tax (FTT) that would apply to a wide array of financial instruments. From our current understanding, it is unlikely that an EU FTT can be implemented, but there is the possibility that an FTT could be introduced by a group of EU member states through the EU process of enhanced cooperation. Whether such taxes will be a benefit or risk for our business remains to be seen, and depends on the details of such taxes. We are monitoring the situation carefully
- The Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011, which amend the Privacy and Electronic Communications Regulations 2003 (the Cookie Directive) have come into force and regulate the way in which we can use cookies as part of our online marketing, and as a means to improve customer experience and understand/analyse how our customers interact with our websites. We are still assessing the impact that the Cookie Directive will have on our business
- As noted in the Chairman's statement, the Group's annual charges from the Financial Services Compensation Scheme (FSCS) have remained at elevated levels. In the short term we continue to maintain a dialogue with the FSCS, in order that we are aware of potential claims on the compensation pot to which we are required to contribute. In the medium term we understand the Financial Services Authority (FSA) will undertake a review of the funding arrangements of the FSCS. We are monitoring the situation carefully

Over the next 12 months the regulatory structure in the UK is due to change. The FSA will be split into to two new bodies: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Following the split, our business will be regulated by the Financial Conduct Authority (FCA).

We work closely with our regulators to ensure that we operate to the highest regulatory standards and can adapt quickly to regulatory change. We are committed to engaging proactively with regulators and industry bodies, and will continue to support changes which promote protection for clients and greater clarity of the risks they face. However, we cannot provide certainty that future regulatory changes will not have an adverse impact on our business.

OPERATING AND FINANCIAL REVIEW

This section reviews the Group's operating performance and financial results for the year.

OUR STRATEGY AND OUR BUSINESS

Our Strategy and Our Business Model are presented earlier in the business review along with Managing Our Business Risk.

A worked example of a CFD and a spread bet are provided in the Investor Resources and Other Information section that follows the Group financial statements.

COMPETITIVE ENVIRONMENT

IG Group has established leading positions in many of the markets in which it operates. We are the market leader in the UK, Australia and France, where we continued to grow active clients during the year. We are number two in Germany, where the competition is diverse, and we have continued to grow both active client numbers and revenues.

We have often been the first entrant in new countries, and we embrace competition as it serves to expand the overall market by increasing awareness of the CFD product.

We have continued to deliver growth through all stages of the economic cycle, achieving strong financial performance with high margins and strong cash generation. Our balance sheet strength and client money segregation policies remain key differentiators in the industry, as well as ensuring that we are well placed to deal with changes in the regulatory environment. We have developed the breadth of our technology to incorporate mobile trading access across our products and geographies, with around 20% of the Group's revenue now coming through mobile devices. Our technology platforms offer efficient dealing and high levels of availability, and provide us with a competitive advantage in winning and retaining clients.

Our high levels of client service, competitive and transparent pricing and high speed execution are important elements in retaining and attracting clients.

REGULATORY ENVIRONMENT

There are a large number of rules that attach to the Group's various regulatory authorisations, and compliance with these rules is fundamental to the business. Significant resources are therefore invested to ensure compliance with both the letter and the spirit of regulations that govern our global business, as discussed in more detail in Managing Our Business Risk.

RESOURCES AVAILABLE TO THE GROUP

The Group has a strong, liquid, debt-free balance sheet and a history of profitability, enabling continued investment to maintain our market-leading position, strengthen our international reach and to develop our advanced and resilient technology. The Group has significant capital resources and the liquid regulatory capital surplus is disclosed later in this section under Regulatory Capital Resources.

Our award-winning trading platforms, our market-leading business and our active client base are all highlighted within the business review.

Our continued growth is highly dependent upon attracting and retaining high-calibre employees. Our employee numbers and remuneration levels are discussed in detail later in the Operating and Financial Review, and remuneration policy in the Directors' remuneration report. The Group's employees have extensive knowledge of our key markets and actively contribute to the development of new products and services.

The Group's reputation for innovation and high levels of customer service reflects over 30 years of investment in technology. The vast majority of technology development is carried out in house and our employees continue to be our key resource.

FINANCIAL REVIEW

Net trading revenue(1)

+17.3%

Total dividend

+12.5%

Dividend payout

60.0%

of continuing diluted earnings per share

An overview of the Group's financial performance is provided in both the Chairman's statement and the Chief Executive's review. The following section provides a more detailed analysis of the Group's financial performance for the year ended 31 May 2012, including a discussion of the Key Performance Indicators (KPI's) used to monitor and control our business.

The critical accounting estimates and judgments that impact the Group's financial performance, together with new and amended accounting standards adopted in the preparation of the financial statements, are set out in note 1 and 40 to the financial statements.

Income statement presentation

The comparative administrative expenses, profit before tax and diluted earnings per share and the percentage increases calculated thereon are based on an adjusted measure excluding the amortisation and impairment of intangible assets associated with the Group's Japanese business. Comparative diluted earnings per share also exclude the taxation related to the amortisation of intangible assets associated with the Group's Japanese business.

The comparative income statement has also been restated to exclude the Group's Sport business, which was closed during the year, and accordingly has been presented as a discontinued operation.

Summary Group income statement

£000	**2012**	**2011 Restated**	**Change**
Net trading revenue(1)	366,812	312,721	17.3%
Other net operating income	2,358	5,875	
Net operating income	369,170	318,596	
Operating expenses	(172,897)	(145,075)	19.2%
EBITDA	196,273	173,521	13.1%
Depreciation, amortisation and amounts written off property, plant and equipment	(10,760)	(10,308)	
Interest received / (paid)	204	(8)	
Adjusted profit before tax(2)	185,717	163,205	13.8%
Amortisation and impairment of intangibles	-	(150,703)	
Profit before taxation	185,717	12,502	
Tax expense	(48,583)	(32,792)	
Profit / (loss) for the year from continuing operations(3)	137,134	(20,290)	
Loss from discontinued operations(3)	(374)	(5,002)	
Profit / (loss) after tax and discontinued operations	136,760	(25,292)	
Diluted earnings per share from continuing operations(2)	37.54p	32.57p	15.3%
Total dividend per share	22.5p	20.0p	12.5%

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

(2) In the prior period both profit before tax and diluted earnings per share were stated on an adjusted basis and excluded both the amortisation and impairment of goodwill and customer relationships associated with our Japanese business, IG Markets Securities Limited, and the related taxation

(3) The Group's Sport business was discontinued in the year ended 31 May 2012 and the comparatives are restated accordingly

OPERATING AND FINANCIAL REVIEW (continued)

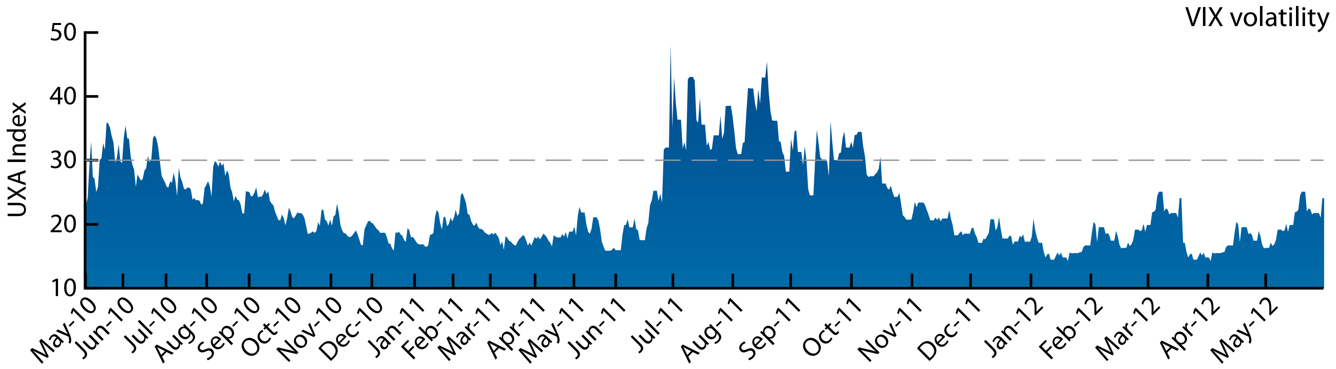
FINANCIAL REVIEW (continued)

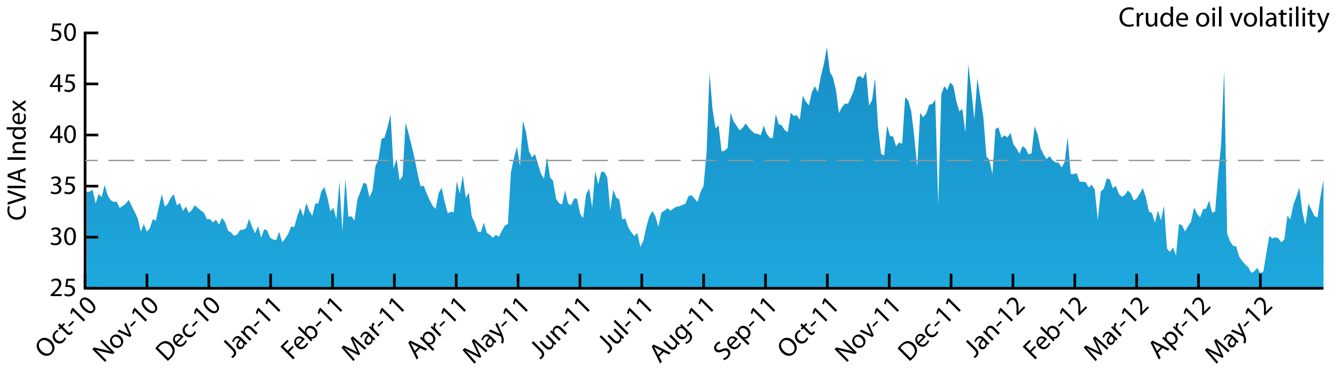
Net trading revenue grew by 17% to £366.8 million (2011: £312.7 million)

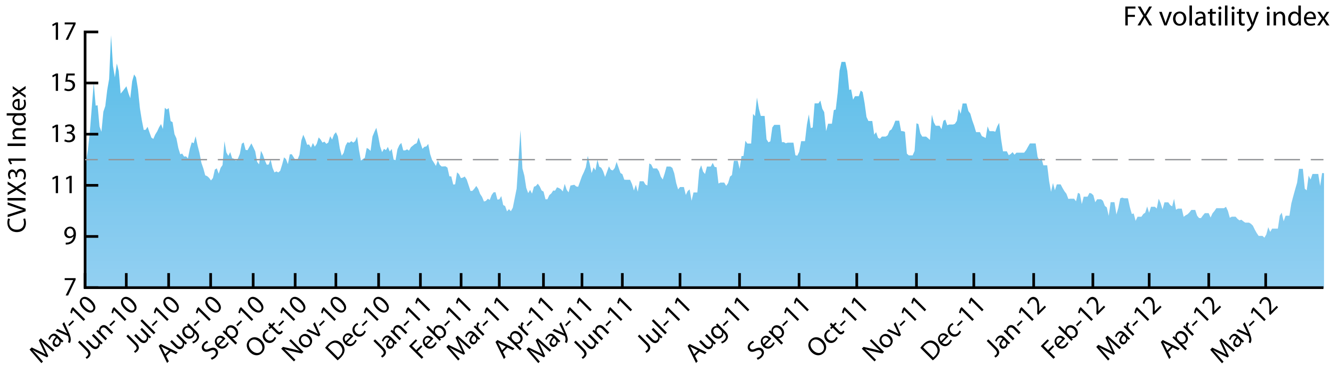
KPI: Net trading revenue

It was another strong year of growth for the Group, with net trading revenue up by 17% to £366.8 million (2011: £312.7 million). The diversity provided by the breadth of the tradable product range reduces revenue volatility, as it enables clients to switch rapidly between products as the news flow changes. The futures business, where the underlying market is extremely liquid, made up almost half of the revenue in the year.

Changes in market volatility can have an important impact on net trading revenue in any period. The Chicago Board Options Exchange Market Volatility Index (VIX) provides an indication of the inherent volatility in the S&P 500, and over the financial year was indicative of broader market volatility. We saw a sharp upward movement in this measure in August 2011, remaining relatively high and fluctuating into September, and this corresponded with higher client activity levels and a short-term increase in net trading revenue. Reflecting this increased activity, first-half revenue was up by 28%. In the second half of the year volatility gradually returned to levels closer to a long-run average. For this period Group net trading revenue was ahead by 7%. Measures of volatility in addition to the VIX are outlined below.







Net trading revenue grew in all regions except Japan

KPI: Geographic net trading revenue

In the year, we experienced strong revenue growth across all of our geographic regions except Japan, with the detail in the chart below.

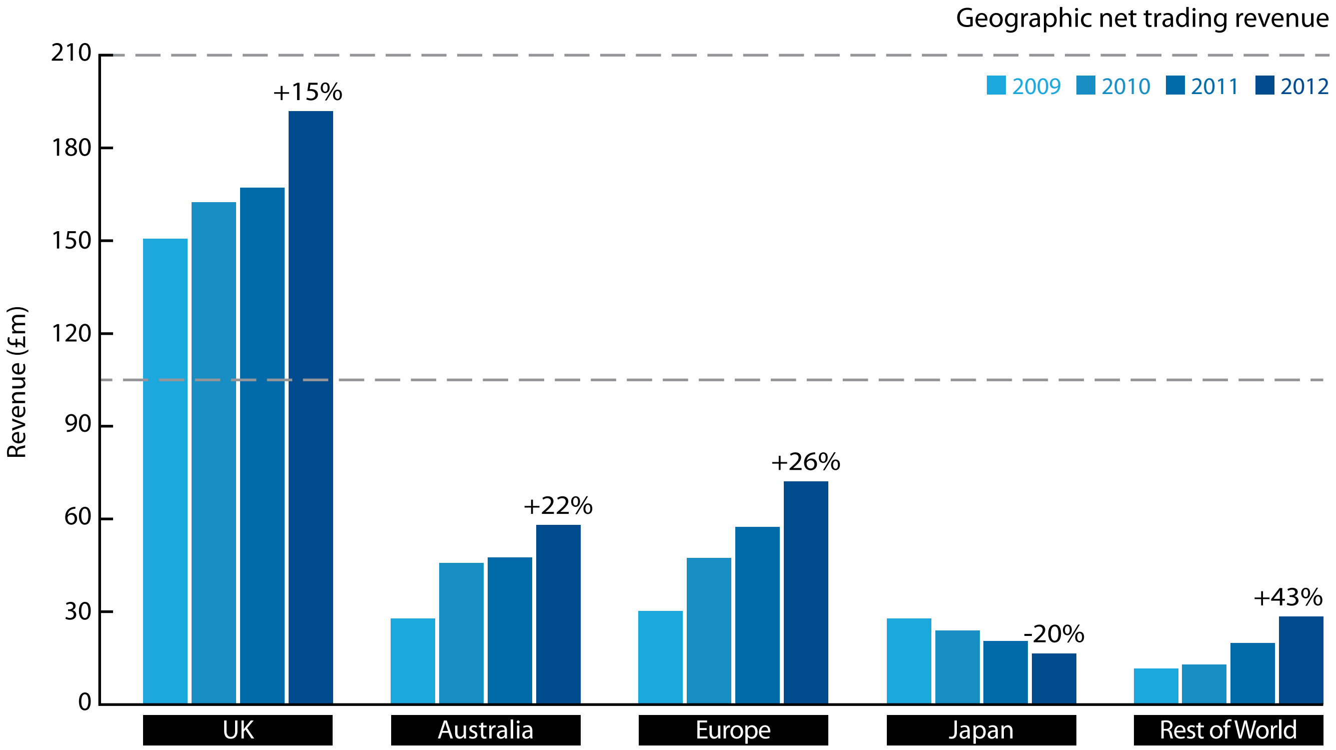
The UK, which delivered 52% of the revenue in the year, continued to grow: revenue here was up by 15% to £191.8 million (2011: £167.2 million). The first half of the year was ahead by 23%, with a marked positive impact from the higher levels of market volatility from August into September. We continued to see solid growth in the second half (up 6%) as clients adapted to lower levels of volatility.

Our Australian business had a particularly strong year, up almost 22% to £58.0 million (2011: £47.6 million), although the extremely strong growth in the first half of the year (43%) was followed by a reasonably flat second half, with signs of competitive pressures and a marked downturn in consumer sentiment becoming visible in the fourth quarter.

Europe (up 26% to £72.2 million) followed a similar pattern to the UK, with growth in both halves of the year, with the first half being particularly strong following the significant levels of volatility in the middle of the year. Germany and Italy were the key contributors to the growth in the first half. The second half of the year remained very robust (up 12%), with particularly strong growth in France, Spain and Portugal. Europe now contributes 20% of Group revenue.

As was previously announced, the regulator in Japan imposed a further leverage restriction at the end of the first quarter, which negatively impacted the ability of clients to trade at the same level as previously. As a direct result of the leverage restrictions, net trading revenue in Japan was down year-on-year by 20% to £16.5 million (2011: £20.6 million). However the business showed signs of stabilising, with revenue of around £4.0 million in each of the last three quarters.

The Rest of World revenue grew by 43% to £28.4 million (2011: £19.9 million) with around 80% of the total coming from Singapore. The South African business was ahead by 46%, although the prior year comparable only contains nine months' revenue following the acquisition in September 2010. Volumes on the Nadex exchange in the USA continue to grow steadily, albeit from a low base. Although the revenue here remains immaterial to the Group as a whole, this is a potentially important medium-term avenue for the Group.



OPERATING AND FINANCIAL REVIEW (continued)

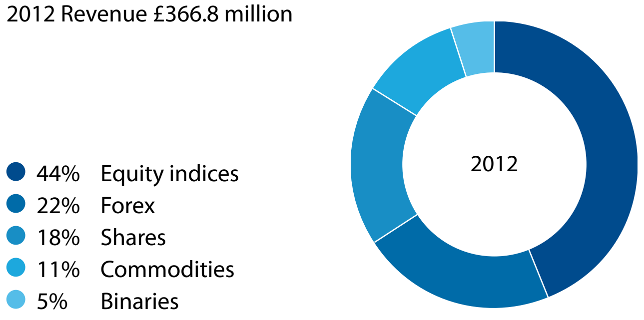
FINANCIAL REVIEW (continued)

Changes in revenue by asset class reflect levels of client focus

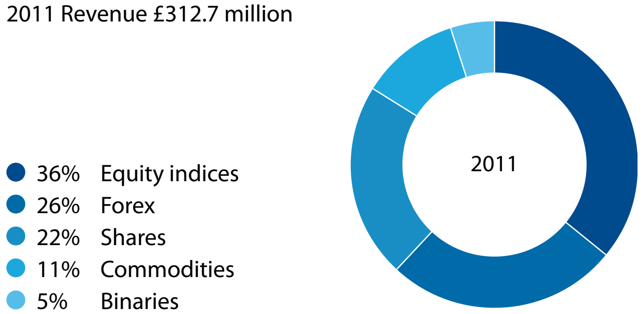
KPI: Net trading revenue by asset class

The primary shift experienced in the year was the movement towards trading in equity indices, which constituted 44% of the revenue (2011: 36%). The proportion of revenue from shares trading declined during the first part of the year from 18% to around 12% in December, recovering with the rebound in equity markets in the new calendar year. Forex (22%) also fell as a proportion of overall revenue, although both remain robust at an absolute revenue level. The remaining 16% of revenue is made up by commodities and binaries, which maintained the same level of percentage contribution year-on-year.

2012 Revenue £366.8 million



2011 Revenue £312.7 million



Active clients grew 11% (excluding Japan) and revenue per client was stable

The primary drivers of the Group's financial revenue are the number of active clients we have and the average revenue per client, which is a factor of their trading frequency and the type and size of trades they place. These are discussed in the following sections. A summary of other client metrics is provided in the Investor Resources and Other Information section.

Number of active clients – continued growth despite tough comparatives

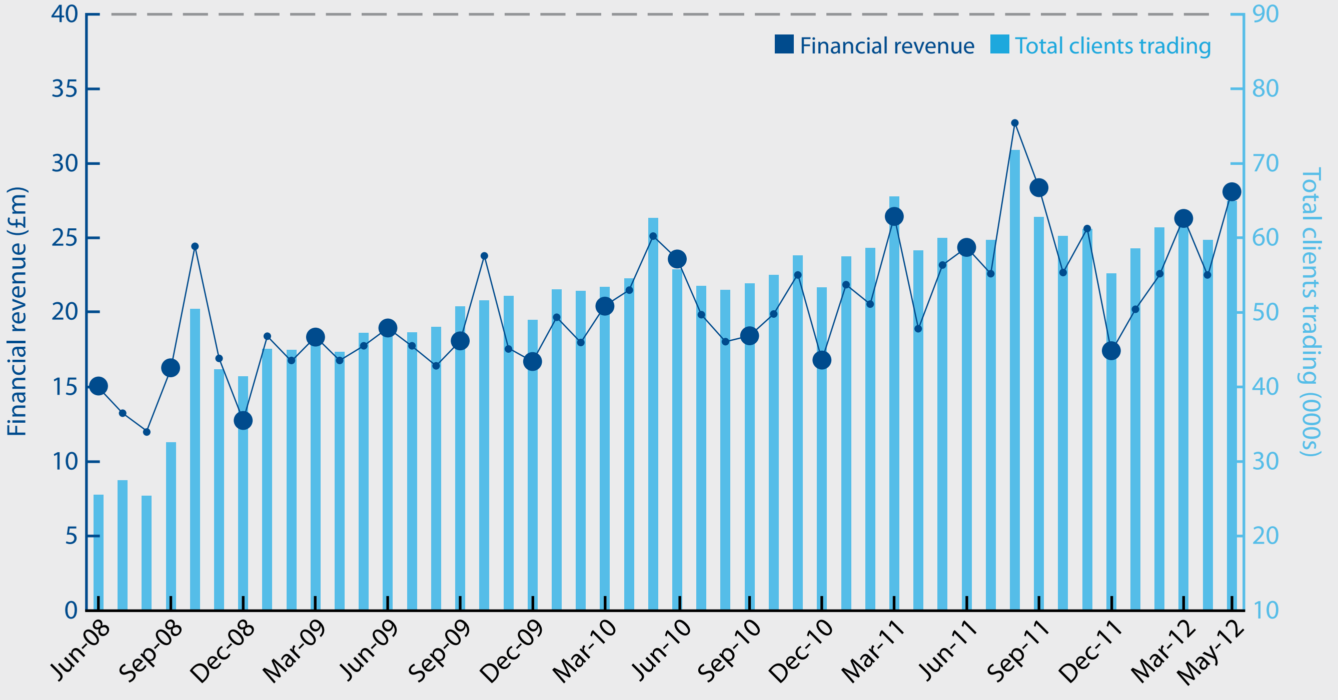
KPI: Number of active clients

During the year the number of active financial clients increased by 7% to 143,304 (2011: 133,580). Excluding Japan, where the third and final leverage reduction came into force during the year and active client numbers were down by 19%, the number of active clients increased by 11%.

We continued to grow active client numbers in our two more established markets of the UK and Australia. Overall the UK was up by almost 5%, with spread betting ahead of the CFD business, and Australia was ahead by 11%. Europe once again saw the fastest growth in active clients with a 32% increase, with particularly strong growth in Iberia, and the Rest of World had another strong year, with a 17% increase.

Whilst there are spikes in individual months, the overall trend remains upwards. The profile of active clients over the last four years is illustrated opposite.

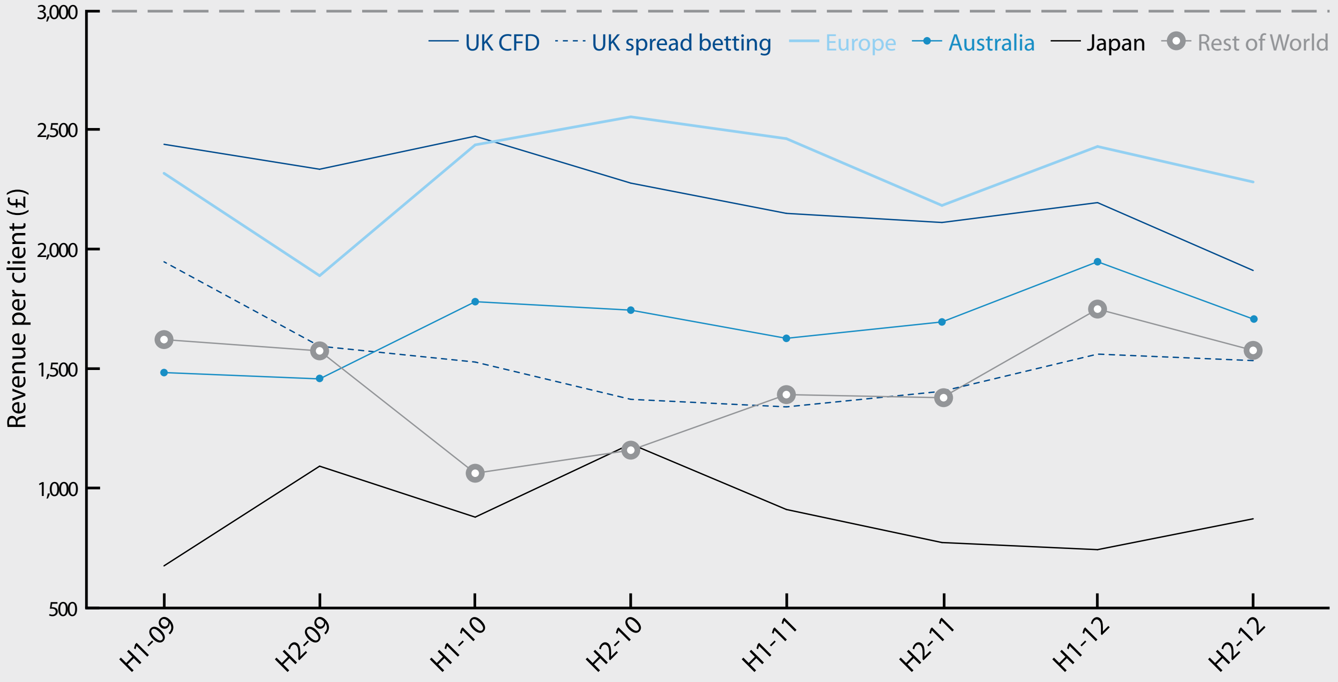
Monthly revenue vs active clients trading



KPI: Average revenue per client

Average revenue per financial client (total revenue divided by the number of active clients in the given period) varied during the year across products and geographies. In general, less mature geographies and newer clients tend to produce higher revenue in the short term and trend towards the longer-term average. This measure fell by 5% for the European business as it began to mature, although it remains around 20% above the level in the UK. The level of average revenue continued to rise in the mature markets of the UK and Australia, rising by 9% in the UK and 10% in Australia, driven by our focus on improving the quality of our client base. In the UK the growth was significantly skewed towards the spread betting business, with the CFD business still subdued by an unfavourable share trading environment. In the Rest of World this measure rose by 22%, primarily driven by a 30% rise in the Singapore business.

Average revenue per client 2009-2012



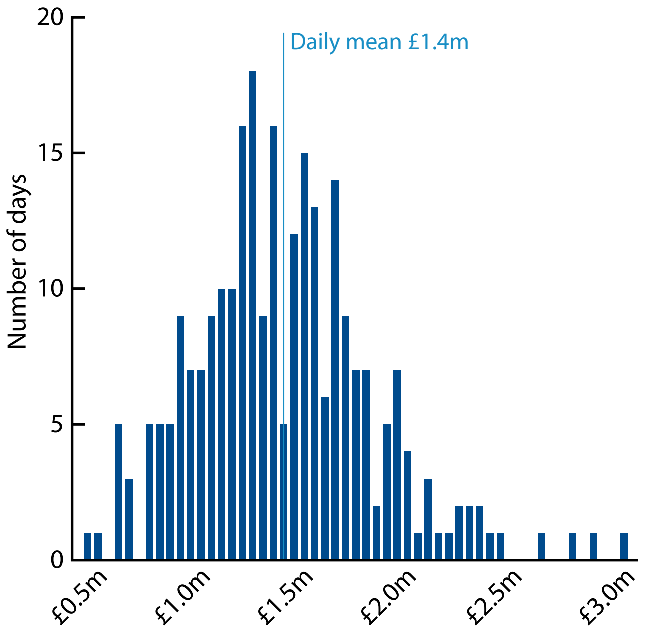
OPERATING AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Quality of earnings demonstrated through low volatility of trading revenue

KPI: Daily net trading revenue
The stability of our revenue is illustrated in the chart below, which shows the distribution of daily net trading revenue during the financial year. This demonstrates the quality of the Group's earnings and also the effectiveness of our systems and processes of market risk management. We do not take proprietary market positions based on the expectation of market movements, and this is a significant contributory factor to trading revenue stability.

Daily net trading revenue



Other net operating income

Other net operating income includes betting duties paid by the Group in relation to spread betting clients, interest earned on segregated clients funds net of interest paid to those clients and amounts earned under a revenue-share arrangement. This is broken out in detail on the statutory income statement.

Betting duties were £8.9 million and saw an increase of £5.8 million from the prior year. Net interest income on segregated client funds increased to £10.3 million (2011: £8.9 million) as a result of both growth in the level of client funds held and better deposit rates.

In the current financial year the Group benefitted from £1.0 million of income earned largely in relation to a revenue-share arrangement with Spreadex Limited, following the sale of the Group's Sport business client list. Under this arrangement the Group receives semi-annual payments for three years, calculated by reference to the revenue that the acquirer generates from clients on the list.

Administrative expenses

Administrative expenses, as detailed below, increased by £28.3 million to £183.7 million (2011: £155.4 million). Underlying operating expenses, which exclude depreciation, amortisation and amounts written off property, plant and equipment and exceptional items, increased by £30.3 million to £174.0 million.

£000	2012	2011 Restated
Employee remuneration costs	92,669	72,346
Advertising and marketing	31,068	31,292
Premises related costs	10,384	9,098
IT, market data and communications	12,724	12,615
Legal and professional	5,777	3,885
Regulatory fees	6,300	5,788
Bad and doubtful debts	1,337	(2,282)
Other costs	13,729	10,973
Underlying operating expenses	173,988	143,715
Depreciation, amortisation and amounts written off property, plant and equipment	10,760	9,916
Exceptional items (including depreciation)	(1,091)	1,752
Total administrative expenses	183,657	155,383

Employee remuneration and advertising and marketing costs comprise 71.1% (2011: 72.1%) of underlying operating costs in the current year.

Employee remuneration costs

Employee remuneration costs increased to £92.7 million (2011: £72.3 million), with £13.7 million resulting from increases in performance-related bonuses and commissions, as well as £5.8 million resulting from an increase in the average number of employees. As a result, the Group's total compensation ratio (ie total employee remuneration expressed as a percentage of net trading revenue) increased to 25.3% (2011: 23.1%).

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

Inclusive of National Insurance and pension costs, employee remuneration costs comprise:

£000	2012	2011 Restated
Fixed employment costs	59,719	53,910
Performance-related bonuses and commissions:		
Pool schemes	18,943	9,444
Specific schemes	9,002	4,770
Share-based payment schemes	5,005	4,222
Total employee remuneration costs	92,669	72,346

The average number of employees increased in the year to 960 (2011: 893), with year-end headcount being 1,012 (2011: 926).

In the past year, the Group has continued to invest in headcount associated with supporting the client platform and ongoing technological innovation. This investment, in IT development, quality assurance and platform maintenance and hosting, allows the advancement of multiple technology initiatives simultaneously whilst also ensuring we maintain high levels of platform resilience and availability. At 31 May 2012 year-end IT headcount was 397 (2011: 327), an increase of 21% over the level at the prior year-end.

The Group's marketing headcount has also grown over the year, reflecting the investment in both online and offline marketing capability as well as action taken to reduce dependency on external agencies. These initiatives have, whilst increasing headcount, increased the efficiency and cost effectiveness of our online advertising through bringing trafficking for specific markets in house, as well as enhancing the Group's ability to run multiple online and offline campaigns in different markets. At 31 May 2012 year-end marketing-related headcount was 95 (2011: 67), an increase of 41% over the level at the prior year-end.

Other notable changes in the year include the ongoing reduction of headcount in Japan following action taken to significantly reduce our Japanese cost base and to ensure alignment with the changing needs of this business.

Marketing costs

Advertising and marketing costs have remained flat at £31.1 million (2011: £31.3 million) during the year. This reflects initiatives noted above to reduce our dependency and costs with external agencies (a £0.7 million part-year reduction) as well as the action taken to reduce the cost base of our Japanese business (a £2.6 million reduction in marketing spend) following a number of expected regulatory restrictions on leverage, the last of which came into force on 1 August 2011. The Group's focus on online channels has seen increased efficiency of spend through the use of new technologies to optimise our websites, bringing online advert trafficking in house and extending the markets for which paid search is performed by an in-house team.

These savings have allowed incremental investment in sponsorship and targeted offline media campaigns through the year in order to maximise the recruitment, conversion and retention of clients globally. The Group continues to invest in building the IG brand, and to that end we have engaged with specialist consultancies during the year.

OPERATING AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Other expenses

Premises-related costs increased by £1.3 million to £10.4 million (2011: £9.1 million) as a result of the full-year impact of new offices opened during 2011 in the Netherlands and in South Africa, relocation and expansion of the offices in both Spain and Italy, and through inflationary cost increases in rent and service charges for both our UK headquarters and disaster recovery site.

IT, market data and communication costs include the cost of IT maintenance and short term license arrangements as well as market data fees from exchanges.

Legal and professional fees, which include audit, taxation, legal and other professional fees, increased to £5.8 million (2011: £3.9 million). This increase results from a higher spend on taxation support services in the year, reflecting the complexity of the Group's global operations and corporation, payroll and sales tax compliance, as well as higher spend in relation to legal matters. Details of the ongoing significant litigation against the Group are disclosed in note 25 of the financial statements.

The level of charges levied on the Group by the Financial Services Compensation Scheme (FSCS) in relation to the failure of investment intermediary firms was consistent with that levied in the prior year – with a total levy for the FSCS year ended 31 March 2012 of £5.0 million (year to 31 March 2011: £4.9 million). The Group also pays other regulatory fees to the FSA in the UK as well as regulatory bodies in other jurisdictions where we have operations.

The impact of use of our close-out monitor, which automatically reduces our exposure to bad debts, combined with the use of tiered margining, again ensured that new bad debt provisions of £2.3 million (2011: £1.2 million) were less than 1% of net trading revenue. The Group recovered £1.2 million of cash against previously provided bad debts, which, along with a £0.5 million charge in relation to a doubtful debt that arose in the year ended 31 May 2009, contributed to an overall doubtful charge of £1.3 million for the year against and an overall net recovery of £2.3 million in the prior year. The management of credit risk is described in both the Managing Our Business Risk section of the business review and in note 36 to the financial statements.

Other costs include bank charges, training, travel, recruitment and irrecoverable sales taxes. The increase in other costs primarily results from irrecoverable sales taxes, where a charge of £2.0 million was incurred in relation to the application of the Group's VAT recovery agreement with HM Revenue and Customs in prior periods.

Depreciation, amortisation and amounts written off property, plant and equipment increased to £10.8 million (2011: £9.9 million), reflecting the investment over both the current and prior period in IT hardware and software. The amortisation charge associated with the client list acquired with our South African business (Ideal CFDs) was £1.0 million in the year (2011: £1.2 million).

Exceptional items included in profit before tax

£000	2012	2011 Restated[1]
Relocation of the Group's London headquarters	(1,091)	1,752
Total exceptional items included in profit before tax	(1,091)	1,752

(1) Exceptional items reported for the prior year exclude the impairment of intangible assets associated with the Japanese business and the Group's discontinued Sport business

The relocation of the Group's London headquarters in August 2010 resulted in an onerous lease charge for the excess office space arising from the overlap of the lease period for the new London headquarters with that of the Group's existing London premises, as well as accelerated depreciation of leasehold improvements, dilapidation accruals and other asset obsolescence. In the year to 31 May 2012 the Group has negotiated with the property landlord both the early surrender of lease and the settlement of dilapidation obligations for the previous London premises, resulting in the exceptional credit to the income statement disclosed above.

EBITDA margins

KPI: Geographic EBITDA

The Group uses EBITDA, which includes an allocation of central costs, as a key indicator of regional performance (refer to note 4 to the financial statements, Segment Information).

EBITDA increased to £196.3 million (2011: £173.5 million) driven by the increase in net trading revenue and administrative expenses discussed earlier in the Operating and Financial Review. EBITDA margin (EBITDA expressed as a percentage of net trading revenue) decreased to 53.5% (2011: 55.5%).

The following table summarises EBITDA margin by region:

Segment	2012	2011 Restated
UK	58.5%	63.9%
Australia	64.7%	65.4%
Europe	38.8%	40.2%
Japan	41.2%	24.7%
Rest of World	41.6%	37.0%
Group	53.5%	55.5%

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

The UK segment's EBITDA margin is lower than that in the prior financial year as a result both of higher betting duties in relation to spread betting clients and the costs associated with the application of the Group's VAT recovery agreement in prior years noted earlier. The application of the Group's VAT recovery agreement also had a negative impact on margin in Europe. In Japan, the EBITDA margin improved significantly, as whilst revenues fell from the level in the prior year following the full-year impact of leverage restrictions, the actions taken to reduce the cost base of this business ensured improved profitability. The Rest of World EBITDA margin benefitted from the revenue growth in Singapore.

Profit before taxation

KPI: Profit before taxation

As a result of the factors outlined above, profit before taxation grew 13.8% to £185.7 million (2011: £163.2 million). Profit before tax margin, calculated with reference to net trading revenue, decreased to 50.6% (2011: 52.2%) reflecting the Group's continuing investment in IT and marketing capability.

Taxation expense

The effective rate of taxation for the year ended 31 May 2012 increased to 26.2% compared to an adjusted rate of 24.2% for the prior year. The prior year adjusted rate has been calculated after excluding the profit and loss account impact of the Japanese goodwill impairment. The effective rate for the current year is higher than the prior year due to the current tax adjustment in respect of prior years of £1.9 million and lower taxes on overseas earnings in the year ended 31 May 2011.

The calculation of the Group's tax charge involves a degree of estimation and judgement, in particular with respect to certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. Further detail is provided in note 11 to the financial statements.

Discontinued operations

During the year the Group completed the sale of the majority of the client list relating to the sport spread betting and fixed odds betting business, extrabet, to Spreadex Limited. Following the completion of a redundancy consultation process with the employees of extrabet, those unable to find a role within the Group were made redundant and the business was closed. Accordingly the Group's Sport business is presented within the Group income statement as a discontinued operation. In the financial review all numbers, unless otherwise stated, exclude the Sport business. In the year ending 31 May 2012, the discontinued operations contributed a loss after taxation of £0.4 million (2011: loss after taxation of £5.0 million).

Diluted earnings per share

KPI: Diluted earnings per share

Diluted earnings per share from continuing operations increased to 37.54p (15.3% growth) from 32.57p in the year ended 31 May 2012 (refer to note 13 to the financial statements).

Diluted earnings per share increased to 37.44p (14.7% growth) from 32.64p in the year ended 31 May 2012. Diluted earnings per share is used as a primary measure of our underlying profitability, and elements of both the annual Directors' performance-related bonuses, as well the long-term incentive plan that vests in September 2012, are calculated with reference to this measure.

Dividend policy

The Board has adopted a progressive dividend policy which reflects the long-term earnings and cash flow potential of the Group. Our dividend payout target is in the region of 60% of profit after tax. This policy will be kept under review, but our current intention is to pay out a similar proportion of earnings in the future.

OPERATING AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

The Board has recommended a final dividend of 16.75p, to bring the total dividend for the financial year ending 31 May 2012 to 22.5p (2011: 20.0p), an increase of 12.5%.

Summary Group cash flow – high levels of cash generation

The following cash flow statement summarises the Group's cash generation during the year and excludes all cash flows in relation to monies held on behalf of clients. Additionally, amounts due from brokers have been treated as 'cash equivalents' and included within 'own funds' in order to provide a clear presentation of the Group's available cash resources. For an explanation of the derivation of 'own funds' please refer to the table presented in the following Available Liquidity section. The prior year summary Group cash flow has been restated to reflect the amended presentation of own funds explained in the following section on available liquidity.

£000	2012	2011 Restated
Operating activities		
Profit before tax(1)	185,329	162,999
Depreciation and amortisation	10,760	10,866
Other cash and non-cash adjustments	2,140	6,321
Income taxes paid	(57,554)	(43,503)
Own funds generated from operations	**140,675**	**136,683**
Movement in working capital	21,906	1,068
Outflow from investing and financing activities	(83,324)	(95,278)
Increase in own funds	**79,257**	**42,473**
Own funds at 1 June	309,228	268,479
Exchange loss on own funds	(264)	(1,724)
Own funds at 31 May	**388,221**	**309,228**

(1) Profit before tax is stated inclusive of discontinued operations for the purposes of the cash flow statement

Own funds generated from operations were £140.7 million (2011: £136.7 million) during the year, reflecting the cash-generative nature of the business. Cash conversion, calculated as own funds generated from operations divided by profit before tax, remained at high absolute levels (2012: 75.9%, 2011: 83.9%).

'Own funds' increased by £79.3 million (2011: £42.5 million) after adjustments for movements in working capital balances and significant outflows in relation to investing and financing activities. The outflow from investing and financing activities includes £9.1 million in relation to capital expenditure (2011: £19.9 million) on IT hardware and software, with the prior year number including the cash flows associated with the fit-out of the Group's new London headquarters. This item also includes the payment of the final 2011 and interim 2012 dividend payments which total £73.9 million (2011: £67.7 million). The prior year saw a cash outflow of £2.7 million in respect of the acquisition of our South African business and £5.1 million in relation to the acquisition of the minority interest of IG Markets Securities Limited.

Available liquidity – Group cash generation funds broker margin requirements

The Group's 'own funds', as set out in the table opposite, comprise cash balances available to the Group for its own purposes and exclude all monies held on behalf of clients. Own funds are used in normal business operations as well as for the funding of broker margin requirements. Consequently own funds are held with either the Group's banking or broking counterparties. The Group is also entitled to use 'title transfer funds' in normal business operations and as broker margin. Title transfer funds are those held on behalf of corporate clients where the client agrees, under a Title Transfer Collateral Arrangement (TTCA), that full ownership of such monies is unconditionally transferred to the Group. The Group does not accept title transfer funds from individual clients.

Own funds increased to £388.2 million (2011: £309.2 million) in the year to 31 May 2012, reflecting the high level of cash generation set out earlier in this report. 'Net own cash available' also increased to £192.3 million (2011: £91.9 million) following a decrease in the year-end broker margin requirements. 'Net own cash available' disclosed in the table below represents the Group's available cash resources excluding all monies held on behalf of clients and after the payment of broker margin.

The Group's available own cash enables the funding of large broker margin requirements when required – the level of available liquidity at 31 May 2012 should be considered in the light of the intra-year high broker margin requirement of £277.1 million, the continued growth of the business and the Group's commitment to segregation of individual clients' money, as well the final proposed 2012 dividend, all of which draw upon available cash resources.

£000	2012	2011 Restated(1)
Available cash resources		
Own funds	388,221	309,228
Title transfer funds	59,852	71,453
Available cash resources comprise:		
Own cash and title transfer funds	228,156	124,528
Amounts due from brokers	206,997	267,792
Less other amounts due from / (to) clients(1)	12,920	(11,639)
Available cash resources	**448,073**	**380,681**
Available liquidity		
Available cash resources	448,073	380,681
Less broker margin requirement	(195,954)	(217,360)
Net available cash	**252,119**	**163,321**
Less title transfer funds	(59,852)	(71,453)
Net own cash available	**192,267**	**91,868**
Of which declared as dividend	(60,769)	(53,051)
Committed banking facilities(2)	180,000	180,000
Total available liquidity (including facilities)	**311,498**	**218,817**

(1) The comparative amount has been restated to disclose 'other amounts due from / (to) clients', which represent balances that will be transferred from or to the Group's own cash into segregated client funds on the immediately-following working day, in accordance the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

(2) Draw down of the committed banking facilities is capped at 80% of the actual broker margin requirement on the draw down date. For example, the actual committed facilities available for draw down at 31 May 2012 based on the year-end broker margin requirement of £196.0 million were £156.8 million. Available draw down of £156.8 million facility equates to total available liquidity as at 31 May 2012 of £287.4 million

Total available liquidity is stated inclusive of committed banking facilities of £180.0 million (2011: £180.0 million) – none of which were drawn during the current or prior financial year except for test purposes.

Regulatory capital resources

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

The Group considers there are significant benefits to being well capitalised at a time of continuing global economic uncertainty. The Group is well placed in respect of any regulatory changes which may increase our capital or liquidity requirements, and high levels of liquidity are important in the event of significant market volatility.

The following table summarises the Group's capital adequacy on a consolidated basis. The Group's capital management is reviewed further in note 37 to the financial statements.

£m	2012	2011
Total Tier 1 capital	448.7	380.1
Less intangible assets (adjusted)	(115.4)	(115.3)
Less investment in own shares	(1.5)	(1.2)
Total capital resources (CR)	**331.8**	**263.6**
Capital resources requirement (CRR)	(100.4)	(89.6)
Surplus	**231.4**	**174.0**
CR expressed as a % of CRR	**330.5%**	**294.2%**

OPERATING AND FINANCIAL REVIEW (continued)

FINANCIAL REVIEW (continued)

Summary Group statement of financial position

£000	**2012**	**2011**
Property, plant and equipment	15,555	16,761
Intangible assets	115,366	117,202
Deferred tax assets	11,915	11,264
Non-current assets	**142,836**	**145,227**
Trade and other receivables	232,087	278,303
Cash and cash equivalents	228,156	124,528
Current assets	**460,243**	**402,831**
TOTAL ASSETS	**603,079**	**548,058**
Trade and other payables	125,891	128,639
Provisions	1,353	1,427
Income tax payable	28,652	37,060
Current liabilities	**155,896**	**167,126**
Provisions	-	1,991
Redeemable preference shares	40	40
Non-current liabilities	**40**	**2,031**
Total liabilities	**155,936**	**169,157**
Total equity	**447,143**	**378,901**
TOTAL EQUITY AND LIABILITIES	**603,079**	**548,058**

Non-current assets

As discussed in the business review, the Group continues to invest in technology both to enhance our clients' experience and to improve the capacity and resilience of our dealing platforms, each of which are critical to the success of our business. Capitalised investment in relation to development costs and software and licenses amounted to £3.0 million (2011: £7.1 million) largely relating to the development of the client trading platform and software relating to enhanced marketing capability. During the year we also invested £4.7 million in property, plant and equipment (2011: £14.3 million), including £2.4 million in relation to IT equipment and £2.3 million in relation to our new London headquarters and other overseas offices.

Intangible assets include goodwill of £107.5 million (2011: £107.4 million), primarily arising on the acquisition of IG Group plc and its subsidiaries in 2003; the goodwill associated with the acquisition of Nadex of £4.9 million (2011: £4.6 million) and the goodwill (£1.9 million) and client list (£0.4 million) arising on the acquisition of our South African business (refer to note 17a of the financial statements).

Current assets

Trade and other receivables include amounts due from brokers, amounts due to be received from segregated client money accounts on the following working day as well as prepayments. Amounts due from brokers represent cash placed with counterparties in order to provide initial and variation margin in relation to the Group's market risk management. Amounts due from brokers have decreased to £207.0 million (2011: £267.8 million) primarily as a result of lower equity positions than at the prior year-end. Broker margin rates have remained consistent over the year and therefore this lower equity position resulted in a lower collateral requirement with brokers. Cash and cash equivalents are discussed in the cash flow section.

Client money

KPI: Client money levels

Total monies held on behalf of clients at year-end was £792.6 million (2011: £786.1 million), of which £732.7 million (2011: £714.7 million) is segregated in trust bank accounts and treated as 'segregated client money' and therefore excluded from the Group statement of financial position. The remaining monies held on behalf of clients of £59.9 million (2011: £71.5 million) represent 'title transfer funds' where the client agrees, under a Title Transfer Collateral Arrangement (TTCA), that full ownership of such monies is unconditionally transferred to the Group. Title transfer funds have reduced in the current year following the Group's decision not to accept title transfer funds from individual clients; consequently, title transfer funds now include only corporate clients. Monies subject to title transfer arrangements are included in the Group statement of financial position.

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

Liabilities

Trade and other payables include amounts due to clients in relation to title transfer funds, amounts due to be paid into segregated client money accounts on the following working day as well as accruals and other payables. The reduction in trade and other payables from the level held at 31 May 2011 results from a number of factors. Title transfer funds have reduced by £11.6 million following the Group's decision not to accept title transfer funds from all individual clients – as detailed earlier in this report. Additionally amounts due to paid into segregated client money accounts at 31 May 2011 were £11.6 million, whereas at 31 May 2012 the following working day's transfer was from segregation and to the Group's own funds. Finally, the level of accruals is £19.2 million higher at 31 May 2012, largely as a result of the higher performance-related bonus accruals as discussed earlier in this section.

Provisions relate solely to the amounts payable in relation to onerous lease liability for the Group's former headquarters.

CORPORATE SOCIAL RESPONSIBILITY

An overview of our commitment to corporate and social responsibility is included within the Corporate Governance section and in more detail on our corporate website at www.iggroup.com.

PREPARATION OF THE OPERATING AND FINANCIAL REVIEW

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

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

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

CORPORATE GOVERNANCE →

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report details the Group's governance framework and its management practices and, together with the Directors' remuneration report, sets out how the Group has complied with the UK Corporate Governance Code for the year ended 31 May 2012.

Accordingly the Corporate Governance Report follows this structure:

TITLE	EXPLANATION	PAGE
Corporate Governance Statement and overview of Corporate Governance Framework	A statement of the Company's compliance with the UK Corporate Governance Code	49
The Board	Board biographies as well as an overview of the leadership and effectiveness of the Board, its structure, responsibilities and Board evaluation	50
Board committees: Nomination	For each committee the Chairman provides an overview of the committee's role and activity during the financial year	55
Remuneration including the Directors' remuneration report	The Directors' remuneration report provides an overview of the Group's governance and policies with regards to remuneration, including the audited Directors' remuneration disclosures. Detailed contents are provided on page 58	56
Audit		71
Executive committees: Risk Client money	The Board has delegated certain governance responsibilities to executive committees. An overview of each committee's role and activity in the financial year is provided	73 74
Directors' statutory report	Other disclosures required by legislation	75
Corporate Social Responsibility Report	Details the Group's policies and activity during the year with regards to corporate behaviour	78

CORPORATE GOVERNANCE STATEMENT

Statement of compliance

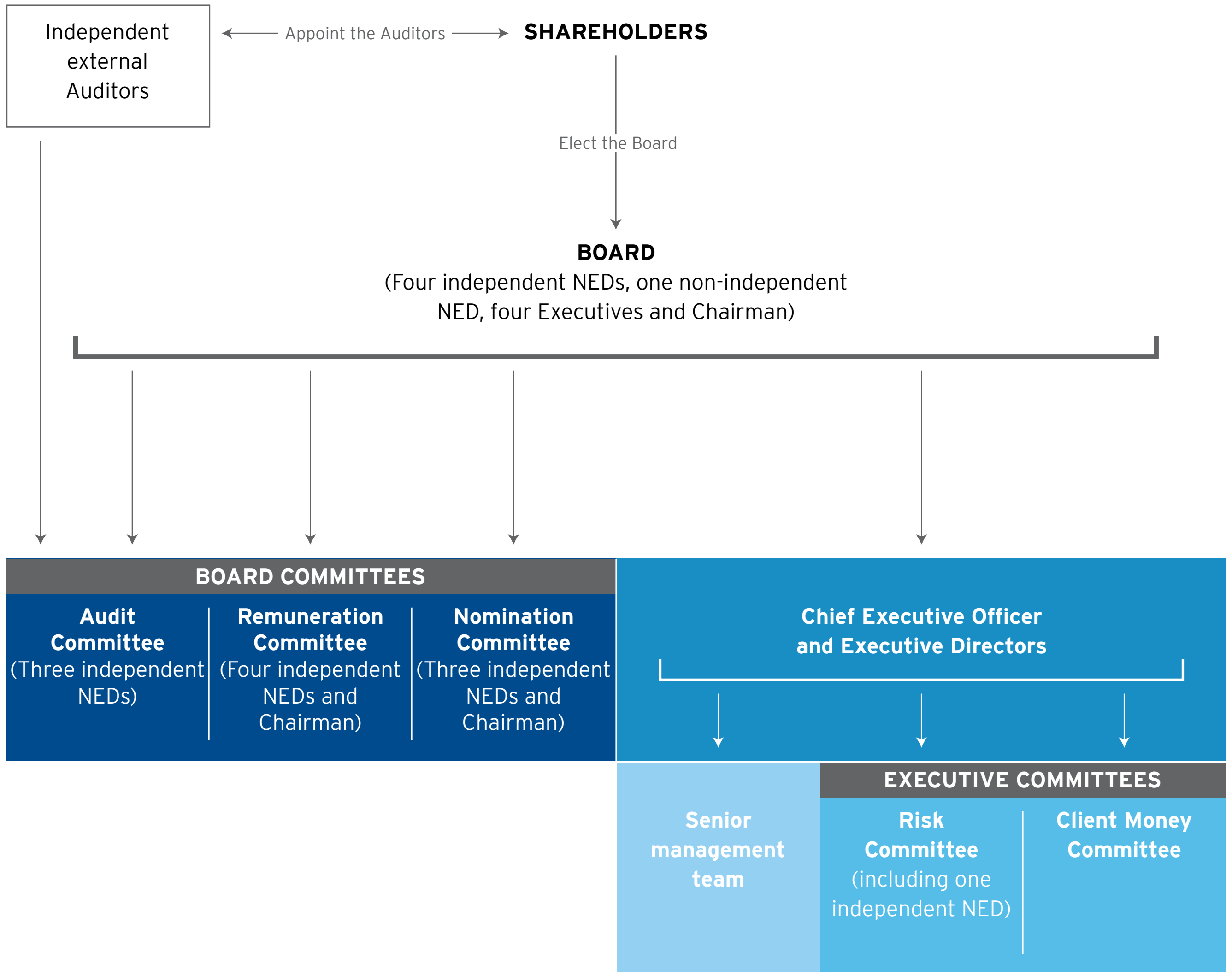
The Board has reviewed the UK Corporate Governance Code (the Code) and considers that the Company has been compliant with the Code for the year ended 31 May 2012, with the exception of Code provision B.1.2 which requires that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors (NEDs) who are determined by the Board to be independent. The Board currently comprises four Executive Directors and four Non-Executive Directors excluding the Chairman and Deputy Chairman.

The Deputy Chairman, Nat le Roux, is not considered to be an independent Non-Executive Director as he is a former Chief Executive of the Group. The Board considers that the value he brings, with 19 years' experience in the uniquely specialised market of contracts for difference and spread betting, justifies his position on the Board and is in the best interests of the Group and its shareholders.

Nat Le Roux has informed the Board of his wish to step down at the 2012 Annual General Meeting (AGM) and this means the Board will be fully compliant with Code provision B.1.2 after the forthcoming 2012 AGM. Andrew MacKay will also be stepping down from the Board as of 31 July 2012.

Further information on the Code can be found on the Financial Reporting Council website at www.frc.org.uk.

OVERVIEW OF CORPORATE GOVERNANCE FRAMEWORK



CORPORATE GOVERNANCE REPORT (continued)

THE BOARD

Jonathan Davie
Non-Executive Chairman, 65 years old

Jonathan qualified as a Chartered Accountant. He joined George M. Hill and Co, a jobber on the London Stock Exchange, in 1969. Wedd Durlacher Mordaunt and Co then acquired the firm, where Jonathan became a partner in 1975. He was the senior dealing partner of the company when it was later acquired by Barclays Bank to form BZW in 1986. Jonathan developed BZW's fixed income business prior to becoming CEO of the global equities business in 1991. In 1996 Jonathan became Deputy Chairman of BZW and then Vice Chairman of Credit Suisse First Boston in 1998, when they acquired most of BZW's businesses. Jonathan is presently a Non-Executive Director of Persimmon plc and Chairman of First Avenue, an alternatives advisory boutique.

Christopher Hill
Chief Financial Officer
41 years old

Christopher read Modern History at Oxford University. He is a Chartered Accountant and an associate member of the Association of Corporate Treasurers. He joined IG Group in April 2011 from Travelex, a group providing cross-border payment and foreign exchange services to corporate and retail customers, where he was Chief Financial Officer. Prior to joining Travelex in 2007, Christopher worked at VWR international, a global laboratory supply company (from 2005 to 2007), at General Electric (from 2000 to 2005) and at Arthur Andersen (from 1992 to 2000).

Peter Hetherington
Chief Operating Officer
43 years old

Peter read Economics at Nottingham University and has a Masters in Finance from the London Business School. Peter was an officer in the Royal Navy before joining IG Group, as a graduate trainee, in 1994. He became Head of Financial Dealing in 1999 and was appointed as Chief Operating Officer of IG Group in 2002.

Roger Yates
Senior Independent
Non-Executive Director
55 years old

Roger joined the Board as senior independent Non-Executive Director in February 2006. Roger read Modern History at Worcester College, Oxford, and has 28 years' experience in the fund management industry as an investment professional and business manager. Previously he was Chief Investment Officer of Invesco Global and held senior roles for fund management companies LGT and Morgan Grenfell. He joined Henderson Global Investors as Chief Executive in 1999. In 2003, Roger went on to lead the de-merger from its then parent AMP, becoming Chief Executive of the resulting listed entity (now Henderson Group plc) until November 2008. From December 2009 until July 2010, Roger was CEO of global asset manager Pioneer Investments. He is a Non-Executive Director of JP Morgan Elect Investment Trust plc and of Electra Private Equity Trust plc.

Nat le Roux
Non-Executive Deputy Chairman
55 years old

Nat was Chief Executive of IG Group for four years before he became Non-Executive Deputy Chairman in 2006. He initially joined the Group as Financial Dealing Director in 1992 after a career in futures broking and stock broking. Nat holds a Masters in Law from Cambridge University and an MSc in Anthropology from University College, London. He is an independent Director of the London Metal Exchange, where he chairs the Audit and Risk Committees.

Tim Howkins
Chief Executive, 49 years old

Tim has a first class degree in Mathematics and Computer Science from Reading. He qualified as a Chartered Accountant with Ernst & Young and is also a member of the Chartered Institute of Taxation. Tim was one of a group of partners and staff who left Ernst & Young in 1990 to form Rees Pollock, a firm of Chartered Accountants targeted at entrepreneurial, owner-managed businesses. Tim was a partner in Rees Pollock for seven years, where he was responsible for the Group's audit. He then joined IG as Finance Director in 1999, and became Chief Executive in 2006. Tim is a member of the board and executive committee of the Futures and Options Association.

Andrew MacKay
Director of Corporate Strategy
46 years old

Andrew has a Masters in History from St Andrews University and completed the Law Society Finals examination at the College of Law in London. He qualified as a lawyer with Linklaters and worked there for seven years, principally in the litigation and financial services practices. In 1998, Andrew moved to LIFFE as Market Investigations Manager before joining IG as Legal Counsel in March 1999. Andrew was appointed a Director of IG Group in 2003. He served as Head of Asia Pacific for three years before returning to London to lead the new Corporate Strategy team.

Stephen Hill
Non-Executive Director
52 years old

Stephen served as CEO of the Financial Times for Pearson plc between 1996 and 2002, and on Pearson's management board. He was the CEO of Betfair plc from 2003 to 2005. Stephen is an experienced Non-Executive Director, having previously served on the boards of the Royal SunAlliance Insurance Group plc, Psion plc and Channel 4. He was also Chairman of Interactive Data Corporation of the US from 1998 to 2002. Currently he is Chairman and CEO of D'Aval Limited, a private investment company, and Trustee, Hon. Treasurer and Deputy Chairman of the Royal National Institute for Deaf People – Action on Hearing Loss, where he chairs the Audit and Investment Committees. Stephen also serves as a member of the Advisory Board of the Cambridge University Judge Business School.

Martin Jackson
Non-Executive Director
63 years old

Martin was appointed a Non-Executive Director of IG Group and Chairman of the Audit Committee in April 2005. He was the Group Finance Director of Friends Provident plc between 2001 and 2003, of Friends Provident Life Office between 1999 and 2001, and of London & Manchester Group plc from 1992 to 1998 (up until it was acquired by Friends Provident Life Office). He is a Non-Executive Director and Chairman of the Group Risk Committee of Admiral Group plc. He is also a fellow of the Institute of Chartered Accountants.

David Currie
Non-Executive Director
65 years old

David Currie (Lord Currie of Marylebone) was the founding Chairman of Ofcom, where he served from 2002 to 2009. Previously he was a Non-Executive Director of Abbey National plc from 2001 to 2002, a founder and Chairman of the International Centre of Financial Regulation and Chairman of Independent Audit from 2003 to 2007. Between 2001 and 2007 David was the Dean of Cass Business School, and before that Deputy Dean at the London Business School. He is currently a Non-Executive Director of Royal Mail Holdings plc, BDO LLP, the Dubai Financial Services Authority and the London Philharmonic Orchestra. David is currently serving as a panel member of the Leveson Inquiry into the press.

CORPORATE GOVERNANCE REPORT (continued)

THE BOARD (continued)

Leadership

Role of the Board

The Board is responsible for the long-term success of the Group. It is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. It provides guidance and leadership by challenging business performance, and sets the strategic direction of the Group.

The powers of the Board are set out in the Company's articles of association, which are available on the Group's website, www.iggroup.com. The articles may be amended by way of a special resolution of the members of the Company. The Board may exercise all powers conferred on it by the articles and in accordance with the Companies Act 2006, and other applicable legislation.

Specific key decisions are reserved for the Board in order to ensure that it meets its responsibilities. These include:

- Setting Group strategy
- Approving major acquisitions, divestments and capital expenditure
- Approving expansion into new business or geographic areas
- Approving annual budgets
- Approving changes relating to the Group's capital structure including reduction of capital
- Reviewing operational and financial performance
- Setting the risk appetite of the Group
- Approving any changes to the Group's risk management policy which materially increase the Group's risk profile
- Reviewing the Group's systems of internal control and risk management
- Approving Board, Board committee and Company Secretarial appointments
- Ensuring adequate succession planning for the Board and senior management
- Defining and setting Board committee terms of reference
- Approving policies relating to Directors' remuneration and the severance of Directors' contracts
- Receiving reports on the views of the Company's shareholders

A formal schedule of matters specifically reserved for the Board can be found on the Group's website, at www.iggroup.com.

Matters not specifically reserved for the Board are delegated to the Executive Directors. These include:

- Developing and recommending strategic plans for the Group
- Implementing strategies of the Group
- Day-to-day monitoring of the operating and financial results of the Group
- Prioritising the allocation of capital, technical and human resources
- Developing and implementing risk management systems, policies and procedures
- Promoting good standards of corporate governance and shareholder engagement

Board structure

During the year, the Company was headed by an experienced Board of ten Directors, comprising an independent Non-Executive Chairman, a non-independent Non-Executive Deputy Chairman, four Executive Directors, including the Group Chief Executive Officer, and four independent Non-Executive Directors.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined in writing and has been approved by the Board. The Chairman is responsible for the leadership of the Board and creating the conditions for its effective working. The Chairman sets the Board's agenda in consultation with the Chief Executive Officer and Company Secretary, taking full account of the issues and concerns of Board members and giving consideration to the need to allow sufficient time for the discussion of items on the agenda.

With the exception of the Deputy Chairman, all the Non-Executive Directors are independent of management and are considered by the Board to be free from any business or other relationships which could interfere with the exercise of their independence. Their role is to advise and constructively challenge management, along with monitoring management's success in delivering the agreed strategy within the risk appetite and control framework set by the Board. They are also responsible for determining appropriate levels of remuneration for the Executive Directors.

Roger Yates is the Senior Independent Director and provides support to the Chairman, serving as an intermediary for the other Directors when necessary. The Senior Independent Director is available to shareholders if they have concerns which communication via the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which communication is inappropriate.

How the Board operates

The Board meets regularly: at least five times a year. In addition, the Board meets when necessary to discuss important ad-hoc emerging issues that require consideration between standard Board meetings. All Directors make every effort to attend each meeting; each Director committed an appropriate amount of time to their duties during the financial year and the Non-Executive Directors met the time commitment specified in their letters of appointment.

The Chairman and Non-Executive Directors meet formally in the absence of the Executive Directors at least twice a year.

Attendance at Board meetings

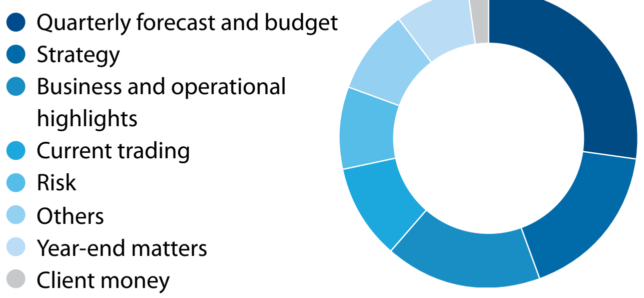
The number of full Board meetings attended by each Director during the year is set out below:

Board attendance	Scheduled Board meetings eligible to attend	Scheduled Board meetings attended
Group Chairman		
J R Davie	5	5
Executive Directors		
T A Howkins (Chief Executive Officer)	5	5
C F Hill	5	5
P G Hetherington	5	5
A R MacKay	5	5
Independent Non-Executive Directors		
D Currie	5	5
S G Hill	5	5
D M Jackson	5	5
R P Yates	5	5
Non-independent Non-Executive Director		
N B le Roux	5	5

How the Board discharged its responsibilities during the financial year

During the year, the Board has been engaged across the key areas of strategy, financial performance, governance and risk as highlighted in the following chart. In addition to regular reviews of performance, the Board has further discussed risk appetite, capital and liquidity planning, and talent management, including succession planning.

The Board
Allocation of time



Board and executive committees

The Board has delegated certain governance responsibilities to Board committees in order both to assist it with carrying out its responsibilities and to ensure that there is independent oversight of internal control and risk. These Board committees comprise independent Non-Executive Directors only and have agreed terms of reference, which are available on our corporate website, www.iggroup.com.

The Chairman of each Board committee reports to the Board on the matters discussed at committee meetings, and the minutes of each of the committee meetings are made available to all Directors. Please see the following section for reports for the year from the Chairman of each Board committee.

Certain governance responsibilities have also been delegated to executive committees, whose members include Executive Directors and members of senior management. Please see the following section for reports for the year from both the Risk and Client Money Committees.

CORPORATE GOVERNANCE REPORT (continued)

THE BOARD (continued)

Effectiveness

Board structure

The size, composition and qualifications of the members of the Board have a significant impact on its effectiveness. There is an appropriate combination of Executive Directors and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making. This is regularly reviewed to ensure that the Board has the right mix for constructive discussion and, ultimately, effective Board decisions.

Succession planning and appointments to the Board

Succession planning is used by the Board to ensure that the Group is managed by executives with the necessary skills, experience and knowledge, and to ensure that the Board has the right balance of individuals to be able to discharge its responsibilities. The search for Board candidates is conducted, and appointments made, on merit against objective criteria.

The Nomination Committee has specific responsibility for the appointment of Non-Executive and Executive Directors, but the Board as a whole is also involved in overseeing the development of management resources across the Group.

Induction and training

New Directors to the Board are provided with appropriate training and briefings to familiarise them with their duties and the business operations, risk and governance arrangements. The induction programme includes meetings with senior management. During their term of office all Directors receive regular briefings on changes and developments in the business and on any relevant legislative and regulatory changes. Ongoing professional development is important given the rapidly changing environment in which the Group operates. The Chairman ensures that the Directors continually update and refresh their skills and knowledge, and the Company funds independent professional advice as required.

Information provided to the Board

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. All Directors receive appropriate and timely information to enable the Board to exercise its judgement in the discharge of its duties. Briefing papers are distributed to all Directors in advance of Board meetings, and financial information is distributed monthly. During the year, an electronic system was introduced for the efficient and secure delivery of Board and committee papers to Directors.

Re-election of Directors

The UK Corporate Governance Code requires that all Directors submit themselves for re-election at the Company's AGM, which this year will be held on 18 October 2012. Following a rigorous performance evaluation of each Director and the Board as a whole, all the Directors, with the exception of Nat le Roux and Andrew MacKay, are submitting themselves for re-election.

Biographical details of each of the Directors are found earlier in this section.

Board evaluation

The UK Corporate Governance Code and the Financial Reporting Council's guidance on board effectiveness require the Board to evaluate performance annually, with an external assessment performed every three years. In 2009, the Board commissioned the board evaluation team of the Institute of Chartered Secretaries and Administrators to carry out a thorough evaluation of the performance of the Board. This took into account emerging governance trends arising from the Walker Report and the UK Financial Reporting Council review.

This year, the Board commissioned an independent external Board effectiveness facilitator, Dr Tracy Long of Boardroom Review, to assist in an evaluation of its effectiveness.

The review was designed to assess the contribution that the Board makes to the success of the Company, and to promote its continued effectiveness. The review encouraged the Directors to step back from the day-to-day business of the Board, to question its approach, consider its impact, and prepare for the challenges ahead. The review investigated a range of issues, including the way in which the Board defines its role and approaches its work, and the way in which the Board works together and optimises its use of time and its contribution to the Company. Overall the review was satisfactory, and the Board will consider its recommendations during the coming year.

In addition to the external Board evaluation, the performance of the individual Executive Directors, other than the Chief Executive, is appraised annually by the Chief Executive, to whom they report. The performance of the Chief Executive is appraised annually by the Chairman. The performance of the Chairman is reviewed by the Non-Executive Directors, led by the Senior Independent Non-Executive Director (Roger Yates) and taking into account the feedback from the Executive Directors.

NOMINATION COMMITTEE

Jonathan Davie, Chairman of the Nomination Committee, reviews the committee's activities during the financial year

Chairman's overview

The focus and attention of the committee in the year has been the need to strengthen and implement effective succession planning for the Board. In addition, particular attention was given to the diversity of gender, skills, knowledge and experience of the Board, especially following publication of the Davies review on Women on Boards.

Nomination Committee – membership and attendance

	Scheduled meetings eligible to attend	Scheduled meetings attended
Group Chairman and Chairman of Nomination Committee		
Jonathan Davie	3	3
Independent Non-Executive Directors		
David Currie	3	3
Martin Jackson	3	3
Roger Yates	3	3

The committee meets as necessary to consider appointments to the Board. Although not involved in decisions relating to his own succession, the Chief Executive Officer also attends.

Role of the Nomination Committee

The responsibilities of the committee are to:

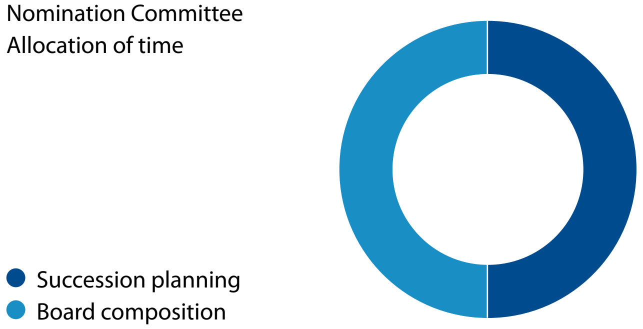
- Review the composition of the Board and Board committees to ensure that they are appropriately balanced in terms of skills, knowledge and experience
- Ensure that there is a formal, rigorous and transparent procedure for the appointment of new Directors and recommend appointments to the Board
- Ensure that plans are in place for orderly succession for appointments to the Board, and to other senior management positions

Activity during the financial year

With the Deputy Chairman, Nat le Roux, stepping down at the AGM in 2012, the committee has continued to focus on the review of the structure, size and composition of the Board. Following Nat's retirement and Andrew MacKay's decision to step down from the Board, it will comprise eight members - three Executive Directors and five independent Non-Executive Directors - and so the Board will be compliant with Code provision B.1.2 of the UK Corporate Governance Code.

The committee spent its time equally between succession planning and Board composition during the year ended 31 May 2012.

Nomination Committee Allocation of time



Jonathan Davie
Chairman, Nomination Committee
17 July 2012

CORPORATE GOVERNANCE REPORT (continued)

REMUNERATION COMMITTEE

Roger Yates, Chairman of the Remuneration Committee, reviews the committee's activities during the financial year

Chairman's overview

The committee's focus during the financial year has been on ensuring an appropriate balance between the levels of remuneration required to attract, retain and motivate talented leaders in a competitive market, and setting policies that are aligned with the interests of shareholders and regulatory requirements.

Remuneration Committee – membership and attendance

	Scheduled meetings eligible to attend	Scheduled meetings attended
Chairman of Remuneration Committee		
Roger Yates	4	4
Independent Non-Executive Directors		
David Currie	4	4
Martin Jackson	4	4
Stephen Hill	4	3
Jonathan Davie	4	4

The committee meets four times a year, and as and when required.

Role of the Remuneration Committee

The committee is responsible for making recommendations to the Board on the Group's remuneration policy. Operating within agreed terms of reference, it determines an overall remuneration package for the Executive Directors in order to attract, retain and motivate high-quality Directors capable of achieving the Group's objectives.

The Committee determines the contractual terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights, compensation payments and contingent share awards. In setting the remuneration for Executive Directors, the committee has the discretion to take performance on environmental, social, regulatory and governance matters into account.

The committee's other responsibilities are to:

- Determine and review the Group's remuneration policy, ensuring it is consistent with effective risk management across the Group, and to consider the implications of this remuneration policy on risk
- Approve the remuneration of the Chairman
- Approve all share-based awards under the Group's employee incentive schemes, to determine each year whether awards will be made and, if awards are made, to monitor their operation, the size of such awards and the performance targets to be used
- Establish the selection criteria, appoint and set the terms of reference for any remuneration consultants who advise the committee

The Board determines the remuneration of Non-Executive Directors.

Activity during the financial year

Remuneration framework

The committee recognises that the Group must be able to attract, retain and motivate leaders who are focused on delivering the business strategy in line with the interests of shareholders, and the committee strives to ensure that the Group's remuneration framework is structured in order to enable this. To this end, and with support from Kepler Associates, the committee spent time during the year reviewing the Executive Directors' remuneration and the bonus arrangements for the Group's staff. The results of this review are explained below.

Regarding fixed remuneration, the committee reviewed the salaries of Executive Directors against a comparator group of companies. Whilst the Executive Director's salaries were found to be below the lower quartile of the comparator group, and whilst the Group has performed well within a challenging environment, the committee determined it was best to take a prudent approach to increasing levels of fixed pay this year. After giving consideration to the level of salary awards made to all of the Group's UK employees, it was decided that Executive Directors' salaries would be increased in line with inflation only (3%). This is in line with the proposed salary increases for the Group's employees as a whole. The Chairman and other Non-Executive Directors also received an inflationary increase in fees.

Regarding variable remuneration, the committee reviewed the bonus arrangements for the Executive Directors and employees participating in the general staff bonus scheme, in order to ensure that there is an ongoing link between performance and reward. The committee determined it was appropriate to incorporate some non-financial measures into the metrics for both bonus schemes. The committee considers that this change will help to ensure that rewards are balanced between short-term financial and long-term strategic goals. For the year ended 31 May 2013, the Executive Director bonus scheme is structured such that 75% of the maximum bonus opportunity is to be judged on financial measures (ie EPS growth) and 25% of the maximum bonus opportunity is to be judged on non-financial performance measures – more detail on which is set out in the following Directors' remuneration report.

In relation to long-term variable remuneration, the hurdle rate at which the profit before tax element of the value-sharing plan (VSP) awards vest was reviewed against a number of comparable measures by the committee, with support from Kepler Associates during the year. As a result of this review, the hurdle rate has remained unchanged at 12% per annum – more detail on which is set out in the following Directors' remuneration report.

For the forthcoming year, the committee has decided it is necessary to undertake a comprehensive and holistic review into Executive Director remuneration. This is for a number of reasons:

- The positioning of Executive Directors' salaries against their peers in a range of comparator companies
- Recent and forecasted performance of the Group
- Developing regulation in the area of executive remuneration

We intend to consult with shareholders about the nature, scope and outcome of this review over the coming year.

Remuneration regulation

The committee continues to focus on the recent developments in this area, including the government's proposals to enhance shareholder voting rights in relation to executive remuneration and to strengthen the legislation and regulation around remuneration governance. In June 2012, the government announced a package of proposed reforms to the framework for executive remuneration, and the committee will consider all of these proposed reforms when setting policy.

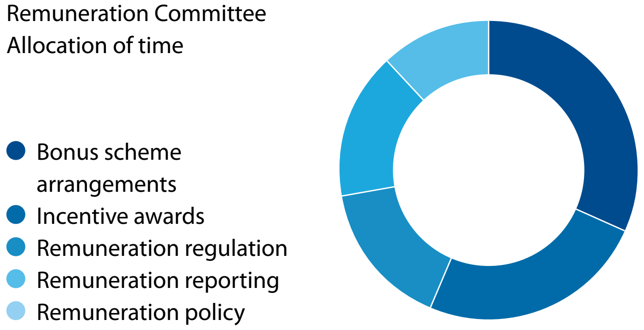
Other activities

During the year, the committee also completed the following:

- Review and approval of the 2011 Directors' remuneration report and review of the final outcome of AGM voting on the report
- Review of the annual Directors' remuneration report
- Review and approval of both the share incentive plan and the value-sharing plan offerings
- Review of the Group remuneration policy and the risk report on remuneration policy
- Review of the Group's arrangements for the implementation of the FSA Remuneration Code

The following chart highlights how the committee spent its time during the year ended 31 May 2012.

Remuneration Committee
Allocation of time



Advisors

The committee's work is supported by independent professional advice received from Kepler Associates. During the year Kepler Associates provided advice in relation to trends in executive remuneration, the Executive Directors' salaries, the Group's bonus scheme for Executive Directors and employees and the hurdle rate associated with the Group's value-sharing plan. In 2011, Kepler Associates provided remuneration benchmarking data to the Group.

The committee will continue to report transparently on all aspects of Directors' remuneration and to actively engage with shareholders when developing executive remuneration policies and structures.

Roger Yates
Chairman of the Remuneration Committee
17 July 2012

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT

Preparation of the Directors' remuneration report

The following remuneration report has been prepared on behalf of the Board by the Remuneration Committee. The committee adopts the principles of good governance as set out in the UK Corporate Governance Code, and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Act 2006 and the Directors' Remuneration Report Regulations in schedules 5 and 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

Unless otherwise stated, information and disclosures within the Directors' remuneration report are unaudited. The regulations require the Company's auditors to report on the audited information in the report and to state that this section has been properly prepared in accordance with these regulations. For this reason, the 'audited information' contained in the report is clearly identified. The Directors' remuneration report is subject to shareholder approval at the Annual General Meeting (AGM) on 18 October 2012.

Structure

Following review of the Group's remuneration report, we have separated the Directors' remuneration report into two sections. The first covers the Group's future remuneration policy; the second covers the implementation of the policy and the actual remuneration in the current reporting period.

	TITLE	EXPLANATION
Future remuneration policy	Remuneration governance	An overview of remuneration governance, and the Group's policies and principles with regard to future remuneration
	Remuneration policies that support the Group's strategy	An explanation of the alignment of the Group's remuneration policy with the Group's strategy for the wider employee base and the Executive Directors, as well as an overview of the key elements of remuneration for the forthcoming financial year
	Remuneration arrangements for Executive Directors	Detailed explanation of the elements of remuneration, including analysis of prospective remuneration for the forthcoming financial year
Actual remuneration	Implementation of remuneration policy in the current year	Detailed disclosure of the actual Executive Directors' remuneration for the year ended 31 May 2012, including audited information and an analysis of actual performance against current year remuneration targets This section also includes a distribution statement illustrating how executive remuneration compares with other dispersals of the Group
	Other remuneration disclosures	Includes other general disclosures such as Total Shareholder Return, details of Executive Directors' service contracts, interests in share capital and audited information relating to share schemes

Future remuneration policy: Remuneration governance

Remuneration policy and principles

The objective of the Remuneration Committee is to ensure that remuneration encourages, reinforces and rewards the delivery of shareholder value. As such, it has implemented a remuneration policy which provides a framework for making decisions, including those covering the remuneration of Executive Directors and Code Staff. The remuneration policy is set to ensure that remuneration remains competitive and provides appropriate incentive for performance.

The committee has agreed that all matters relating to remuneration of Group employees should:

- Align with the best interests of the Company's shareholders
- Recognise and reward good and excellent performance of employees that helps drive the sustainable growth of the Group
- Focus on retaining high-performing senior management
- Be consistent with regulatory and corporate governance requirements
- Be used to achieve effective risk management
- Be straightforward, easy for employees to understand and easy for the Group to monitor
- Not be used to reward behaviour that inappropriately increases the Group's exposure to risks
- Not guarantee variable remuneration unless the payment is exceptional, warranted and documented, and does not impact the sound and effective risk management of the Group, with additional rules applying to Code Staff

Remuneration policies that support the Group's strategy

As highlighted in the Remuneration Committee Chairman's overview, the committee has undertaken a comprehensive review of the senior remuneration framework to ensure that it is aligned to the Group's strategy and Key Performance Indicators. The senior remuneration framework, including bonus and value-sharing plans, is designed to be effective not only in delivering the required financial results, but also integrally aligned to the current business strategy and therefore the interests of the Group's shareholders.

Remuneration regulation

In accordance with the FSA's Remuneration Code (FSA Code), Code Staff are defined as the Group's employees whose professional activities could have a material impact on the Group's risk profile, and who fall into the Code Staff categories set by the FSA Code. During the financial year, Code Staff have been identified, made aware of the implications of their status and had their remuneration reviewed by the Remuneration Committee. The committee has ensured that remuneration arrangements are in accordance with the FSA Code in the following ways:

- At least 40% of variable remuneration of Code Staff is deferred over three to five years, with awards vesting no faster than on a pro rata basis (and the first vesting no earlier than one year after the award). Where the variable remuneration is more than £500,000, at least 60% is deferred
- At least 50% of variable remuneration is paid in non-cash form
- The allocation of variable remuneration takes into account all types of current and future risk
- Mechanisms are in place to adjust awarded but unvested variable remuneration, in particular where there is evidence of employees' misbehaviour or material error, or where the Company suffers material financial downturn or material failure in risk management
- Appropriate ratios of variable to fixed remuneration are set. The level of fixed remuneration is sufficient to allow no variable remuneration to be paid where appropriate
- There is a clear written remuneration policy in place, which is communicated to employees and ensures the implications of their status are understood

The disclosure of the aggregate remuneration of Code Staff is set out later in this report.

Dilution limits

Awards granted under each of the long-term incentive plan and value-sharing plan schemes are met by the issue of new shares when the options are exercised. The Group monitors the number of shares issued under these schemes and their impact on dilution limits.

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Future remuneration policy:
Remuneration policies that support the Group's strategy (continued)

Key elements of remuneration explained

At 31 May 2012 the Group employs 1,012 people in 14 countries. It is necessary to structure compensation and benefits in a way that ensures an appropriate balance between reward for short-term success and long-term growth. Compensation and benefits comprise fixed and variable elements.

The following table demonstrates the alignment of remuneration with Group strategy. It also summarises the key components of the Group's typical reward arrangements.

ALIGNMENT WITH GROUP STRATEGY	COMPONENT OF REMUNERATION	ROLE WITHIN THE REMUNERATION FRAMEWORK AND OBJECTIVE	DETAILS	APPLIES TO	KPI FOR EXECUTIVE DIRECTORS' VARIABLE REMUNERATION
SHORT TERM	**Base salary (fixed)**	To attract and retain talent by ensuring salaries are competitive to the market in which the individual is employed	Based on conditions in the relevant market and recognises the value of an individual's sustained personal performance and contribution to the business	All employees	Not applicable
	Pension arrangements (fixed)	To provide competitive retirement benefits	Percentage of salary is contributed to personal pensions	All employees	Not applicable
	Benefits (fixed)	To provide standard benefits, consistent with the Group's values	Includes private healthcare cover and health club membership	All employees	Not applicable
MEDIUM TERM	**Bonus (variable)**	To focus participants on the achievement of annual objectives, which align the Group's short-term performance with the sustainable delivery of shareholder value	Executive Directors and Code Staff: annual cash bonus subject to deferral and non-cash payment rules All other employees: specific and general staff bonus scheme determined by reference to Group, functional and individual performance measured over a single financial year	All eligible employees	Award of bonus: growth in earnings per share and non-financial measures For deferred bonus: share price performance
LONG TERM	**Value-sharing plans (variable)**	To provide Executive Directors and senior employees with total compensation opportunities that are competitive against local market practice, whilst closely aligning their interests with those of shareholders	Comprise annual awards, providing those eligible with a pre-defined number of shares for each £10.0 million of surplus shareholder value created over three years above two hurdles 50% of shares vest at the end of the three-year period and 50% are deferred for a further year	Executive Directors and senior employees	Total Shareholder Return and growth in profit before tax
	Other share plans (variable)	To provide a share incentive plan (SIP) to ensure the interests of the wider employee population are aligned with shareholders	In the UK, the Group operates a HMRC approved SIP under which matching shares are provided up to a maximum of £1,500 Similar schemes are available to employees in Australia and the USA	All eligible employees are invited to participate	Share price performance and dividend per share
	Personal shareholdings - Executive Directors	Whilst there is not a formal policy for personal shareholdings for Executive Directors within the remuneration framework, please refer to page 67 for details of personal shareholdings	Personal shareholdings are encouraged through both mandatory bonus deferral and longer-term share incentive plans	Executive Directors	Share price performance and dividend per share

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Future remuneration policy:
Remuneration arrangements for Executive Directors in future periods

Maximum potential annual remuneration package for Executive Directors

The following table shows the maximum possible remuneration package for the Executive Directors that will hold office at the 31 May 2013, if the maximum performance conditions associated with performance-related bonus and LTIP vesting are achieved.

	T A Howkins	C F Hill(1)	P G Hetherington(2)
Fixed			
Salary	426,500	298,500	256,000
Pension	63,975	44,775	38,400
Variable			
Performance-related bonus – cash element	351,000	265,667	280,000
Performance-related bonus – deferred into shares(3)	502,000	331,333	360,000
	1,343,475	940,275	934,400
Number of LTIP shares to vest in year ending 31 May 2013(4)	202,154	-	152,569

(1) Due to the timing of his appointment, C F Hill was not included in the 2009 LTIP scheme

(2) P G Hetherington is to be paid a reduced pro rata salary of £256,000 based upon a £320,000 full-time equivalent salary to reflect his flexible working arrangements. Any bonus payments made are based on his full-time equivalent salary. P G Hetherington carries out the work of a full-time Executive, but in a flexible way. While the reduced salary reflects these arrangements, the Remuneration Committee believes his workload and commitment to the business are commensurate with full-time bonus and LTIP arrangements

(3) The first £100,000 of any bonus granted, plus one third of the remainder, is to be paid in cash with the excess balance deferred for 12 months and provided in shares

(4) A final LTIP award was made in the year ended 31 May 2010 and this will vest on 25 September 2012. Details of LTIP schemes are given later in this report

Andrew MacKay, Director of Corporate Strategy, will step down from the Board with effect from 31 July 2012, as noted in the Chairman's statement and Chief Executive's review, and accordingly is not presented in the table above. Andrew's remuneration as a Director will remain at £279,450 until 31 July 2012.

Basic salary

Base salaries are set to competitive levels by reference to equivalent roles in companies selected on the basis of comparable size, geographic spread and business focus. Individual salary decisions take into account personal contribution and business performance, as well as general pay conditions of employees elsewhere in the Group.

During the financial year, the committee, with support from Kepler Associates, reviewed the salaries for Executive Directors against a comparator group of companies. Whilst the Executive Director salaries were found to be below the lower quartile of the comparator group, after giving consideration to the level of salary awards made to all of the Group's UK employees, it was decided that executive director salaries would be increased in line with inflation only. This is in line with the proposed salary increases for the Group's employees as a whole. As mentioned in the overview of the Chairman of the Remuneration Committee, it is the intention of the committee to conduct a full review of Executive Director remuneration during the course of the forthcoming year.

The Remuneration Committee approved the following salary increases for the Executive Directors effective from 1 June 2012:

	Base salary effective 1 June 2012	Base salary effective 1 June 2011	Increase
T A Howkins	£426,500	£414,000	3%
C F Hill	£298,500	£289,800	3%
P G Hetherington	£256,000(1)	£248,400(1)	3%

(1) P G Hetherington is paid a reduced pro rata salary to reflect his flexible working arrangements – as detailed earlier in this report

Pensions

The Group contributes 15% of basic salary to personal pensions for each of the Executive Directors, who also have the option to receive part, or all, of their pension entitlement in cash. The additional cash payment is counted in lieu of pension, and is not treated as base salary for the purposes of calculating other benefits, such as the cash bonus scheme. As an alternative to part-payment of a performance-related bonus or basic salary, Executive Directors may choose to receive an equivalent contribution to their pension.

The Executive Directors have elected to:

T A Howkins	Restrict pension contribution to £50,000 and receive the balance of the pension contribution as an additional cash payment
C F Hill	Receive the full pension contribution
P G Hetherington	Receive the full pension contribution as an additional cash payment

Benefits

The Group provides a range of benefits to employees, including private health cover and health club membership. The Executive Directors are entitled to participate in these non-cash benefits on equal terms with all other staff.

Performance-related bonuses

For the financial year ending 31 May 2013, the Remuneration Committee will implement changes to both the Executive Directors' and the general staff bonus scheme in order to rebalance financial and strategic goals. In doing so, the committee will incorporate both financial and non-financial measures into bonus arrangements. The Executive Director bonus scheme will be set so that 75% of the maximum award is dependent on EPS growth, and 25% of the maximum award is determined based on non-financial performance measures – for example platform reliability and availability, risk management, customer satisfaction and operational delivery. The general staff bonus scheme, which applies to the vast majority of the Group's employees, and which until now has been driven solely by revenue performance, will be changed to incorporate the same non-financial measures.

For the year ending 31 May 2013, the Remuneration Committee has also recalibrated the bonus scheme performance targets in relation to the EPS growth measure, in order to reflect business performance and economic conditions. The maximum award payable based on EPS growth is 150% of salary for EPS growth of at least 10%. Bonus payments, as a percentage of salary, increase with growth in EPS on a tiered linear scale up to the maximum award. The committee feels that the EPS targets represent an appropriate balance between a stretching target and one which is not completely unachievable given current economic conditions. The maximum award payable based on non-financial performance measures is 50% of salary. Thus the total maximum award from both financial and non-financial measures for the Executive Directors is 200% of salary.

The Remuneration Committee retains the right to reduce, but not increase, the bonuses payable, if it considers that the formulaic EPS growth measure has not produced an appropriate bonus outcome. The non-financial measure is entirely at the discretion of the committee.

In line with the final FSA Code rules on disclosure of remuneration published in December 2010, there is a deferral element in the bonus scheme. The first £100,000 of any bonus granted, plus one third of the remainder, is to be paid in cash, with the excess balance deferred for 12 months and provided in shares. The cash elements of performance-related bonuses are paid in full within three months of the year-end.

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Future remuneration policy: Remuneration arrangements for Executive Directors in future periods

Long-term value-sharing plans vesting beyond the year ending 31 May 2013

The value-sharing plan (VSP), which was approved by shareholders in 2010, comprises annual awards, providing the Executive Directors and other senior staff with a pre-defined number of shares for each £10.0 million of surplus shareholder value created over three years above a hurdle. Surplus value is calculated under two criteria:

(i) Value created from the difference between the Total Shareholder Return (TSR) of IG Group Holdings plc and that of the FTSE350 Financial Services Index, multiplied by the IG Group Holdings plc starting market capitalisation, defined as the average market capitalisation in the three months to 31 May, in the year in question

(ii) Growth in profit before taxation (PBT) multiplied by a fixed multiple determined by the IG Group Holdings plc starting market capitalisation, plus net equity cash flows to shareholders above a hurdle return. For example, for the 2011 VSP the hurdle return was 12% per annum, with the multiple being 10.753

For Executive Directors, 60% of the shares will vest on growth in market capitalisation plus net equity cash flows to shareholders (i.e. TSR), over and above the equivalent return from investing in the FTSE 350 Financial Services Index. 40% of shares will vest on growth in PBT (times a fixed multiple plus net equity cashflows to shareholders) over and above the hurdle rate.

The hurdle rate for the 2012 VSP, at which the profit before tax element of the VSP awards vest, was reviewed against a number of comparable measures, with support from Kepler Associates, by the Remuneration Committee during the year. As a result of this review the hurdle rate has remained unchanged at 12% per annum. The 60/40 ratio between TSR and PBT applies only to Executive Directors. Code Staff and other senior employees are paid on either a 50/50 TSR and PBT split or a 40/60 TSR and PBT ratio, depending on seniority and role.

The decision to split the awards on this basis was made by the Remuneration Committee (after taking advice from Kepler Associates). It was agreed that the Executive Directors are better placed to influence the performance of the Group relative to its peers.

The Remuneration Committee considers that profit before taxation (excluding impairment of goodwill and intangibles) is the best internal measure of the Group's financial performance as it is highly visible and regularly monitored and reported. The use of TSR introduces an element of relative performance into the Group's remuneration package, which is intended to protect against general stock market movements and focus more closely on the value created for shareholders by management, over and above that delivered by peers.

The blend of PBT and TSR measures provides strong alignment with shareholder interests and provides an appropriate balance between internal and external, as well as absolute and relative, performance.

For all employees, including the Executive Directors, 50% of shares vest at the end of the three-year period and 50% are deferred for a further year.

Awards made under the VSP are discussed further in note 30 to the financial statements.

Actual remuneration: Implementation of remuneration policy in the current year

This section sets out the remuneration of the Executive Directors for the year ended 31 May 2012.

Audited information

Directors' remuneration

The remuneration of the Executive Directors who served during the year was as follows:

			Performance-related bonuses(2)				
	Basic salary and fees £000	Other benefits and payments(1) £000	Paid in cash(3) £000	Deferred into shares £000	Pension elections(4) £000	Year ended 2012 £000	Year ended 2011 £000
Executive Directors:							
T A Howkins	414	1	347	472	-	1,234	460
C F Hill	290	1	255	310	-	856	302
P G Hetherington	249	1	276	337	-	863	250
A R MacKay	279	1	470	83	-	833	284
	1,232	4	1,348	1,202	-	3,786	1,296
Non-Executive Directors:							
J R Davie	180	-	-	-	-	180	160
D M Jackson	63	-	-	-	-	63	63
N B le Roux	50	-	-	-	-	50	50
R P Yates	50	-	-	-	-	50	50
D Currie	50	-	-	-	-	50	50
S G Hill	50	-	-	-	-	50	4
	1,675	4	1,348	1,202	-	4,229	1,673

(1) All Executive Directors are entitled to receive professional subscriptions, private health cover and 50% of health club membership

(2) The first £100,000 of any bonus granted, plus one third of the remainder, is to be paid in cash with the excess balance deferred for 12 months and provided in shares

(3) T A Howkins, P G Hetherington and A R Mackay were paid additional cash bonuses of £11,000, £7,000 and £8,000 respectively in relation to the LTIP awards granted on 30 September 2008

(4) Executive Directors can elect to receive pension contributions in lieu of performance-related bonuses and salary. These contributions are deducted in the remuneration table and included within pension entitlements below, inclusive of employers' National Insurance

Pension contribution

	2012 £000	2011 £000
T A Howkins	62	58
C F Hill(1)	44	4
P G Hetherington	37	74
A R MacKay	42	73
	185	209

(1) C F Hill was appointed to the Board on 26 April 2011

There were no pension contributions made for the Non-Executive Directors during the year ended 31 May 2012.

Gains made by Directors on share options

The table below shows gains made by individual Directors from the exercise of share options during the year. The gains are calculated by reference to the share price as at the respective exercise date, although the shares may have been retained.

	2012 £000	2011 £000
T A Howkins	422	1,634
C F Hill(1)	-	-
P G Hetherington	457	366
A R MacKay	385	368
	1,264	2,368

(1) C F Hill was appointed to the Board on 26 April 2011

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Actual remuneration: Implementation of remuneration policy in the current year (continued)

Linking variable remuneration to performance and strategy

The table below summarises the types of variable remuneration that have vested on the basis of the actual financial performance for the year ended 31 May 2012, alongside the actual financial performance for the period.

VARIABLE REMUNERATION MEASURE	TARGET	ACTUAL PERFORMANCE
FY12 bonus	Bonus award of 150% of basic salary is payable for EPS growth of 12%, with maximum award of 200% payable for EPS growth in excess of 15%	Actual EPS growth for the year was 14.7%, which resulted in a bonus of 195.098% of salary for each of the Executive Directors. The total performance-related bonuses payable to the Executive Directors were £2,524,000, of which £1,202,000 is subject to mandatory deferral into shares
FY11 deferred bonus	Not applicable	No bonus deferral required in FY11(1)
31 May 2009 long-term incentive plan issued on 30 September 2008	Compound annual growth in share price over the three-year period to 31 May 2011. (Base price = 306.8p)	36.36% of the share price awards vested
	Growth in diluted adjusted earnings per share over the three-year period to 31 May 2011	43.26% of earnings per share awards vested
	Awards vested on 30 September 2011	

(1) C F Hill was granted an additional bonus on appointment of £270,000, of which £113,000 was deferred into shares of the Company vesting in July 2012

An overview of the actual performance for each of the Key Performance Indicators above is detailed within the Business Review section.

Long-term incentive plans

Long-term incentive plans (LTIPs) were previously awarded to management, including the Executive Directors. LTIPs vest if specific performance targets are achieved and are conditional upon continued employment at the vesting date. Performance is measured using the compound annual growth rate in diluted adjusted earnings per share over the three-year vesting period and also share price growth over a defined six-week 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.

In order to obtain tax-favoured treatment for the participants, up to 100% of the ultimate value of the LTIP awards made in the year ended 31 May 2009, was delivered to the participants using HM Revenue and Customs (HMRC) approved options. These options had exactly the same vesting and exercise conditions as the 2009 LTIP awards. To ultimately exercise a 2009 LTIP award, a participant will have to first exercise the respective approved plan option and use the IG Group Limited shares acquired as ultimate payment for the LTIP award.

A final LTIP award was made in the year ended 31 May 2010, and this will vest on 25 September 2012 with the same conditions as explained above for the 2009 LTIP award.

Distribution statement

The table below, in line with the proposals set out in the Executive Remuneration discussion paper published by the Department for Business Innovation & Skills, is a distribution statement illustrating how executive remuneration compares with other dispersals of the Group.

Total executive remuneration including base salary, other benefits, current year bonus (including amounts deferred) and pensions for the four Executive Directors was £4.0 million for the year ended 31 May 2012.

Comparator distribution	Amount paid in the year ended 31 May 2012 £m	Distribution percentage(1)
Dividends (interim paid and final declared dividend for 2012)	81.6	4. 9%
Corporate taxation paid (refer to the Group cash flow statement)	57.6	6.9%
Total remuneration costs (refer to note 8 of the financial statements)	92.7	4.3%
Capital investment (refer to the Group cash flow statement)(2)	9.1	44.0%

(1) The distribution percentage is calculated as the total remuneration for the Executive Directors divided by the comparator distribution amount

(2) Capital investment calculated as the total cash outflow in relation to property, plant and equipment and intangible assets for the year ended 31 May 2012

Other remuneration disclosures

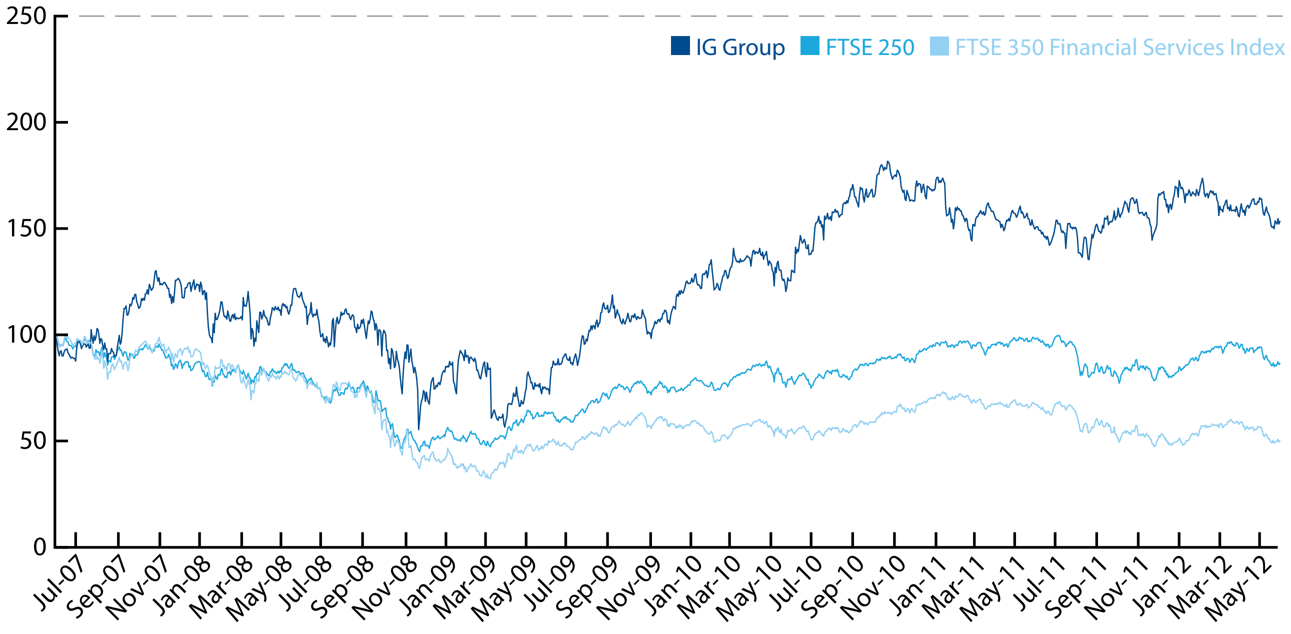
Total Shareholder Return

The following graph illustrates the performance of IG Group Holdings plc ordinary shares measured by Total Shareholder Return (share price growth plus dividends paid) in the five-year period from 1 June 2007.

The Directors consider the most appropriate benchmarks to be:

- The FTSE 250 as it represents a broad equity market index of which the Company is a constituent member
- The FTSE 350 Financial Services Index, given this is the benchmark index for the Group's value-sharing plan

The figures have been rebased to 100 at 1 June 2007 in order to aid comparison.



Interests in share capital

The Directors who served during the year and their beneficial interests in the share capital of the Company were as follows:

	31 May 2012 Ordinary shares	31 May 2012 Preference shares	31 May 2011 Ordinary shares	31 May 2011 Preference shares
J R Davie	400,000	-	530,000	-
T A Howkins	3,891,389	10,000	3,800,000	10,000
P G Hetherington	256,012	10,000	200,833	10,000
A R MacKay	574,251	10,000	494,690	10,000
D M Jackson	-	-	-	-
N B le Roux	-	10,000	75,000	10,000
R P Yates	25,000	-	25,000	-
D Currie	-	-	-	-
C F Hill	-	-	-	-
S G Hill	111,736	-	-	-

The market price of the Company's ordinary shares on 31 May 2012 was 433.1p and the high and low share prices in the year were 502.5p and 393.6p respectively.

The Directors' interests in share capital have remained unchanged between the year-end and the date of the Annual Report.

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Other remuneration disclosures (continued)

Audited information

Interests in value-sharing and long-term incentive plans

	Award date	Share price at award date	Number as at 31 May 2011	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2012
T A Howkins							
Earnings per share award	23 Jul 07	312.25p	151,672	-	-	-	151,672
Share price growth award	23 Jul 07	312.25p	11,701	-	-	-	11,701
Earnings per share	30 Sep 08	313.75p	174,917	-	(99,248)	(49,654)	26,015
Share price growth award	30 Sep 08	313.75p	174,918	-	(111,318)	(41,735)	21,865
Earnings per share award	25 Sep 09	318.80p	166,248	-	-	-	166,248
Share price growth award	25 Sep 09	318.80p	166,249	-	-	-	166,249
Value-sharing profit award – 3 year	29 Oct 10	528.50p	117,511	-	-	-	117,511
Value-sharing profit award – 4 year	29 Oct 10	528.50p	117,512	-	-	-	117,512
Total Shareholder Return award – 3 year	29 Oct 10	528.50p	176,267	-	-	-	176,267
Total Shareholder Return award – 4 year	29 Oct 10	528.50p	176,268	-	-	-	176,268
Value-sharing profit award – 3 year	20 Jul 11	450.00p	-	167,099	-	-	167,099
Value-sharing profit award – 4 year	20 Jul 11	450.00p	-	167,098	-	-	167,098
Total Shareholder Return award – 3 year	20 Jul 11	450.00p	-	250,648	-	-	250,648
Total Shareholder Return award – 4 year	20 Jul 11	450.00p	-	250,648	-	-	250,648
			1,433,263	835,493	(210,566)	(91,389)	1,966,801

	Award date	Share price at award date	Number as at 31 May 2011	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2012
C F Hill							
Value-sharing profit award – 3 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Value-sharing profit award – 4 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Total Shareholder Return award – 3 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
Total Shareholder Return award – 4 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
			-	501,296	-	-	501,296

	Award date	Share price at award date	Number as at 31 May 2011	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2012
P G Hetherington							
Earnings per share award	30 Sep 08	313.75p	105,611	-	(59,924)	(45,687)	-
Share price award	30 Sep 08	313.75p	105,611	-	(67,211)	(38,400)	-
Earnings per share award	25 Sep 09	318.80p	125,471	-	-	-	125,471
Share price growth award	25 Sep 09	318.80p	125,471	-	-	-	125,471
Value-sharing profit award – 3 year	29 Oct 10	528.50p	73,445	-	-	-	73,445
Value-sharing profit award – 4 year	29 Oct 10	528.50p	73,445	-	-	-	73,445
Total Shareholder Return award – 3 year	29 Oct 10	528.50p	110,167	-	-	-	110,167
Total Shareholder Return award – 4 year	29 Oct 10	528.50p	110,168	-	-	-	110,168
Value-sharing profit award – 3 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Value-sharing profit award – 4 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Total Shareholder Return award – 3 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
Total Shareholder Return award – 4 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
			829,389	501,296	(127,135)	(84,087)	1,119,463

	Award date	Share price at award date	Number as at 31 May 2011	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number as at 31 May 2012
A R MacKay							
Earnings per share award	30 Sep 08	313.75p	125,413	-	(71,160)	(54,253)	-
Share price award	30 Sep 08	313.75p	125,413	-	(79,813)	(45,600)	-
Earnings per share award	25 Sep 09	318.80p	144,291	-	-	-	144,291
Share price growth award	25 Sep 09	318.80p	144,292	-	-	-	144,292
Value-sharing profit award – 3 year	29 Oct 10	528.50p	73,445	-	-	-	73,445
Value-sharing profit award – 4 year	29 Oct 10	528.50p	73,445	-	-	-	73,445
Total Shareholder Return award – 3 year	29 Oct 10	528.50p	110,167	-	-	-	110,167
Total Shareholder Return award – 4 year	29 Oct 10	528.50p	110,168	-	-	-	110,168
Value-sharing profit award – 3 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Value-sharing profit award – 4 year	20 Jul 11	450.00p	-	100,259	-	-	100,259
Total Shareholder Return award – 3 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
Total Shareholder Return award – 4 year	20 Jul 11	450.00p	-	150,389	-	-	150,389
			906,634	501,296	(150,973)	(99,853)	1,157,104

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' REMUNERATION REPORT (continued)

Other remuneration disclosures (continued)

Audited information

Code Staff aggregate remuneration

The aggregate remuneration of senior management and Code Staff, whose actions have a material impact on the risk profile of the Group, are disclosed in the following table:

	Executive Directors £000	Other Code Staff £000	Total £000
Fixed remuneration	1,417	1,017	2,434
Variable remuneration	2,550	820	3,370(2)
Share-based payment schemes(1)	6,141	2,426	8,567
Number of staff	4	7	11

(1) Represents the fair value at the date of award and not the actual gain made on exercise of share-based payments or the income statement charge taken in the period

(2) Of the total amount disclosed £1,268,000 has been subject to mandatory deferral

Service contracts

Each of the Executive Directors is employed under a service contract with IG Group Limited (a wholly-owned intermediate holding company) for the benefit of the Company and the Group. Either the Company or the Executive Director may terminate this contract on six months' notice. All service contracts are continuous, and contractual termination payments relate to the unexpired notice period. In the event of termination for gross misconduct, neither notice nor a payment in lieu of notice will be given. When considering payments in the event of termination, the Remuneration Committee takes into account individual circumstances. Relevant factors include the reasons for termination, contractual obligations and cash, share and long-term incentive plan and pension plan rules. There are no special provisions for compensation in the event of loss of office. The effective dates of the service contracts for each of the Executive Directors as at the date of this report are:

T A Howkins	12 April 2005
C F Hill	18 January 2011
P G Hetherington	12 April 2005
A R MacKay	12 April 2005

Group Chairman and Non-Executive Directors

The Non-Executive Directors do not have service contracts with the Company, but instead have letters of appointment under which they receive fees reflecting their individual responsibilities and membership of Board committees. Each Non-Executive Director is appointed for an initial term of twelve months, with appointment continuing indefinitely subject to re-election, but capable of being terminated on three months' notice.

The Remuneration Committee determines the fees for the Group Chairman and the Board is responsible for the Non-Executive Directors' fees. The Non-Executive Directors are not involved in any discussions or decisions by the Board about their own remuneration. The Group Chairman and other Non-Executive Directors will receive an inflationary increase in fees for the year ending 31 May 2013.

On behalf of the Board

Christopher Hill
Chief Financial Officer
17 July 2012

AUDIT COMMITTEE

Martin Jackson, Chairman of the Audit Committee, gives his review of the committee's activities during the financial year

Chairman's overview

During the year, the Audit Committee carried out its responsibilities to review results and formal announcements of the Group, and also reviewed the risk management framework and system of internal controls. Given the importance of managing the appropriate segregation of client monies, the committee applied additional focus to this area as well as giving further consideration to the audit/non-audit policy with regard to using professional advisers and the Group's Auditors.

Audit Committee – membership and attendance

	Scheduled meetings eligible to attend	Scheduled meetings attended
Chairman of Audit Committee		
Martin Jackson	4	4
Independent Non-Executive Directors		
David Currie	4	4
Roger Yates	4	4

All Audit Committee members are independent Non-Executive Directors who can draw on considerable, recent, financial services experience.

The Chief Financial Officer, Group Financial Controller, Head of Internal Audit, Global Head of Legal and Compliance, Head of UK Compliance, Company Secretary and the external auditors attend the Audit Committee by invitation appropriate to the matters under consideration. Other Directors, representatives from the finance function and other areas of the business attend the Audit Committee as necessary.

The committee normally meets four times a year and as and when required. Members of the committee also meet privately in separate meetings with the Head of Internal Audit, Head of Compliance and external auditors to focus on respective areas of responsibility and to discuss any potential issues where support from the committee may be required to address any issues arising.

Role of the Audit Committee

The responsibilities of the committee are to:

- Monitor the integrity of the financial statements of the Group including Annual and Interim Reports, Interim Management Statements, Trading Updates and any other formal announcements relating to the Group's financial performance, reviewing significant issues and judgements included
- Keep up-to-date with changes to accounting standards and review any changes to accounting polices each year
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process
- Consider and make recommendations to the Board on appointing, re-appointing and removing the Company's external auditors, which are subject to shareholder approval
- Review the effectiveness of the Group's internal control and risk management systems
- Monitor and review the effectiveness of the internal audit function, with focus on the three-year rolling risk-based audit plan
- Review implementation of the FSA's Treating Customers Fairly (TCF) requirements
- Review the compliance systems and controls to ensure that adequate procedures are in place to comply with regulatory obligations
- Ensure that there are suitable whistle-blowing arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters

The Company Secretary drafts the agenda for each committee meeting, ensuring that each item in the terms of reference is covered at least once in the financial year, and more frequently if required.

Activity during the financial year

In addition to discharging its responsibilities as described above, the committee focused on the following key areas:

Client money

High profile failures such as MF Global and Worldspreads have highlighted the importance of appropriate segregation of client monies. In addition, during the year, the Financial Services Authority (FSA) introduced additional rules in this area, namely the requirement for firms to appoint an approved person who is directly responsible for the application of appropriate controls over segregation and for reporting of client money positions to the regulator. To meet this requirement, the Group has set up a Client Money Committee, as reported in the following pages, and the Audit Committee reviewed its terms of reference and the work performed by internal audit in support of key processes and controls relating to segregation.

CORPORATE GOVERNANCE REPORT (continued)

AUDIT COMMITTEE (continued)

Activity during the financial year (continued)

Non-audit fees

The Group audit was put to tender in the year ended 31 May 2011, and the successful completion of the tender process resulted in both the appointment of PricewaterhouseCoopers and an overall reduction in the audit fee. During the year, PricewaterhouseCoopers has completed non-audit services that commenced or related to work performed by them prior to their engagement as Auditors, and has been engaged to perform additional non-audit related work. The committee has carefully reviewed the nature of all non-audit work performed by the auditors, to ensure that under no circumstances has work been performed which affects their independence.

Detail of the Group's audit-related fees of £409,000 and other fees payable to auditors of £1,099,000 for the year ended 31 May 2012 are disclosed in note 7 to the financial statements. Other fees payable to auditors include £386,000, £270,000 and £248,000 in relation to transfer pricing, tax compliance and sales tax advice respectively.

This year, the committee has also updated the Group's policy governing non-audit work. This updated policy was developed with reference to the Smith report, the APB Ethical Standard 5 Non-Audit Services Provided to Audit Clients and the ICAEW Guidance for Audit Committees. The amended policy makes a distinction between 'audit-related services' and all other 'non-audit services'. This distinction is important as 'audit-related services' are specifically required of the Group's Auditor through regulatory, legislative or contractual requirements, in addition to the statutory audit services.

Anti-bribery policy

In response to the UK Bribery Act, which came into force on 1 July 2011, the committee oversaw the implementation of the Company's anti-bribery compliance programme. This involved undertaking a comprehensive assessment of the nature and extent of the risks relating to bribery to which the Company is exposed, and introducing both an Anti-Bribery Policy and a Gifts and Hospitality Policy. The committee ensured that the compliance programme was adequately communicated to all employees, and continues to monitor and review the Company's commitment to compliance with the UK Bribery Act on an ongoing basis.

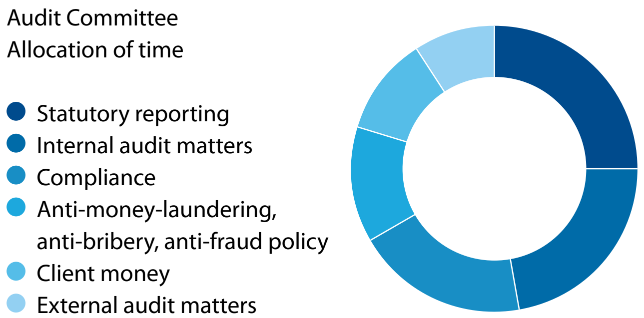
Compliance

The Audit Committee has continued to monitor the work of the compliance department during the financial year, with a focus on both conduct and prudential monitoring of all areas of the Group, as well as client money and transaction reporting and the Group's development of consumer outcome initiatives such as Treating Customers Fairly. The compliance department regularly reports to the Audit Committee in relation to regulatory developments.

Internal audit

During the financial year, the committee reviewed the reports and recommendations of the internal audit function, including the three-year rolling risk-based internal audit plan made up of a mixture of different types of internal audits, which provides adequate coverage across the Group and ensures an appropriate focus to each audit. The themes from the internal audit work completed during the financial year were a focus on client money, internal audits of overseas offices and support functions. In addition, the committee monitored the progress on the implementation of the audit recommendations raised by the internal audit function.

The following chart highlights how the committee spent its time during the year ended 31 May 2012.


Audit Committee
Allocation of time

Martin Jackson
Chairman, Audit Committee
17 July 2012

RISK COMMITTEE

The Risk Committee is an executive committee chaired by the Chief Risk Officer. The committee meets weekly to ensure that it deals with issues as they arise. This reflects the corporate commitment of senior management to play an active role in day-to-day risk management decision making, and sets the tone across the Group that risk management is central to corporate culture. The Board receives copies of the Risk Committee minutes.

The Risk Committee comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Dealing and Operations Director, the Chief Risk Officer and other members of the Risk function. In addition, Roger Yates, Senior Independent Non-Executive Director, attends the committee meetings periodically. Other members of staff may also be called on to attend, when the committee is discussing specific matters appropriate to them.

Overview of the financial year

During the year the committee focused heavily on the impact of economic events and volatile markets on the risk profile of the business. Consequently, the continuing problems in the Eurozone, specifically the impact on its banks and the future of the currency, has dominated much of the committee's agenda. The committee has focused particularly on the strength of bank and broking counterparties and monitoring client credit exposures as a result.

Role of the Risk Committee

The committee's main responsibilities are to:

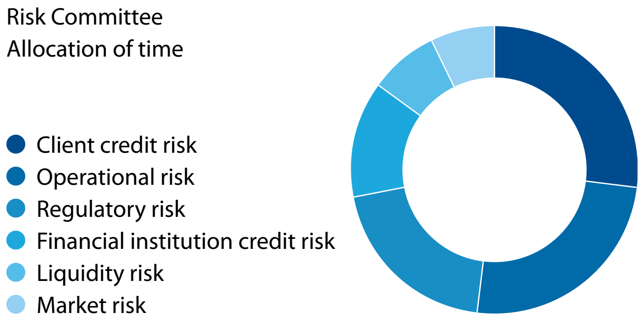
- Identify and evaluate the different risks to which the Group is exposed and assist the Board in defining the risk appetite of the Group
- Ensure that infrastructure, resources and systems are in place to adequately monitor and control the Group's risks, in line with the risk appetite set by the Board
- Review the design, completeness and effectiveness of the Risk Management Framework
- Review the effectiveness of risk reporting (including timeliness and risk events)
- Consider and review developments and prospective changes in the regulatory environment, including the Group's plans to influence future regulatory policies
- Ensure that all strategic transactions undergo appropriate due diligence before submission to the Board; particular focus is given to risk appetite

Activity during the financial year

During the year, the committee monitored the overall level of risk faced by the Group and reviewed the design and operating effectiveness of the Risk Management Framework. This included a review of:

- Market and credit stress-testing and impact on liquidity
- Financial institution credit risk
- Individual client credit exposures
- Product margins and tiered margin structure
- Operational risk registers and Key Risk Indicators
- The impact of a potential euro break-up and mitigating actions
- Regulatory issues and developments

The following chart highlights how the committee spent its time during the year ended 31 May 2012.


Risk Committee
Allocation of time

CORPORATE GOVERNANCE REPORT (continued)

CLIENT MONEY COMMITTEE

The Client Money Committee is an executive committee. The committee meets fortnightly and is chaired by the Chief Financial Officer. It is attended by the Chief Risk Officer, the Group Head of Legal and Compliance, the Group Financial Controller and members of the risk, finance, compliance and other business functions.

Overview of the financial year

The Client Money Committee was set up during the year to monitor the design and effectiveness of the Group's framework of processes and controls for segregating client monies. Regulatory authorities have placed an increased emphasis on client money segregation and, in particular, the FSA requires all firms to designate a named individual who is responsible for overseeing that firm's processes for segregating client funds. In addition, the Group is required to provide monthly reporting to the FSA on a number of client money related metrics.

Furthermore the Group has engaged PricewaterhouseCoopers (PwC LLP) to provide independent assurance on our client asset segregation processes and controls, so that it may reassure customers as to the control environment over money held by the Group on their behalf. The final report will be available to clients. This assurance work is over and above PwC LLP's reporting requirements to the Group's various regulators.

Role of the Client Money Committee

The main responsibilities of the committee are to:

- Ensure that internal systems, controls, processes and procedures are operating effectively to maintain and safeguard the protection and segregation of client money
- Ensure compliance with applicable legislation concerning the protection and segregation of client money
- Review the accuracy and timeliness of the FSA client money reporting
- Review any breaches of client money legislation and ensure that process and controls are appropriately rectified
- Monitor daily client money reports prepared by the finance department
- Respond to consultation papers that relate to client money
- Implement appropriate client money and asset resolution packs required for each FSA-regulated entity, and subsequently oversee their ongoing maintenance
- Review and respond to issues raised by external auditors in connection with regulatory audits of client money and assurance reports over controls and their operation

Activity during the financial year

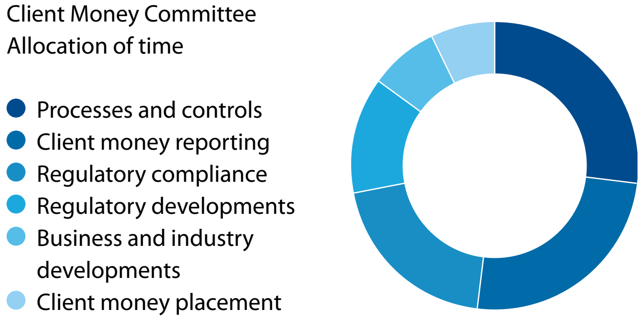
The committee's main activities during the financial year included:

- Review of global client money regulatory requirements
- Review of processes and controls over client money segregation in each regulatory jurisdiction
- Review of external auditor opinions on client money
- Review of internal audit reports on client money
- Design and implementation of management processes required to monitor and complete FSA client money reporting
- Review of financial institution counterparty risk on banks holding client money
- Review of the implications of the failure of a bank holding client money

The activity of the Client Money Committee is reported to the Risk Committee on an annual basis. If necessary, the Chairman of the Risk Committee will provide a report to the Board and/or the Audit Committee on any pertinent issues.

The following chart highlights how the Committee spent its time during the year ended 31 May 2012.

Client Money Committee
Allocation of time



DIRECTORS' STATUTORY REPORT

The Directors are pleased to submit their report together with the Group financial statements for the year ended 31 May 2012.

Relations with shareholders

The Board recognises the importance of communications with shareholders. The Chairman's statement, Chief Executive's review and the Operating and Financial Review include detailed reviews of the business and future developments. There is regular dialogue with institutional shareholders, including presentations by management around the time of the Group's preliminary announcement of the year-end results and at the half-year. These presentations are made available on the Group's website at www.iggroup.com, which also provides information to shareholders and prospective shareholders. Feedback is provided to the Board following these investor presentations of any views or concerns expressed by shareholders.

The Board uses the Annual General Meeting (AGM) to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that all of the Directors, including the Chairmen of the Remuneration and Audit Committees, are available at the AGM to answer questions. The Annual Report and notice of the AGM are sent, or made available on the Group's website at www.iggroup.com, to the shareholders at least 20 working days prior to the meeting being held.

Roger Yates, the Senior Independent Director, is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through other mechanisms for shareholder communication.

The Chairman and the Senior Independent Director provide feedback to the Board of any views or concerns expressed to them by shareholders.

Risk management and internal controls

The Group is exposed to a number of business risks in providing products and services to its clients. The Board is responsible for establishing the overall appetite for these risks, which is detailed and approved in the risk appetite statement. The Risk Management Framework is supported by a system of internal controls that is designed to embed the management of business risk throughout the Group. Both the risks to which the Group is exposed and the Risk Management Framework are outlined in the Managing Our Business Risk section of the business review.

Internal control

Management has designed and implemented a system of internal control to manage, rather than eliminate, the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal controls over financial reporting are carried out under the supervision of the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board (IASB).

Internal controls over financial reporting focus on the most material financial statement items and include policies and procedures that pertain to the maintenance of records that:

- Fairly reflect transactions and dispositions of assets, accurately and in reasonable detail
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS
- Ensure that receipts and expenditures are being made only in accordance with authorisations by management and the Directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements

The Annual Report is reviewed by the Audit Committee and the Board prior to publication.

Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Review of risk management and internal controls

The Risk Management Framework has been in place for the full year under review and up to the date of approval of the Annual Report, and is in accordance with the Turnbull guidance, Internal Control: Revised Guidance for Directors on the Combined Code, published by the Financial Reporting Council.

The Board and Audit Committee have reviewed the design and effectiveness of managements' system of internal control covering financial, operational and compliance controls and risk management systems. No significant weaknesses were identified during this review.

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' STATUTORY REPORT (continued)

Accountability and audit
A statement of the Directors' responsibilities in respect of the financial statements is set out immediately prior to the financial statements, and a statement regarding the use of the going concern basis in preparing these financial statements is given later in this report.

The independent Auditors' report, which sets out the Auditors' reporting responsibilities, is also given immediately prior to the financial statements.

Principal activities
An overview of the principal activities of the Group is provided in the business review.

Operations outside the United Kingdom
In line with strategic objectives, the Group has branches in each of Australia, South Africa, France, Germany, Italy, Luxembourg, the Netherlands, Portugal, Spain and Sweden.

Review of business and future developments
A review of the Group's progress, outlining developments during the year and giving an indication of future developments, is provided in the business review. The business review also covers an analysis of the financial position of the Group at the year-end and Key Performance Indicators.

Results
The Group's statutory profit for the year, after taxation amounted to £136,760,000 (2011: loss of £25,292,000), of which a profit of £136,792,000 (2011: loss of £25,453,000) is attributable to the equity members of the Company.

Related party transactions
Details of related party transactions are set out in note 34 to the financial statements.

Subsequent events
On 17 July 2012, Andrew MacKay, Director of Corporate Strategy, announced his decision to step down from the Board with effect from 31 July 2012, as noted in the Chairman's statement and Chief Executive's review.

Dividends
The Directors recommend a final ordinary dividend of 16.75 pence per share, amounting to £60,769,000, making a total of 22.5 pence per share and £81,628,000 for the year. Dividends are recognised in the financial statements in the year in which they are paid, or in the case of a final dividend, when approved by the shareholders. The amount recognised in the financial statements, as described in note 14, is made up of this financial year's interim dividend and the final dividend from the previous year, which were both paid during the financial year.

The final ordinary dividend, if approved, will be paid on 23 October 2012 to those shareholders on the register at 21 September 2012.

Directors and their interests
Biographical details of the Directors who held office at the end of the year are given at the beginning of this Corporate Governance Report. Details of the service contracts for those Directors and the Directors' interests in the share capital of the Company are set out in the Directors' remuneration report.

Share capital
Details of the Company's equity and preference share capital are given in notes 27 and 26 respectively to the financial statements. Details of the Group's required regulatory capital are disclosed in note 37 to the financial statements and in the Operating and Financial Review.

The Group purchases its own shares in order to satisfy awards under the Group's share incentive plan schemes and the Group issues shares in respect of long-term incentive plan and value-sharing plan schemes. Details of the shares held by the Group's Employee Benefit Trusts and the amounts paid during the year are disclosed in note 28 to the financial statements.

Major interests in shares
Notifications shown below have been received by the Company of shareholdings of three percent or more of the issued ordinary share capital:

	As at 17 July 2012		As at 31 May 2012	
	Number of shares	%	Number of shares	%
Black Rock Inc.	18,569,298	5.11	18,569,298	5.11
Cantillon Capital Management LLC	18,219,714	5.01	18,219,714	5.01
Massachusetts Financial Services Company	18,150,880	5.00	18,150,880	5.00
Investec Asset Management Limited	17,863,943	4.92	17,863,943	4.92
Ameriprise Financial Inc. and its group	17,774,188	4.89	17,774,188	4.89
Standard Life Investments Limited	17,564,421	4.83	17,564,421	4.83
Artemis Investment Management Limited	16,555,321	4.56	16,555,321	4.56
JP Morgan Chase & Co	15,830,307	4.36	15,830,307	4.36
Legal and General Group plc	14,287,840	3.93	14,287,840	3.93
Ignis Investment Services Limited	11,851,906	3.26	11,851,906	3.26
Prudential plc	11,066,417	3.05	11,066,417	3.05

Change of control
Following any future change of control of the Company, the Group's banking facilities, which are currently undrawn (refer to note 36 of the financial statements), will be cancelled and any obligations will become immediately due and payable.

Annual General Meeting
The Group's Annual General Meeting will be held on 18 October 2012. Details of the resolutions to be proposed at the Annual General Meeting are set out in a separate circular sent to all shareholders.

Registered number
The registered number of IG Group Holdings plc is 04677092.

Conflicts of interest
In accordance with the Companies Act 2006, all Directors must disclose both the nature and extent of any potential or actual conflicts with the interests of the Company. The articles of association allow the Board to authorise potential conflicts that may arise and to impose such conditions or limitations as it sees fit. There were no conflicts of interest raised in the year.

Insurance and indemnities
The Group purchases appropriate liability insurance for all Directors and officers.

Supplier payment policy and practice
The Group does not follow any stated code on payment practice. It is the Group'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 were 4.9 creditor days of suppliers' invoices outstanding at the year-end (2011: 5.5) for the Group.

Donations
The Group made no political donations in the year (2011: £nil). The Group made charitable donations of £56,667 in the year (2011: £119,036) as follows:

	£
Employee-matched giving (various causes)	8,676
Everest Challenge	2,000
Volunteer Reading Help	3,000
The Red Cross	1,339
Shakespeare's Globe	2,500
Specialist schools	30,000
Other	9,152
	56,667

Independent auditors
A resolution to re-appoint the Group's Auditors, PricewaterhouseCoopers LLP, will be put to shareholders at the forthcoming AGM on 18 October 2012.

Going concern
The Directors have prepared the financial statements on a going concern basis, which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have reviewed the Group's processes to control the financial risks to which the Group is exposed, its available liquidity, its regulatory capital position and the annual budget. As a result of this review, the Directors have a reasonable expectation that the Group 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.

Directors' statement as to disclosure of information to auditors
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the Auditors in connection with preparing their report, of which the Auditors are unaware. Each Director has taken all the steps that he is obliged to take as a Director in order to make him aware of any relevant audit information and to establish that the Auditors are aware of that information.

CORPORATE GOVERNANCE REPORT (continued)

CORPORATE SOCIAL RESPONSIBILITY

Business standards

We recognise the fundamental importance of a reputation for honesty and transparency in the financial services industry, and commitment to these values is a cornerstone of our success. The Group applies high standards across its businesses, and we also support and adhere to high standards of corporate governance – as set out in the Corporate Governance Report and the statement by the Directors in compliance with the Combined Code.

Our commitment to high standards is embodied within each of the following service offerings and behaviours:

Commitment to Treating Customers Fairly (TCF)

- As set out in the business review, we are fully committed to the FSA's Treating Customers Fairly (TCF) initiative and have developed a scorecard of measures to monitor how we treat our clients
- Central to the Group's TCF policy is the quality of our order execution. We offer near-instantaneous execution, with around 99% of client orders accepted automatically. We never re-quote prices and, within our set margin of tolerance, we will accept orders even if the market moves. Our innovative price-improvement technology enables customers to receive a better price if one becomes available as a trade is executed

Client support and education

- We provide extensive educational resources for clients, including enrolling new clients on our introductory education programme, TradeSense, promoting responsible trading, and a wide range of client seminars and webinars, available online and in person

Client suitability

We have a number of procedures to ensure that our products reach the right audience and that our clients understand how our products work:

- Our products are not suitable for everyone. It is for this reason that we apply strict rules to ensure that we only promote our products to the right audience. We also apply strict rules to ensure that any promotion is clear, fair and not misleading, and contains a balanced description of risks alongside the benefits of our product
- Before we allow clients to open an account, we will undertake an assessment to determine whether our products are appropriate or suitable for the client in question. This involves asking the client about their trading knowledge and experience and about their income and savings. Based on the results of this assessment, we may choose to provide the client with a warning about the appropriateness of the account or we may decline to open an account

Limiting client losses

- We have a number of service offerings that aim to limit client losses: for example, we offer clients the ability to attach guaranteed stops to positions so that the maximum possible loss to the client is known at the outset of the trade. Additionally, our close-out monitor (COM), which automatically liquidates client positions where their margin has been significantly eroded, also aims to limit potential client losses. At 31 May 2012 98.8% of all client accounts are either subject to guaranteed stops or the automatic COM procedure. Further details are set out in note 36 to the financial statements

Protection of our clients' data and funds

- We prioritise the security of our clients' information and funds and have achieved the ISO 27001 certificate for Information Security
- We segregate all funds for individuals, whether required by regulation or not

Client services

Impeccable client service is at the heart of our commitment to the responsible treatment of all our clients. Our large team of highly-trained, dedicated client service staff delivers a professional and responsive value-based approach to client service.

Our people

The Group is rapidly growing and provides a fast-moving and successful working environment. The Group has over 1,000 employees working in 14 countries globally. Our employees take pride in what we have achieved and have a strong sense of belonging.

The Group appreciates that the quality of its employees is crucial to the success of the business, and offers competitive packages to recognise past performance and retain key talent in the future. The Group pays performance-related bonuses to most staff and makes awards under long-term incentive and value-sharing plans to key personnel. In addition, the opportunity to acquire shares under various share incentive plans has been made available to all UK, Australian and US staff. We also provide a range of other benefits to employees, including pension contributions, where in the UK the Group contributes up to 10% of the employee's basic salary to the employee's pension, as long as the employee contributes 5% of their salary (if the employee chooses to contribute less than 5%, the Group will contribute double the individual rate).

During the year the Group carried out an employee survey with a 58% response rate. Of those who completed the survey, 75% said they were very happy or happy in their jobs, and the Group received a Net Promoter Score of 19, significantly above the industry norm of 10. For those areas where issues were noted, development plans have been formulated to address these and the progress made will be monitored by department heads. A further survey was commissioned in June 2012 and the Group has committed to run an annual employee engagement survey going forwards.

The Group is keen to support the continuing personal and professional training and development of its staff, and encourages attendance on external and industry recognised training courses, sponsors staff to undertake a programme of formal education and professional qualification, and often offers internal secondments. The Group spent £409,000 on training in the financial year ending 31 May 2012.

The Group is further committed to developing high-calibre employees through offering a graduate scheme in trading services and IT, and from September will further develop this offering through launching a finance graduate scheme.

During the year, we have introduced a detailed career development plan at all levels of the organisation, defining roles and responsibilities at each career level, and also introduced a mentoring program.

Employee involvement

We take pride in being an open, non-hierarchical organisation with direct and open access amongst all teams and at all levels. The Chief Executive Officer leads a quarterly management forum which is recorded and broadcast to our overseas offices.

Employees participate directly in the success of the business through the Group's performance-related bonus schemes and employee share plans, and we regularly have around 35 to 40% of eligible employees participating in our share incentive plan. Bonus payments are based on a communal pool driven by the overall profitability of the company. The pool is first apportioned by department, and then the discretionary payment is distributed to individuals, based upon their performance, by department heads.

Top employer

Our positive working culture was recognised when IG was named one of Britain's Top Employers for the fifth year running in 2012. The award, by the Corporate Research Foundation, was based on a strong performance in each of the surveyed categories: pay and benefits, training and development, corporate culture, and particularly in career development.

Equality and diversity

We are an equal opportunities employer and have extensive human resource policies in place to ensure that employees can expect to work in an environment free from discrimination and harassment.

It is therefore key to our success that we reinforce the need to treat all employees fairly, with dignity and without any unlawful discrimination. We are committed to creating a work environment free of harassment and bullying, where everyone is treated with dignity and respect.

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. 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.

Society

We are keen to encourage employees to engage in activities that help their development and support local communities. For example, we match any funds employees have raised for sponsored events. A summary of our charitable donations, including the employee matched giving, is provided in the Directors' statutory report.

We also work with the Charities Aid Foundation (CAF) to allow employees to operate a charity fund and contribute directly to selected charities from gross earnings directly from their monthly pay.

The Group not only continues to support charities through the giving of money, but also through the provision of time and resource. Our absence management policy offers the opportunity for employees to take up voluntary work, for which we grant additional leave on a like-for-like basis up to a maximum of five matched days per annual leave year.

Additionally, the Group was this year proud to introduce a volunteering scheme with Volunteer Reading Help, a national registered charity with 17 regional branches that gives one-to-one literacy support to children in primary schools in the most deprived areas of England. Reading helpers volunteer once a week for an hour, and commit for a minimum of one year to work with the same children each week.

We are further committed to expanding our volunteer offerings by signing up from Autumn 2012 to be a member of City Action, a partnership scheme which enables City-based businesses to share skills with community organisations and social enterprises in the City and neighbouring boroughs through volunteering.

CORPORATE GOVERNANCE REPORT (continued)

CORPORATE SOCIAL RESPONSIBILITY (continued)

Health and safety

The Group believes that its employees are one of its most valuable assets, and therefore is committed to providing each employee with a safe and healthy working environment. Health and safety is an integral part of our business, and by providing key members of staff with the relevant external training and all other staff with the relevant in-house training, this ensures compliance with all statutory health and safety requirements. Details of all incidents, no matter how small, are held on the HR database. There were no reportable incidents in the year.

Wellbeing

We are fully committed to our employee's health and wellbeing, and the benefits provided to all employees include private medical cover, permanent health insurance and life assurance. Additionally, we reimburse 50% of the costs of employees' annual gym subscriptions (to a specified amount) for all UK, Australian and European employees. We further show commitment to the health of our staff by providing free fruit on a daily basis and offering flu vaccinations to all UK staff.

The Group encourages cycling, through providing savings on bikes under the government-backed cycle to work initiative, and offers free-of-charge bicycle parking in our London office.

The Group encourages involvement with team sport and there are IG football, netball and rugby teams. We also supported the Six in the City, a competition run by Chance to Shine, a charity supporting education through cricket.

During the year, we introduced a confidential employee assistance programme which provides a 24/7 impartial telephone counselling service to all our European office employees and their immediate families, offering impartial advice on all matters from housing to personal finance.

Operations and environment

As a business which conducts nearly all of its client trades online, we do not see ourselves as a significant emitter of environmentally-harmful substances. However, we do understand that our operations have an impact on the environment and take steps to manage this.

Energy consumption and carbon management

We have taken steps to minimise the impact of our offices on the environment. These include the installation of automated sensor lighting and air conditioning, both of which minimise energy usage when offices are not in use.

With the encouragement of employees, we have also improved our recycling facilities, including IT equipment.

At our London offices we have started the ISO 14001 process, which will help us to assess, minimise and continually improve how our operations negatively affect the environment and comply with applicable laws, regulations, and other environmentally-oriented requirements.

Actions for the coming year

As part of our commitment to employee welfare, we will engage with our employees through completing a further annual employee survey and use the development plans from the results of the last survey to ensure that we deal with those issues that arise.

By order of the Board

Christopher Hill
Chief Financial Officer
17 July 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the Group and Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) 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 of the Group, and the financial performance of the Group, and cash flows of the Group and of the Company for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

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

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

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

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

By order of the Board

Christopher Hill
Chief Financial Officer
17 July 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IG GROUP HOLDINGS PLC

We have audited the financial statements of IG Group Holdings plc for the year ended 31 May 2012 which comprise the Group and parent Company statements of financial position, the Group statement of comprehensive income, the Group and parent Company cash flow statements, the Group and parent Company statements of changes in equity, the accounting policies and the related notes. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 81, 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 and express an opinion on 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Group's and the parent 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. In addition, we read all the financial and non-financial information in the Chairman's statement and the Business Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2012 and of the Group's profit and Group's and parent company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on page 75 of the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' remuneration report to be audited 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; or
- A Corporate Governance Statement has not been prepared by the parent company

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 77 in relation to going concern;
- The parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration

Darren Ketteringham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 July 2012

FINANCIAL STATEMENTS →

GROUP INCOME STATEMENT
for the year ended 31 May 2012

	Note	2012 Total £000	2011 (restated) Before certain items(1) £000	Certain items(1) £000	Total £000
Trading revenue		400,262	345,409	-	345,409
Interest income on segregated client funds		10,509	9,115	-	9,115
Revenue		410,771	354,524	-	354,524
Interest expense on segregated client funds		(257)	(176)	-	(176)
Introducing broker commissions		(33,450)	(32,688)	-	(32,688)
Betting duty		(8,907)	(3,064)	-	(3,064)
Other operating income	3	1,013	-	-	-
Net operating income	4	369,170	318,596	-	318,596
Analysed as:					
Net trading revenue	*2, 4*	*366,812*	*312,721*	*-*	*312,721*
Other net operating income		*2,358*	*5,875*	*-*	*5,875*
Administrative expenses(2)		(183,657)	(155,383)	(150,703)	(306,086)
Operating profit	5, 6	185,513	163,213	(150,703)	12,510
Finance income	9	2,487	2,403	-	2,403
Finance costs	10	(2,283)	(2,411)	-	(2,411)
Profit before taxation from continuing operations		185,717	163,205	(150,703)	12,502
Tax expense	11	(48,583)	(44,444)	11,652	(32,792)
Profit / (loss) for the year from continuing operations		137,134	118,761	(139,051)	(20,290)
(Loss) / profit for the year from discontinued operations	12	(374)	248	(5,250)	(5,002)
		136,760	119,009	(144,301)	(25,292)
Profit / (loss) for the year attributable to:					
Equity holders of the parent		136,792	118,848	(144,301)	(25,453)
Non-controlling interests		(32)	161	-	161
		136,760	119,009	(144,301)	(25,292)

Earnings / (loss) per ordinary share from continuing operations	**Note**	**2012**	**2011 (restated)**
Basic	13	37.90p	(5.66p)
Diluted	13	37.54p	(5.66p)

(1) Please refer to note 1 of the financial statements for an explanation of both the presentational changes and the restatement of the Group income statement for discontinued operations

(2) Includes exceptional credit of £1.1m (2011: charge of £1.8m before certain items). Please refer to note 6 for detail

The notes on pages 93 to 145 are an integral part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 May 2012

Group	2012 £000	2012 £000	2011 £000	2011 £000
Profit / (loss) for the year		136,760		(25,292)
Other comprehensive income / (expense):				
Foreign currency translation on overseas subsidiaries	751		(344)	
Other comprehensive income / (expense) for the year		751		(344)
Total comprehensive income / (expense) for the year		137,511		(25,636)
Total comprehensive income / (expense) attributable to:				
Equity holders of the parent		137,566		(25,797)
Non-controlling interests		(55)		161
		137,511		(25,636)

The notes on pages 93 to 145 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

at 31 May 2012

		Group		Company	
	Note	2012 £000	2011 £000	2012 £000	2011 £000
Assets					
Non-current assets					
Property, plant and equipment	15	15,555	16,761	-	-
Intangible assets	16	115,366	117,202	-	-
Investment in subsidiaries	17	-	-	438,128	433,078
Deferred tax assets	11	11,915	11,264	-	-
		142,836	145,227	438,128	433,078
Current assets					
Trade receivables	19	222,342	270,104	-	-
Prepayments and other receivables		9,745	8,199	144,586	64,254
Cash and cash equivalents	20	228,156	124,528	151	304
		460,243	402,831	144,737	64,558
TOTAL ASSETS		603,079	548,058	582,865	497,636
Liabilities					
Current liabilities					
Trade payables	22	61,076	83,490	-	-
Other payables	23	64,815	45,149	32,974	6,512
Provisions	24	1,353	1,427	-	-
Income tax payable		28,652	37,060	3,550	3,547
		155,896	167,126	36,524	10,059
Non-current liabilities					
Provisions	24	-	1,991	-	-
Redeemable preference shares	26	40	40	40	40
		40	2,031	40	40
Total liabilities		155,936	169,157	36,564	10,099
Capital and reserves					
Share capital	27	18	18	18	18
Share premium	27	206,291	206,246	206,291	206,246
Other reserves	29	85,543	80,173	23,596	18,899
Retained earnings		155,145	92,263	316,396	262,374
Shareholders' equity		446,997	378,700	546,301	487,537
Non-controlling interests		146	201	-	-
Total equity		447,143	378,901	546,301	487,537
TOTAL EQUITY AND LIABILITIES		603,079	548,058	582,865	497,636

The financial statements on pages 86 to 145 were approved by the Board of Directors on 17 July 2012 and signed on its behalf by:

Tim Howkins
Chief Executive

Christopher Hill
Chief Financial Officer

Registered Company number: 04677092

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2012

Group	Share capital £000 (note 27)	Share premium account £000 (note 27)	Other reserves £000 (note 29)	Retained earnings £000	Shareholders' equity £000	Non-controlling interests £000	Total equity £000
At 1 June 2010	18	206,246	79,742	185,443	471,449	3,179	474,628
Loss for the year	-	-	-	(25,453)	(25,453)	161	(25,292)
Other comprehensive expense for the year	-	-	(344)	-	(344)	-	(344)
Total comprehensive (expense) / income for the year	-	-	(344)	(25,453)	(25,797)	161	(25,636)
Equity-settled employee share-based payments (note 30)	-	-	4,225	-	4,225	-	4,225
Excess of tax deduction benefit on share-based payments recognised directly in shareholders' equity (note 11)	-	-	(831)	-	(831)	-	(831)
Acquisition of non-controlling interest			(2,302)	-	(2,302)	(3,139)	(5,441)
Purchase of own shares	-	-	(291)	-	(291)	-	(291)
Exercise of US share incentive plans	-	-	(26)	-	(26)	-	(26)
Equity dividends paid (note 14)	-	-	-	(67,727)	(67,727)	-	(67,727)
Movement in equity	-	-	431	(93,180)	(92,749)	(2,978)	(95,727)
At 31 May 2011	18	206,246	80,173	92,263	378,700	201	378,901
Profit for the year	-	-	-	136,792	136,792	(32)	136,760
Other comprehensive income / (expense) for the year	-	-	774	-	774	(23)	751
Total comprehensive income / (expense) for the year	-	-	774	136,792	137,566	(55)	137,511
Equity-settled employee share-based payments (note 30)	-	-	5,005	-	5,005	-	5,005
Excess of tax deduction benefit on share-based payments recognised directly in shareholders' equity (note 11)	-	-	(101)	-	(101)	-	(101)
Issuance of shares	-	45	-	-	45	-	45
Purchase of own shares	-	-	(298)	-	(298)	-	(298)
Exercise of US share incentive plans	-	-	(10)	-	(10)	-	(10)
Equity dividends paid (note 14)	-	-	-	(73,910)	(73,910)	-	(73,910)
Movement in equity	-	45	5,370	62,882	68,297	(55)	68,242
At 31 May 2012	18	206,291	85,543	155,145	446,997	146	447,143

The notes on pages 93 to 145 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 May 2012

Company	Share capital £000 (note 27)	Share premium account £000 (note 27)	Other reserves £000 (note 29)	Retained earnings £000	Total equity £000
At 1 June 2010	18	206,246	14,991	207,823	429,078
Profit for the year	-	-	-	122,278	122,278
Total comprehensive income for the year	-	-	-	122,278	122,278
Equity-settled employee share-based payments (note 30)	-	-	4,225	-	4,225
Purchase of own shares	-	-	(291)	-	(291)
Exercise of US share incentive plans	-	-	(26)	-	(26)
Equity dividends paid (note 14)	-	-	-	(67,727)	(67,727)
Movement in equity	-	-	3,908	54,551	58,459
At 31 May 2011	18	206,246	18,899	262,374	487,537
Profit for the year	-	-	-	127,932	127,932
Total comprehensive income for the year	-	-	-	127,932	127,932
Equity-settled employee share-based payments (note 30)	-	-	5,005	-	5,005
Issuance of shares	-	45	-	-	45
Purchase of own shares	-	-	(298)	-	(298)
Exercise of US share incentive plans	-	-	(10)	-	(10)
Equity dividends paid (note 14)	-	-	-	(73,910)	(73,910)
Movement in equity	-	45	4,697	54,022	58,764
At 31 May 2012	18	206,291	23,596	316,396	546,301

The notes on pages 93 to 145 are an integral part of these financial statements.

CASH FLOW STATEMENTS
for the year ended 31 May 2012

	Note	Group 2012 £000	Group 2011 £000 (restated)[1]	Company 2012 £000	Company 2011 £000
Cash generated from operations	21	234,916	129,082	75,369	68,641
Income taxes paid		(57,554)	(43,503)	-	-
Interest received on segregated client funds		10,111	8,015	-	-
Interest paid on segregated client funds		(257)	(161)	-	-
Net cash flow from operating activities		187,216	93,433	75,369	68,641
Investing activities					
Interest received		2,004	2,046	-	1
Purchase of property, plant and equipment		(4,709)	(15,387)	-	-
Proceeds on disposal of property, plant and equipment	21	-	313	-	-
Payments to acquire intangible fixed assets		(4,432)	(4,521)	-	-
Purchase of a non-controlling interest		-	(5,072)	-	-
Purchase of a client list and business		-	(2,739)	-	-
Net cash flow from investing activities		(7,137)	(25,360)	-	1
Financing activities					
Interest paid		(2,013)	(1,897)	(1,311)	(325)
Equity dividends paid to equity holders of the parent		(73,910)	(67,727)	(73,910)	(67,727)
Purchase of own shares		(298)	(291)	(298)	(291)
Proceeds from the issue of shares		37	-	-	-
Payment of redeemable preference share dividends		(3)	(3)	(3)	(3)
Net cash flow from financing activities		(76,187)	(69,918)	(75,522)	(68,346)
Net increase / (decrease) in cash and cash equivalents		103,892	(1,845)	(153)	296
Cash and cash equivalents at the beginning of the year		124,528	128,097	304	8
Exchange loss on cash and cash equivalents		(264)	(1,724)	-	-
Cash and cash equivalents at the end of the year	20	228,156	124,528	151	304

(1) The comparative cash flow statement has been restated in order to reflect the representation of other amounts due to or from clients

The cash flows stated above are inclusive of discontinued operations.

The notes on pages 93 to 145 are an integral part of these financial statements.

INDEX TO NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. PRESENTATION, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Income statement presentation - columnar format

In prior periods the Group presented its consolidated income statement in a columnar format as this enabled the Group to present profit for the year before amortisation and impairment of intangible assets associated with both the Group's Japanese and Sport businesses. This 'adjusted' profit measure was used to calculate adjusted EPS (refer to note 13) as it was considered to better reflect the Group's underlying cash earnings. Both the amortisation and impairment of intangible assets associated with the Group's Japanese and Sport businesses were therefore previously reported in the column 'certain items' on the statutory consolidated income statement. In the year to 31 May 2012 there has been no amortisation and impairment of intangible assets associated with the Group's Japanese or Sport businesses and therefore the column 'certain items' has not been presented. Accordingly the adjusted and unadjusted profit measures for the year ended 31 May 2012 are equivalent.

Income statement presentation - discontinued operations

Discontinued operations consist of a single major line of business or a geographical area that have either been closed or sold during the period or are classified as held for sale at the year-end. The financial performance and cash flows of discontinued operations are separately reported.

In the year ended 31 May 2012 the Group's Sport business has been disclosed as a discontinued operation and the comparative balances restated accordingly. Please refer to note 12 for additional detail.

Critical accounting estimates and judgements

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

In the Directors' opinion, the accounting estimates or judgements that have the most significant impact on the financial statements remain the impairment of goodwill (refer to note 18) the impairment of trade receivables – amounts due from clients (refer to note 36), the calculation of the Group's current corporation tax charge and recognition of deferred tax assets (refer to note 11(c) and 11(f)).
The calculation of the Group's current corporation tax charge involves a degree of estimation and judgement with respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The Group holds tax provisions in respect of the potential tax liability that may arise on these unresolved items, however, the amount ultimately payable may be materially lower than the amount accrued and could therefore improve the overall profitability and cash flows of the Group in future periods. A deferred tax asset is only recognised to the extent it is considered to be probable that future operating profits will exceed the losses that have arisen to date.

The Director's judgement made with regards to litigation are disclosed in note 25.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2. NET TRADING REVENUE

Net trading revenue represents trading revenue from financial instruments carried at fair value through profit and loss net of introducing broker commission. This is consistent with the management information received by the Chief Operating Decision Maker (refer to note 4). Revenue from external customers includes interest income on segregated client funds and is analysed as follows:

	2012 £000	2011 £000 (restated)
Net trading revenue		
Financial		
Contracts for difference	214,967	188,201
Spread betting	133,768	109,796
Binaries	18,077	14,724
Total net trading revenue	366,812	312,721
Interest income on segregated client funds	10,509	9,115
Revenue from external customers	377,321	321,836

The comparative revenue from external customers has been restated following the disclosure of the Sport business as a discontinued operation. Refer to note 12 for more detail.

In addition to the above, finance income is disclosed in note 9. The Group does not derive more than ten percent of external revenue from any one single customer.

3. OTHER OPERATING INCOME

	2012 £000	2011 £000
Revenue-share arrangement	1,013	-

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

The disclosure of the Sport business as a discontinued operation is made in note 12.

---

4. SEGMENT INFORMATION

The segment information has been restated in order to disclose the Group's Sport business as a discontinued operation and to reflect changes to the Group's internal reporting methodologies, which include the manner of attribution and allocation of certain costs to the segments. The Sport business was previously disclosed within the UK segment and derived its revenue from spread bets and fixed odds bets on sporting and other events and the operation of an online casino. Following this restatement the segment information is presented as follows:

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

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

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

Year ended 31 May 2012	UK £000	Australia £000	Europe £000	Japan £000	Rest of World £000	Central £000	Total £000
Segment net trading revenue	191,781	57,962	72,217	16,457	28,395	-	366,812
Interest income on segregated client funds	-	-	-	-	-	10,509	10,509
Revenue from external customers	191,781	57,962	72,217	16,457	28,395	10,509	377,321
Interest expense on segregated client funds	-	-	-	-	-	(257)	(257)
Other income	-	-	-	-	-	1,013	1,013
Betting duty	(8,907)	-	-	-	-	-	(8,907)
Net operating income	182,874	57,962	72,217	16,457	28,395	11,265	369,170
Segment contribution	151,529	49,833	43,447	10,377	17,909	(76,822)	196,273
Allocation of central costs	(39,378)	(12,336)	(15,422)	(3,598)	(6,088)	76,822	-
Segment EBITDA[1]	112,151	37,497	28,025	6,779	11,821	-	196,273
Depreciation and amortisation	(4,998)	(1,424)	(1,893)	(623)	(1,822)	-	(10,760)
Impairment of intangible assets							-
Profit on disposal of property, plant and equipment							-
Operating profit from continuing operations							185,513
Net finance income							204
Profit before taxation from continuing operations							185,717

(1) EBITDA represents operating profit before depreciation, amortisation and impairment of intangible assets and amounts written off property, plant and equipment and intangible assets

NOTES TO THE FINANCIAL STATEMENTS
(continued)

4. SEGMENT INFORMATION (continued)

Year ended 31 May 2011 (restated)	UK £000	Australia £000	Europe £000	Japan £000	Rest of World £000	Central £000	Total £000
Segment net trading revenue	167,166	47,607	57,464	20,606	19,878	-	312,721
Interest income on segregated client funds	-	-	-	-	-	9,115	9,115
Revenue from external customers	167,166	47,607	57,464	20,606	19,878	9,115	321,836
Interest expense on segregated client funds	-	-	-	-	-	(176)	(176)
Betting duty	(3,064)	-	-	-	-	-	(3,064)
Net operating income	164,102	47,607	57,464	20,606	19,878	8,939	318,596
Segment contribution	140,197	35,888	34,767	8,557	11,156	(57,044)	173,521
Allocation of central costs	(33,383)	(4,753)	(11,645)	(3,461)	(3,802)	57,044	-
Segment EBITDA	106,814	31,135	23,122	5,096	7,354	-	173,521
Depreciation and amortisation	(4,844)	(1,227)	(1,349)	(8,599)	(2,167)	-	(18,186)
Impairment of intangible assets	-	-	-	(143,108)	-	-	(143,108)
Profit on disposal of property, plant and equipment							283
Operating profit from continuing operations							12,510
Net finance costs							(8)
Profit before taxation from continuing operations							12,502

5. OPERATING PROFIT FROM CONTINUING OPERATIONS

	Group 2012 £000	2011 £000 (restated)
This is stated inclusive of exceptional items and after charging / (crediting):		
Amortisation of customer relationships and trade names (Japan)(1)	-	7,595
Impairment of customer relationships and goodwill(1)(2)	-	143,108
Other exceptional items(2)	(1,091)	1,752
Depreciation of property, plant and equipment(3)	5,934	6,458
Amortisation of intangible assets	4,826	3,741
Advertising and marketing	31,068	31,292
Net recovery of impaired trade receivables	1,337	(2,282)
Operating lease rentals for land and buildings(3)	3,988	4,054
Profit on disposal of property, plant and equipment	-	(283)
Foreign exchange gains(4)	(2,180)	(1,080)

(1) Disclosed within the column 'certain items' in the consolidated income statement. Certain items include both the amortisation and impairment of intangible assets associated with the Group's Japanese business (IG Markets Securities Limited)

(2) Disclosed as an exceptional item (refer to note 6 for details)

(3) Operating lease rentals and depreciation are stated net of exceptional items (refer to note 6 for details)

(4) All of the above, except foreign exchange differences, are included in administrative expenses within the income statement. Foreign exchange gains are included in revenue

NOTES TO THE FINANCIAL STATEMENTS
(continued)

6. EXCEPTIONAL ITEMS

During the year the Group reached agreement with the lessor for both the early surrender and the settlement of all outstanding dilapidation obligations with regards to the lease of the Group's previous London headquarters. This resulted in a release of amounts provided or accrued in relation to onerous lease and dilapidation obligations. The release is considered to be exceptional in nature, as onerous lease and dilapidation charges incurred in relation to the lease in the years ended 31 May 2010 and 31 May 2011 were previously disclosed as exceptional.

In the year ended 31 May 2011, exceptional items were also incurred in relation to the impairment of goodwill and customer relationships associated with the acquisition of the Group's Japanese business, IG Markets Securities Limited. Additionally, in the year ended 31 May 2011, exceptional items, now disclosed within discontinued operations (note 12), were incurred in relation to the Group's Sport business.

Exceptional items included in continuing operating profit	**2012 £000**	**2011 £000 (restated)**
Relocation of the Group's London headquarters	(1,091)	1,752
Impairment of goodwill in relation to the Japanese business(1)	-	122,960
Impairment of Japanese customer relationships(1)	-	20,148
Total exceptional (credit) / charge	(1,091)	144,860
Deferred tax credit on exceptional items(1)	-	(8,462)
Tax charge / (credit) on exceptional items	284	(1,169)
Total exceptional (credit) / charge after tax	(807)	135,229

(1) In the year ended 31 May 2011, the goodwill and customer relationships associated with the Group's Japanese business were considered to be impaired following regulatory change in the Japanese market. These exceptional impairment charges, as well as amortisation of £7.6 million charged immediately prior to impairment, were disclosed in the Group income statement in the column 'certain items', consistent with the Group's established accounting policy and presentation

7. AUDITORS' REMUNERATION

	Group	
Audit-related fees(1)	**2012 £000**	**2011 £000**
Fees payable to the Company's Auditors for the audit of the parent company and consolidated financial statements	190	182
Statutory and regulatory audit of subsidiaries and branches of the Company pursuant to legislation	98	97
Other services supplied pursuant to legislation	121	66
Total audit-related fees	409	345
Other fees to auditors		
Other services relating to taxation		
- Compliance-related services(2)	270	224
- Advisory-related services(3)	693	202
Services relating to corporate finance transactions	49	269
All other services	87	87
Total other fees	1,099	782

(1) Includes the Group's audit fee as well as services that are specifically required of the Group's auditors through regulatory, legislative or contractual requirements, including assurance services required of the auditors by the regulatory authorities in whose jurisdiction the Group operates

(2) Includes services which are closely related to the audit process and are therefore efficiently provided by the auditors due to their existing knowledge of the business

(3) Includes advice relating to the Group's transfer pricing policies of £386,000 (2011: £62,000) and sales taxes of £248,000 (2011: £23,000)

An overview of the Audit Committee's review of Auditors' remuneration and non-audit fee policy can be found in the Corporate Governance Report.

8. STAFF COSTS

The staff costs for the year, including Directors, were as follows:

	Group	
	2012 £000	**2011 £000 (restated)**
Wages, salaries and performance-related bonuses	78,741	61,831
Social security costs	9,170	6,278
Other pension costs (in relation to direct contribution schemes)	4,758	4,237
	92,669	72,346

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

	Group	
	2012 £000	**2011 £000 (restated)**
Performance-related bonuses	27,945	14,214
Equity-settled share-based payment schemes	5,005	4,222
	32,950	18,436

The Directors' emoluments for the year ended 31 May 2012 and the prior year can be found in the Directors' remuneration report.

The average monthly number of employees, including Directors, was made up as follows:

	Group	
	2012 Number	**2011 Number (restated)**
Dealing, sales and client support	536	536
Management and administration including IT	424	348
	960	884

NOTES TO THE FINANCIAL STATEMENTS
(continued)

9. FINANCE INCOME

	Group	
	2012	**2011**
	£000	**£000 (restated)**
Bank interest receivable	1,485	642
Interest receivable from brokers	673	1,167
Other finance income	306	383
Interest receivable from clients	23	211
	2,487	2,403

10. FINANCE COSTS

	Group	
	2012	**2011**
	£000	**£000 (restated)**
Liquidity facility arrangement and non-utilisation fees	1,241	1,085
Interest payable to clients	242	136
Interest payable to brokers	165	196
Bank interest payable	84	29
Dividend on redeemable preference shares	3	3
Other charges	548	962
	2,283	2,411

Interest payable to clients relates to interest paid or accrued to clients in relation to title transfer funds (refer to note 20).

11. TAXATION

11(a) Tax on continuing profit on ordinary activities

Tax charged in the income statement:

	Group	
	2012	**2011**
	£000	**£000 (restated)**
Current income tax:		
UK Corporation tax	46,756	42,528
Foreign tax	2,738	1,573
Adjustment in respect of prior years	(265)	(1,883)
Total current income tax	49,229	42,218
Deferred tax:		
Origination and reversal of temporary differences	(646)	(9,426)
Continuing tax expense in the income statement (note 11(b))	48,583	32,792

11(b) Reconciliation of the total tax charge

Corporation tax is calculated at 25.67% (2011: 27.67%) of the estimated assessable profit. Taxation outside the UK is calculated at the rates prevailing in the respective jurisdictions. The tax expense in the income statement for the year can be reconciled to the income statement as set out below:

	2012	**2011**
	£000	**£000 (restated)**
Continuing profit before taxation	185,717	12,502
Continuing profit multiplied by the UK standard rate of corporation tax of 25.67% (2011: 27.67%)	47,674	3,459
Goodwill impairment not deductible for tax purposes	-	34,018
Expenses not deductible for tax purposes	1,193	1,797
Lower taxes on overseas earnings	(19)	(4,599)
Adjustment in respect of prior years	(265)	(1,883)
Tax expense reported in the income statement for continuing operations	48,583	32,792

The effective tax rate is 26.2% (2011: 24.2% adjusted for the impact of the Japanese goodwill impairment of £122.3 million in the year).

NOTES TO THE FINANCIAL STATEMENTS
(continued)

11. TAXATION (continued)

11(c) Deferred income tax assets

The deferred income tax assets included in the statement of financial position are as follows:

	Group	
	2012 £000	2011 £000
Decelerated capital allowances	2,019	1,662
Tax losses available for offset against future tax	1,810	4,829
Share-based payments	3,415	3,713
Other	4,671	1,060
	11,915	11,264

The tax losses available for offset against future tax relate to operating losses arising in overseas subsidiary companies, the recoverability of which is dependent on sufficient future operating profits in those entities. A deferred tax asset is recognised where it is considered to be probable that future operating profits will exceed the losses that have arisen to date. Where it is not anticipated that future operating profits will exceed the losses that have arisen to date, a deferred tax asset is not recognised.

Share-based payment awards have been charged to the income statement but are not allowable as a tax deduction until the awards vest. The excess of tax relief in future years over the amount charged to the income statement is recognised as a credit directly to equity. The gross movement in the deferred income tax assets included in the statement of financial position is as follows:

	Group	
	2012 £000	2011 £000
At the beginning of the year	11,264	14,264
Income statement credit / (charge)	646	(2,226)
Tax debited directly to equity	(101)	(831)
Foreign currency adjustment	106	57
At the end of the year	11,915	11,264

11(d) Deferred income tax liabilities

The deferred income tax liabilities included in the statement of financial position are as follows:

	Group	
	2012 £000	2011 £000
At the beginning of the year	-	11,463
Foreign currency adjustment	-	189
Income statement credit	-	(11,652)
At the end of the year	-	-

11(e) Deferred income tax – income statement credit

The deferred income tax credit included in the income statement is made up as follows:

	Group	
	2012 £000	2011 £000
Decelerated capital allowances	357	(31)
Tax losses available for offset against future tax	(3,071)	(1,572)
Share-based payments	(197)	262
Doubtful debt provision	-	(600)
Other	3,557	(285)
Amortisation of intangibles arising on acquisition	-	11,652
	646	9,426
The deferred tax debited to equity during the year is as follows:		
Share-based payments	(101)	(831)

Closing deferred tax on UK temporary differences has been calculated at the substantively enacted rate of 24% (2011: 26%). The effect of the change in UK corporation tax to 24% from 1 April 2012 on the deferred tax assets is a deferred income tax charge of £373,000 (2011: £444,000), which is included in the movements above.

11(f) Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the geographic location of the Group's earnings, the transfer pricing policies, the tax rates in those locations, changes in tax legislation, future planning opportunities, the use of brought-forward tax losses and the resolution of open tax issues. The calculation of the Group's total tax charge involves a degree of estimation and judgement with respect to the recognition of deferred tax assets (refer to note 11(c)) and to certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The Group holds tax provisions in respect of the potential tax liability that may arise on these unresolved items; however, the amount ultimately payable may be materially lower than the amount accrued, and could therefore improve the overall profitability and cash flows of the Group in future periods.

In March 2012, the UK government announced that the main rate of UK corporation tax would be reduced from 26% to 24% with effect from 1 April 2012. Accordingly, the Group's UK earnings will be taxable at a lower rate in future periods than has previously been applied. Deferred tax assets relating to the UK have accordingly been measured at the substantively enacted rate of 24% as at 31 May 2012.
The proposed reduction in the main rate of corporation tax by 1% per year to 22% is expected to be enacted separately each year.
The Group will assess the impact of the reduction in line with its accounting policy in respect of deferred tax at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DISCONTINUED OPERATIONS

During the year ended 31 May 2011, the Directors decided that the Group should investigate selling or closing the Sport business, extrabet, in order to allow management to focus exclusively on the continuing expansion and development of the Financial business. The Group was unable to secure a sale of the Sport business in its entirety as a going concern on acceptable terms, and on 8 June 2011 the Group reached agreement to sell the majority of the client list relating to extrabet's Sport spread betting and fixed odds betting business to Spreadex Limited. On 12 July 2011 the Group completed a redundancy consultation process with the employees of extrabet. As a result, all extrabet employees unable to find a role within the Group were made redundant as of 19 July 2011 and the business was closed.

In the year ended 31 May 2012 the discontinued business reported a loss after tax of £0.4 million which was mitigated by a £0.3 million credit due to the release of an onerous lease provision following agreement with the lessor for early surrender of the associated property. In the prior year the impairment of the goodwill associated with the Sport business (£5.25 million) and other closure-related costs including redundancy (£0.7 million) and onerous lease charges (£1.3 million) resulted in a £5.0 million loss after tax from discontinued operations.

Loss from discontinued operations	2012 £000	2011 £000
Net trading revenue	159	7,671
Other net operating expenses	(47)	(1,012)
Exceptional closure credit / (charges)	261	(2,474)
Administrative expenses	(761)	(4,369)
Net interest payable	-	(22)
Loss before tax from discontinued operations	(388)	(206)
Tax credit	14	454
(Loss) / profit after tax from discontinued operations	(374)	248
Impairment of goodwill in relation to the Sport business	-	(5,250)
Loss from discontinued operations	(374)	(5,002)

Income from the sale of the majority of the client list of the Sport business is disclosed in note 3.

There are no items of cumulative income or expense recognised in other comprehensive income relating to the discontinued operations.

The segmental disclosures for the year ended 31 May 2012 and 31 May 2011 have been restated, as the Sport business was previously disclosed in the UK segment (refer to note 4).

Cash flows from discontinued operations	Year ended 31 May 2012 £000	Year ended 31 May 2011 £000
Operating cash flows	(467)	2,247
Investing cash flows	-	(14)
Financing cash flows	-	(22)
Total cash flows from discontinued operations	(467)	2,211

The operating cash flows for the year ended 31 May 2011 disclosed in the table above are prepared on a statutory basis and include the flow of cash deposits to, or from, betting exchanges, as such amounts are included as cash flows from trade receivables. Such amounts are not considered to be actual cash generation, and thus the underlying operating cash generation of the Sport business should be considered to exclude these amounts: 31 May 2011: £736,000.

13. EARNINGS PER ORDINARY SHARE

13(a) Diluted earnings per share

In prior periods the Group presented an adjusted EPS measurement, as this was considered the most appropriate measure as it better reflected the business's underlying cash earnings. Adjusted EPS excluded the amortisation and impairment of intangible assets associated with both the Group's Japanese and the discontinued Sport businesses and the related taxation. In the year ended 31 May 2012 there has been no amortisation or impairment of intangible assets associated with either the Group's Japanese or the discontinued Sport business, and therefore the adjusted and unadjusted earnings per share measures are equivalent.

Diluted earnings per share	Year ended 31 May 2012 £000	Year ended 31 May 2011 £000 (restated)
Diluted earnings per share from continuing operations	37.54p	32.57p(1)
Diluted earnings per share from discontinued operations	(0.10p)	0.07p(1)
Diluted earnings per share	37.44p	32.64p

(1) The comparative figures shown for the year ended 31 May 2011 are the diluted adjusted earnings per share calculated after excluding the amortisation and impairment of intangible assets associated with the Group's Japanese business and the related taxation and discontinued Sport business

13(b) Calculation of earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as own shares in Employee Benefit Trusts. Diluted earnings per share is calculated using the same profit figure as that used in basic earnings per share, and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares arising from share schemes. For the year ended 31 May 2011, adjusted earnings excludes the amortisation and impairment of intangible assets associated with the Group's Japanese business and related taxation, as well as impairment of the goodwill associated with the Group's Sport business. The following table reflects the income and share data used in the earnings per share computation:

	Group	
	2012 £000	2011 £000 (restated)
Continuing earnings attributable to equity shareholders of the Company	137,166	(20,451)
Add back amortisation and impairment(1) of intangibles net of tax and non-controlling interests	-	139,051
Adjusted earnings from continuing operations	137,166	118,600
Discontinued earnings attributable to equity shareholders of the Company	(374)	(5,002)
Add back impairment of Sport goodwill	-	5,250
Adjusted earnings from discontinued operations	(374)	248
Weighted average number of shares		
Basic	361,915,111	360,860,327
Dilutive effect of share-based payments	3,404,455	3,205,368
Diluted	365,319,566	364,065,695

(1) Amortisation and impairment of intangible assets associated with the Group's Japanese business

NOTES TO THE FINANCIAL STATEMENTS
(continued)

13. EARNINGS PER ORDINARY SHARE (continued)

	Group	
	2012 £000	2011 £000 (restated)
Earnings per share		
Basic earnings / (loss) per share from continuing operations	37.90p	(5.66p)
Basic loss per share from discontinued operations	(0.10p)	(1.39p)
Basic earnings / (loss) per share	37.80p	(7.05p)
Basic adjusted earnings per share from continuing operations	N/A(1)	32.86p
Basic adjusted earnings per share from discontinued operations	N/A(1)	0.07p
Basic adjusted earnings per share	N/A(1)	32.93p
Diluted earnings per share		
Diluted earnings / (loss) per share from continuing operations(2)	37.54p	(5.66p)
Diluted loss per share from discontinued operations(2)	(0.10p)	(1.39p)
Diluted earnings / (loss) per share	37.44p	(7.05p)
Diluted adjusted earnings per share from continuing operations	N/A(1)	32.57p
Diluted adjusted earnings per share from discontinued operations	N/A(1)	0.07p
Diluted adjusted earnings per share	N/A(1)	32.64p

(1) In the year to 31 May 2012 there has been no amortisation or impairment of intangible assets associated with the Group's Japanese or Sport business and therefore the adjusted and unadjusted earnings per share measures are equivalent

(2) The basic and diluted losses per share are equivalent in the year ended 31 May 2011, where the effect of potential ordinary shares is anti-dilutive

14. DIVIDENDS

	Company and Group	
	2012 £000	2011 £000
Declared and paid during the year:		
Final dividend for 2011 at 14.75p per share (2010: 13.50p)	53,051	48,758
Interim dividend for 2012 at 5.75p per share (2011: 5.25p)	20,859	18,969
	73,910	67,727
Proposed for approval by shareholders at the AGM:		
Final dividend for 2012 at 16.75p per share (2011: 14.75p)	60,769	53,051

The final dividend for 2012 of 16.75p per share, amounting to £60,769,000, was approved by the Board on 17 July 2012 and has not been included as a liability at 31 May 2012. This dividend will be paid on 23 October 2012 to those members on the register at the close of business on 21 September 2012.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

15. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements £000	Office equipment, fixtures and fittings £000	Computer and other equipment £000	Assets in the course of construction £000	Total £000
Cost:					
At 1 June 2010	8,229	1,463	12,167	1,623	23,482
Foreign currency adjustment	63	(18)	(140)	-	(95)
Additions	1,477	350	4,858	7,651	14,336
Transfers between categories	8,776	489	9	(9,274)	-
Written off	(3,321)	(126)	(1,956)	-	(5,403)
At 31 May 2011	15,224	2,158	14,938	-	32,320
Foreign currency adjustment	47	9	90	-	146
Additions	2,145	177	2,387	-	4,709
Written off	(732)	(56)	(1,693)	-	(2,481)
At 31 May 2012	16,684	2,288	15,722	-	34,694
Accumulated depreciation:					
At 1 June 2010	4,583	634	8,633	-	13,850
Foreign currency adjustment	30	4	(38)	-	(4)
Provided during the year	2,965	417	3,704	-	7,086
Written off	(3,321)	(126)	(1,926)	-	(5,373)
At 31 May 2011	4,257	929	10,373	-	15,559
Foreign currency adjustment	22	(26)	131	-	127
Provided during the year	2,423	484	3,027	-	5,934
Written off	(732)	(56)	(1,693)	-	(2,481)
At 31 May 2012	5,970	1,331	11,838	-	19,139
Net book value – 31 May 2012	10,714	957	3,884	-	15,555
Net book value – 31 May 2011	10,967	1,229	4,565	-	16,761
Net book value – 1 June 2010	3,646	829	3,534	1,623	9,632

Assets in the course of construction (AICC) at 1 June 2010 represented the costs associated with the fit out of the Group's new London headquarters. AICC was transferred to the appropriate asset class, and depreciation commenced once the fit out was completed and the office available for use.

16. INTANGIBLE ASSETS

	Goodwill £000	Client lists and customer relationships £000	Trade name £000	Development costs £000	Software and licences £000	Total £000
Cost:						
At 1 June 2010	234,158	61,678	1,108	888	6,597	304,429
Foreign currency adjustment	1,647	1,168	(11)	(67)	(113)	2,624
Acquisition of a business (note 17a)	1,843	2,673	-	-	-	4,516
Adjustment to deferred contingent consideration	(2,010)	-	-	-	-	(2,010)
Additions	-	-	-	1,725	5,349	7,074
Written off	-	-	-	(47)	(118)	(165)
At 31 May 2011	235,638	65,519	1,097	2,499	11,715	316,468
Foreign currency adjustment	37	(400)	122	58	80	(103)
Additions	-	-	-	1,649	1,388	3,037
Written off	-	(61,966)	-	-	(909)	(62,875)
At 31 May 2012	235,675	3,153	1,219	4,206	12,274	256,527
Accumulated amortisation:						
At 1 June 2010	-	34,423	1,069	42	3,567	39,101
Foreign currency adjustment	-	664	(9)	-	(58)	597
Provided during the year	-	8,750	37	65	2,523	11,375
Impairment (note 18)	128,210	20,148	-	-	-	148,358
Written off	-	-	-	(47)	(118)	(165)
At 31 May 2011	128,210	63,985	1,097	60	5,914	199,266
Foreign currency adjustment	-	(250)	122	-	72	(56)
Provided during the year	-	972	-	595	3,259	4,826
Written off	-	(61,966)	-	-	(909)	(62,875)
At 31 May 2012	128,210	2,741	1,219	655	8,336	141,161
Net book value – 31 May 2012	107,465	412	-	3,551	3,938	115,366
Net book value – 31 May 2011	107,428	1,534	-	2,439	5,801	117,202
Net book value – 1 June 2010	234,158	27,255	39	846	3,030	265,328

Goodwill primarily relates to the purchase of IG Group plc by IG Group Holdings plc – detail is provided in note 18. The client list acquired with the business of Ideal CFDs (refer note 17a) is being amortised on a sum of digits basis over three years. Development costs are entirely internally-generated intangible assets. Software and licenses relate entirely to external purchases.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

17. INVESTMENT IN SUBSIDIARIES

	Company	
	2012	2011
At cost:	£000	£000
At the beginning of the year	433,078	428,853
Additions(1)	5,050	4,225
At the end of the year	438,128	433,078

(1) Additions in the year ended 31 May 2012 comprise the investment relating to equity-settled share-based payments for subsidiary employees of £5,005,000 and the purchase of shares in the Company's immediate subsidiary, IG Group Limited, of £45,000.

The following companies are all owned directly or indirectly by IG Group Holdings plc:

Name of Company	Country of incorporation	Holding	Voting rights	Nature of business
Subsidiary undertakings held directly:				
IG Group Limited	UK	Ordinary shares	100%(1)	Holding company
IG Jersey Cashbox Limited	Jersey	Ordinary shares	100%	Dormant
Subsidiary undertakings held indirectly:				
IG Index Limited	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	CFD trading and foreign exchange
extrabet Limited	UK	Ordinary shares	100%	Non-trading
extrabet Financial Limited	UK	Ordinary shares	100%	Non-trading
IG Markets South Africa Limited	UK	Ordinary shares	90%(2)	CFD trading
IG Australia Pty Limited	Australia	Ordinary shares	100%	Australia sales and marketing office
IG Asia Pte Limited	Singapore	Ordinary shares	100%	CFD trading and foreign exchange
IG Markets Inc	USA	Ordinary shares	100%	Non-trading
North American Derivatives Exchange Inc	USA	Ordinary shares	100%	Exchange
IG Markets Securities Limited	Japan	Ordinary shares	100%	CFD trading and foreign exchange
Market Data Limited	UK	Ordinary shares	100%	Data distribution
Market Risk Management Inc	USA	Ordinary shares	100%	Market maker
IG Infotech (India) Private Limited	India	Ordinary shares	100%	Software development
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
IG Knowhow Limited	UK	Ordinary shares	100%	Software development
Subsidiary undertakings held indirectly (continued):				
IG Finance	UK	Ordinary shares	100%	Financing
IG Finance Two	UK	Ordinary shares	100%	Financing
IG Finance Three	UK	Ordinary shares	100%	Financing
IG Finance Four	UK	Ordinary shares	100%	Financing
IG Finance 5 Limited	UK	Ordinary shares	100%	Financing
IG Finance 6 Limited	UK	Ordinary shares	100%	Financing
IG Finance 7 Limited	UK	Ordinary shares	100%	Financing
IG Finance 8 Limited	UK	Ordinary shares	100%	Financing
IG Finance 9 Limited	UK	Ordinary shares	100%	Financing
Fox Sub Limited	Gibraltar	Ordinary shares	100%	Financing
Fox Sub Two Limited	Gibraltar	Ordinary shares	100%	Financing
Fox Japan Holdings	Gibraltar	Ordinary shares	100%	Holding company
IG US Holdings Inc	USA	Ordinary shares	100%	Holding company
Market Data Japan KK	Japan	Ordinary shares	100%	Holding company
FXOnline Japan Co. Limited	Japan	Ordinary shares	100%	Non-trading
Blackfriars AG	Germany	Ordinary shares	100%	Dormant

(1) IG Group Limited has preference shares in issue. These are 100% held within the IG Group of companies

(2) The Group has a call option and the vendor a put option over the outstanding 10% of IG Markets South Africa (refer note 17a)

Employee Benefit Trusts:

IG Group Holdings plc Inland Revenue Approved Share Incentive Plan (UK Trust)
IG Group Limited Employee Benefit Trust (Jersey Trust)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

17. INVESTMENT IN SUBSIDIARIES (continued)

17(a) Acquisition of the client list and business of Ideal CFD Financial Services Pty Limited

In the year ended 31 May 2011, the Group completed the acquisition of the client list and business of Ideal CFD Financial Services Pty Limited (Ideal), a South African based introductory broker of the Group, for £4.5 million. Consideration comprised £1.6 million paid in cash and £2.9 million payable on exercise of symmetrical put and call options over 20% of IG Markets South Africa Limited (IGSA), a subsidiary of the Group that transferred to the vendor of Ideal on completion. Following completion of a fair value exercise, a client list of £2.7 million and goodwill of £1.8 million were recognised in the Group statement of financial position.

Subsequent to the initial acquisition, the Group acquired an additional 10% of IGSA for £1.2 million; this had no impact on the estimated value of the total consideration or the goodwill associated with the acquisition. Following this further acquisition the Group has a call option and the vendor a put option over the remaining 10% of IGSA. The present value of the forecast redemption amount is recorded under other payables as a liability in the Group statement of financial position. These options are exercisable in January 2013, based on a multiple of eight times average pro forma annual post-tax profits of IGSA over the period from 1 September 2010 to 30 November 2012.

18. IMPAIRMENT OF GOODWILL

18(a) Analysis of goodwill

Goodwill has been allocated to the following cash-generating units (CGUs) for impairment-testing purposes:

	Group	
	2012 £000	2011 £000
UK	100,012	100,012
Australia	934	934
US	4,931	4,618
South Africa	1,588	1,864
	107,465	107,428

Goodwill arose in the UK CGU on the purchase of IG Group plc by IG Group Holdings plc on 5 September 2003, and was previously allocated according to the CGU profitability (Financial and Sport) at that date. Goodwill in the Australian CGU arose on the acquisition of the non-controlling interest in IG Australia in the year ended 31 May 2006. Goodwill arising on the acquisitions of each of North American Derivatives Exchange Inc. and Ideal CFDs has been allocated to the separate US and South African CGUs respectively.

18(b) Impairments in the year ended 31 May 2011

Goodwill and customer relationships - Japan

An impairment review of the goodwill and customer relationships associated with the Japanese business was performed as at 30 November 2010, triggered by regulatory change in the Japanese market. The estimated recoverable amount of the Japanese business was based upon value-in-use, calculated as the total of the present value of projected five-year future cash flows and a terminal value.

The first of several regulatory restrictions on leverage for forex products came into force in August 2010, and had an adverse impact on client activity levels and revenue. At 30 November 2010, further leverage restrictions were announced, and these became effective in January 2011 and August 2011 for equity indices and forex respectively. These restrictions were expected to have a significant impact on the future revenues of the Japanese business. Accordingly, client recruitment rates and average revenue per client assumptions, utilised in the value-in-use calculation for the Japanese business, were lowered consistent with the leverage impact experienced in the period.

The net book values of the goodwill and customer relationships (£123.0 million and £20.1 million respectively) associated with the Group's Japanese business were fully impaired as a result.

The impairment charges discussed above and the associated reduction in the deferred tax liability of £8.5 million were disclosed in the Group income statement in the column 'certain items', consistent with the Group's established accounting policy and presentation.

Goodwill - Sport

Goodwill associated with the Sport CGU of £5.25 million was impaired to nil in the year ended 31 May 2011.

18(c) Impairment testing at year-end

The goodwill associated with the UK, Australian, US and South African CGU's has been subject to an impairment test at 31 May 2012 as set out in the following disclosures.

Methodology utilised in the impairment testing

For the purposes of impairment testing of goodwill, the carrying amount of each CGU (including goodwill) is compared to the estimated recoverable amount of each CGU and any deficits are provided. The carrying amount of a CGU includes only those assets that can be attributed directly, or allocated on a reasonable and consistent basis.

The estimated recoverable amount of each CGU is based upon value-in-use, calculated as the total of the present value of projected five-year future cash flows and a terminal value.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for the CGUs is most sensitive to the following assumptions:

- Client recruitment and retention rates
- Average revenue per client
- Forecast marketing spend
- Operating cost growth rates
- The discount rate
- The long-term growth rate used for the terminal value calculation

Projected future cash flows for each CGU were based upon the Board-approved budget and a further three-year revenue plan which reflects past experience as well as future expected trends. In order to support the three-year revenue plan, the marketing and other operating costs were forecast from the Board-approved budget using subsequent growth rates. This methodology is consistent with that used for the 31 May 2011 year-end impairment review. The revenue growth rates assumed are consistent with the long-term growth rates of the Group's businesses measured over a five-year period.

The cash flows for the US and South African CGUs were translated into sterling using year-end exchange rates.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

18. IMPAIRMENT OF GOODWILL (continued)

18(c) Impairment testing at year-end (continued)

The cash flows were discounted using pre-tax discount rates as disclosed in the table below. These were derived using region-specific, market-based cost of equity and debt assumptions, in order to reflect both the financing cost and risk associated with each CGU. The long-term growth rates (g) used in the terminal value calculations are disclosed below and are equivalent to, or lower than, the respective long-term growth rate for the economy in which the CGU operates.

Cash-generating unit	**2012 Discount rate**	**2011 Discount rate**	**2012 Years 4-5 revenue growth rate**	**2011 Years 4-5 revenue growth rate**	**2012 g**	**2011 g**
Financial (UK and Australia)	12%	12%	4%	4%	2%	2%
US	15%	19%	32%	33%	2%	2%
South Africa	23%	23%	16%	24%	5%	5%

Client recruitment, retention rates and average revenue per client were based upon actual amounts measured in prior years which were projected forward in accordance with expected trends.

On the basis of the results of the above analysis there was no impairment of goodwill during the year.

Sensitivity to changes in assumptions

The Directors have performed a sensitivity analysis around assumptions and have concluded that no reasonably possible change in key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount.

19. TRADE RECEIVABLES

	Group	
	2012	**2011**
	£000	**£000 (restated)**
Amounts due from brokers(1)	206,997	267,792
Other amounts due from clients(2)	12,920	-
Amounts due from clients(3)	2,425	2,312
	222,342	270,104

(1) Amounts due from brokers represent balances with brokers where the combination of cash held on account and the valuation of financial derivative open positions results in an amount due to the Group. At 31 May 2012 the actual broker margin requirement was £196.0 million (2011: £217.4 million)

(2) Other amounts due from clients represent balances that will be transferred to the Group's own cash from segregated client funds on the immediately following working day in accordance with the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

(3) Certain clients are permitted to deal in circumstances where they may be capable of suffering losses in excess of the funds they have on their account. Amounts due from clients comprise deficits arising from such realised and unrealised losses net of an allowance for impairment (refer to note 36)

20. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2012	**2011**	**2012**	**2011**
	£000	**£000**	**£000**	**£000**
Gross cash and cash equivalents(1)	960,894	839,202	151	304
Less segregated client funds(2)	(732,738)	(714,674)	-	-
Own cash and title transfer funds(3)	228,156	124,528	151	304

(1) Gross cash and cash equivalents includes the Group's own cash as well as all client monies held, including both segregated client and title transfer funds

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

(3) Title transfer funds are held by the Group under a Title Transfer Collateral Arrangement (TTCA), by which a corporate client agrees that full ownership of such monies is unconditionally transferred to the Group (refer to note 22)

The Group's available liquidity including undrawn committed borrowing facilities is disclosed in note 36 to the financial statements.

21. CASH GENERATED FROM OPERATIONS

		Group		**Company**	
		2012	**2011**	**2012**	**2011**
Operating activities	**Note**	**£000**	**£000 (restated)**	**£000**	**£000**
Operating profit(1)		185,126	7,077	(1,018)	(5,320)
Adjustments to reconcile operating profit to net cash flow from operating activities:					
Net interest income on segregated client funds		(10,252)	(8,948)	-	-
Amortisation of customer relationships and trade names (Japan)	5, 12	-	7,595	-	-
Impairment of customer relationships and goodwill	5, 12	-	148,358	-	-
Depreciation of property, plant and equipment	15	5,934	7,086	-	-
Amortisation of intangible assets	16	4,826	3,780	-	-
Non-cash foreign exchange gains in operating profit		(2,190)	1,727	-	-
Share-based payments	30	5,005	4,225	-	-
Write off - property, plant and equipment	15	-	30	-	-
Recovery of trade receivables		2,563	754	-	-
Decrease / (increase) in trade and other receivables		42,274	(66,578)	50,088	67,776
Increase in trade and other payables		2,572	22,247	26,864	6,185
(Decrease) / increase in provisions and other non-cash items		(714)	262	-	-
Other non-cash items		(228)	1,467	(565)	-
Cash generated from operations		234,916	129,082	75,369	68,641

(1) The operating profit disclosed above is stated inclusive of discontinued operations. Cash flows from discontinued operations are disclosed in note 12 to the financial statements

In the Group statement of cash flows, proceeds from the sale of property plant and equipment comprise:

	Group	
	2012	**2011**
	£000	**£000**
Net book value (note 15)	-	30
Profit on disposal of property, plant and equipment (note 5)	-	283
Proceeds from the disposal of property, plant and equipment	-	313

NOTES TO THE FINANCIAL STATEMENTS
(continued)

22. TRADE PAYABLES

	Group 2012 £000	Group 2011 £000 (restated)
Amounts due to title transfer clients	59,852	71,453
Other amounts due to clients[1]	-	11,639
Other trade payables	1,224	398
	61,076	83,490

(1) Other amounts due to clients represent balances that will be transferred from the Group's own cash into segregated client funds on the immediately following working day in accordance with the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

23. OTHER PAYABLES

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Accruals	62,652	43,446	6,212	4,254
Other taxes and social security	2,160	1,700	-	-
Amounts due to Group companies (note 34b)	-	-	26,759	2,255
Dividends on redeemable preference shares	3	3	3	3
	64,815	45,149	32,974	6,512

Included within accruals are amounts in relation to employee bonuses, supplier payments, introducing broker commissions and other amounts.

24. PROVISIONS

	Group 2012 £000	Group 2011 £000
At the beginning of the year	3,418	3,156
Income statement charge	126	1,534
Utilised in the year	(1,408)	(1,272)
Released in the year	(783)	-
At the end of the year	1,353	3,418
Current	1,353	1,427
Non-current	-	1,991
	1,353	3,418

During the year, agreement was reached with the lessor for the early surrender of the lease of the Group's previous London headquarters. As a result, a release of amounts previously provided in relation to this onerous lease has been made in order to align the year-end provision at 31 May 2012 with the agreed termination liability. The provision will be settled in full in the year ended 31 May 2013.

The provision held as at 31 May 2011 represented the Group's estimated obligations for onerous lease commitments arising from the move of the Group's London Headquarters and the closure of the Sport business.

25. LITIGATION

The Group has received a claim issued on 11 November 2010 and served against IG Markets Limited (IG Markets) – a wholly owned subsidiary of the Group – in relation to the insolvency of Echelon Wealth Management Limited (Echelon), a former client of IG Markets. This litigation is ongoing.

Three former clients of Echelon (which went into liquidation in October 2008), namely (i) Stokors SA (Stokors), (ii) Mr Lucien Selce (Selce), and (iii) Phoenicia Asset Management (Holding) SAL (Phoenicia) are seeking to recover damages from IG Markets.

The damages sought are made up of two parts: firstly approximately €12.0 million which the three claimants had on deposit with Echelon at the time of its liquidation, and secondly a claim for lost profits which Stokors and Phoenicia claim they would have made had they not lost these monies deposited by them with Echelon at the time it collapsed. On 30th May 2012 Stokors and Phoenicia amended their claim in relation to alleged lost profits, seeking to recover the sums of €37,706,584 and €19,265,572 respectively (calculated to 25 January 2012) together with continuing alleged daily losses of €31,766 and €16,230 per day respectively, which they claim equates to a daily rate of return of 0.4% (or 146% per annum). The Group is investigating the legality of the claimants' activities giving rise to these alleged rates of return.

On the basis of legal and expert advice received, the Group continues to view the claim as speculative. No provision has therefore been made in the Group statement of financial position as at 31 May 2012 in relation to this matter.

26. REDEEMABLE PREFERENCE SHARES

	Company and Group 2012 £000	Company and Group 2011 £000
Allotted, called up and fully paid:		
40,000 preference shares of £1 each	40	40

The preference shares are entitled to a fixed non-cumulative dividend of 8% paid in preference to any other dividend. Redemption is only permissible in accordance with capital distribution rules or on the winding up of the Company, where the holders are entitled to £1 per share plus, if the Company has sufficient distributable reserves, any accrued or unpaid dividends. The preference shares have no voting rights, except that they are entitled to vote should the Company fail to pay any amount due on redemption of the shares. The effective interest rate on these shares is 8% (2011: 8%).

NOTES TO THE FINANCIAL STATEMENTS
(continued)

27. SHARE CAPITAL

	Number of shares	Ordinary share capital £000	Share premium account £000
Allotted, called up and fully paid:			
(i) Ordinary shares (0.005p)			
At 1 June 2010	361,108,463	18	206,246
Issued during the year	1,125,091	-	-
At 31 May 2011	362,233,554	18	206,246
Issued during the year	1,081,469	-	45
At 31 May 2012	363,315,023	18	206,291
(ii) B shares (0.001p)			
At 31 May 2011 and 31 May 2012	65,000	-	-

During the year to 31 May 2012, 1,081,469 (2011: 1,125,091) ordinary shares with an aggregate nominal value of £54 were issued following the exercise of long-term incentive plan awards for a consideration of £45,000.

Except as the ordinary shareholders have agreed or may otherwise agree, on a winding up of the Company, the balance of assets available for distribution after the payment of all of the Company's creditors, and subject to any special rights attaching to other classes of shares, are distributed among the shareholders according to the amounts paid up on shares by them.

B shares

The B shares carry no entitlement to dividends and no voting rights. To the extent not already received by them the B shareholders shall, on a winding up of the Company, be entitled to receive, from the trustee, a consideration equal to the amount realised by the sale by the trustee of approximately 122 ordinary shares for every B share held.

28. OWN SHARES HELD IN EMPLOYEE BENEFIT TRUSTS

The movements in own shares held in Employee Benefit Trusts in respect of employee share plans during the year were as follows:

	Company and Group 2012 £000	Company and Group 2011 £000
At the beginning of the year:		
1,135,803 (2011: 1,134,441) ordinary shares of 0.005p each	1,223	973
Purchased during the year:		
67,047 (2011: 59,735) ordinary shares of 0.005p each	298	291
Exercised during the year:		
3,044 (2011: 58,373) ordinary shares of 0.005p each	(13)	(41)
At the end of the year:		
1,199,806 (2011: 1,135,803) ordinary shares of 0.005p each	1,508	1,223

The Group has a UK-resident Employee Benefit Trust in order to hold shares in the Company in respect of awards under the Group's HM Revenue and Customs approved share incentive plan (SIP). At 31 May 2012, 676,093 ordinary shares (2011: 611,395) were held in the trust and at the year-end have reduced shareholders' equity by £1,448,443 (2011: £1,172,943). These include 238,013 ordinary shares (2011: 228,675) which were not allocated to employees and are available for future SIP awards. The market value of the shares held conditionally at the year-end was £2,928,159 (2011: £2,745,164).

The Group has a Jersey-resident Employee Benefit Trust which holds shares in the Company. At 31 May 2012, the trust held 512,075 (2011: 512,075) ordinary shares which are available to satisfy awards under the SIP and long-term incentive plan (LTIP) schemes. The shares held at the year-end have reduced shareholders' equity by £26 (2011: £26). The market value of the shares held conditionally at the year-end was £2,221,797 (2011: £2,299,217).

The Group has an Australian-resident Employee Equity Plan Trust in order to hold shares in the Company in respect of awards under a SIP. At 31 May 2012, 11,638 ordinary shares (2011: 12,333) were held in the trust and at the year-end have reduced shareholders' equity by £59,424 (2011: £49,991). These include nil ordinary shares (2011: nil) which were not allocated to employees and are available for future SIP awards. The market value of the shares held conditionally at the year-end was £50,404 (2011: £55,375).

Upon flotation of the Company on 4 May 2005, 5,861,497 ordinary shares and cash of £2.4 million were transferred to the Jersey Employee Benefit Trust by institutional shareholders in order to satisfy their obligations to holders of 48,059 B shares and 16,941 B shares respectively. During the year ended 31 May 2012, nil (2011: 1,017) B shares were sold by B shareholders to the Trust. The Trust sold nil (2011: 124,038) ordinary shares in order to realise the funds necessary to purchase these B shares. The Trust unconditionally held 63,622 (2011: 63,622) B shares at the year-end. The Trust also held 1,378 (2011: 1,378) B shares and 168,067 (2011: 168,067) ordinary shares, which it may sell in order to satisfy its obligations to B shareholders, all of whom are current or former employees.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

29. OTHER RESERVES

The share-based payment reserve relates to the estimated cost of equity-settled employee share plans based on a straight-line basis over the vesting period, and the associated credit for the excess of the tax deduction for employee share-based payments over the amounts charged to the income statement. The foreign currency translation reserve includes amounts in relation to the translation of overseas subsidiaries.

Group	Share-based payments £000 (note 30)	Foreign currency translation £000	Own shares held in Employee Benefit Trusts £000 (note 28)	Other reserves £000	Total other reserves £000
At 1 June 2010	21,269	59,446	(973)	-	79,742
Equity-settled employee share-based payments	4,225	-	-	-	4,225
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 11)	(831)	-	-	-	(831)
Acquisition of non-controlling interest	-	-	-	(2,302)	(2,302)
Foreign currency translation on overseas subsidiaries	-	(344)	-	-	(344)
Exercise of UK share incentive plans	(41)	-	41	-	-
Exercise of US share incentive plans	(26)	-	-	-	(26)
Purchase of own shares	-	-	(291)	-	(291)
At 31 May 2011	24,596	59,102	(1,223)	(2,302)	80,173
Equity-settled employee share-based payments	5,005	-	-	-	5,005
Excess of tax deduction benefit on share-based payments recognised directly in equity (note 11)	(101)	-	-	-	(101)
Foreign currency translation on overseas subsidiaries	-	774	-	-	774
Exercise of Australian share incentive plans	(13)	-	13	-	-
Exercise of US share incentive plans	(10)	-	-	-	(10)
Purchase of own shares	-	-	(298)	-	(298)
At 31 May 2012	29,477	59,876	(1,508)	(2,302)	85,543

Company	Share-based payments £000 (note 30)	Own shares held in Employee Benefit Trusts £000 (note 28)	Total other reserves £000
At 1 June 2010	15,964	(973)	14,991
Equity-settled employee share-based payments	4,225	-	4,225
Exercise of UK share incentive plans	(41)	41	-
Exercise of US share incentive plans	(26)	-	(26)
Purchase of own shares	-	(291)	(291)
At 31 May 2011	20,122	(1,223)	18,899
Equity-settled employee share-based payments	5,005	-	5,005
Exercise of Australian share incentive plans	(13)	13	-
Exercise of US share incentive plans	(10)	-	(10)
Purchase of own shares	-	(298)	(298)
At 31 May 2012	25,104	(1,508)	23,596

30. EMPLOYEE SHARE PLANS

The Company operates three employee share plans: a share incentive plan (SIP), a value-sharing plan (VSP) and a long-term incentive plan (LTIP), all of which are equity-settled. The expense recognised in the income statement in respect of share-based payments was £5,005,000 (2011: £4,225,000).

Share incentive plan (SIP)

SIP awards are made available to all UK, Australian and USA employees. The Executive Committee has responsibility for setting the terms of the award, which are then approved by the Remuneration Committee.

The UK and Australian awards invite all employees to subscribe for up to £1,500/ A$3,000 of partnership shares, with the Company matching on a one-for-one basis. All matching shares vest after three years, as long as the employee remains employed with the Group for the term of the award. Shares awarded under the scheme are held in trust in accordance with local tax authority rules. Employees are entitled to receive dividends on the shares held in trust for as long as they remain employees.

The USA award invites employees to invest a maximum of 5% of their salary bi-annually to the award. The award runs for a six-month period, and at the end of this period the employees are invited to purchase shares in IG Group Holdings plc at a discount of 15% to the scheme price, being the lower of the opening share price and the closing share price for the period.

The maximum number of SIP shares that vest based on the awards made are:

Country of award	Award date	Share price at award	Expected vesting date	Number at the start of the year	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number at the end of the year
UK	22 Jul 2008	328.00p	22 Jul 2011	56,232	-	(457)	(55,775)	-
Australia	27 Jan 2009	284.40p	27 Jan 2012	2,817	-	(580)	(2,237)	-
UK	22 Jul 2009	288.00p	22 Jul 2012	43,887	-	(2,605)	-	41,282
Australia	09 Feb 2010	367.42p	09 Feb 2013	4,453	-	(623)	(453)	3,377
UK	21 Jul 2010	483.85p	21 Jul 2013	53,099	-	(2,273)	-	50,826
Australia	05 Aug 2010	489.90p	04 Aug 2013	4,877	-	(772)	(354)	3,751
UK	28 Jul 2011	443.74p	28 Jul 2014	-	62,086	(1,577)	-	60,509
Australia	01 Aug 2011	444.77p	31 Jul 2014	-	4,961	(451)	-	4,510
Total				165,365	67,047	(9,338)	(58,819)	164,255

Value-sharing plan (VSP)

The VSP award was introduced during the year ended 31 May 2011 onwards to replace the long-term incentive plan award. VSP awards are conditional awards made available to Executive Directors and other senior staff. The Remuneration Committee has responsibility for agreeing any awards under the plan and for setting the policy for the way in which the plan should be operated, including agreeing performance targets and which employees should be invited to participate. Participants do not pay to receive awards or to receive release of shares. The VSP performance targets vest after three years, with a pre-defined number of shares allocated for each £10m of surplus shareholder value created over the three-year period above a hurdle. Half of the shares vest after three years and can be exercised at that date, with the remaining half being deferred for a further year, conditional upon continued employment at the vesting date.

The maximum number of VSP shares that vest based on the awards made are:

Award date	Share price at award	Expected vesting date	Number at the start of the year	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number at the end of the year
29 Oct 2010	528.50p	31 Jul 2013	2,229,018	-	(176,264)	-	2,052,754
29 Oct 2010	528.50p	31 Jul 2014	2,229,084	-	(176,272)	-	2,052,812
20 Jul 2011	450.00p	31 Jul 2014	-	3,571,745	(183,810)	-	3,387,935
20 Jul 2011	450.00p	31 Jul 2015	-	3,571,725	(183,807)	-	3,387,918
Total			4,458,102	7,143,470	(720,153)	-	10,881,419

NOTES TO THE FINANCIAL STATEMENTS
(continued)

30. EMPLOYEE SHARE PLANS (continued)

Long-term incentive plan (LTIP)

LTIP awards were made available to Executive Directors and other senior staff in the years ended 31 May 2005 to 31 May 2010, and were then replaced by the VSP award.

LTIP awards allowed the award of nil-cost or nominal-cost shares which were legally classified as options and vested when specific performance targets were achieved, conditional upon continued employment at the vesting date. For each award a minimum performance target has to be achieved before any shares vest, and the awards vest fully once the maximum performance target is achieved.

The maximum number of LTIP shares that vest based on the awards made are:

Award date	Share price at award	Expected vesting date	Number at the start of the year	Number awarded during the year	Number lapsed during the year	Number exercised during the year	Number at the end of the year
16 May 2005	112.25p	21 Jul 2008	40,666	-	-	(40,666)	-
07 Aug 2006	217.00p	07 Aug 2009	4,037	-	(4,037)	-	-
04 Oct 2006	261.75p	04 Oct 2009	32,639	-	-	-	32,639
23 Jul 2007	312.25p	23 Jul 2010	222,628	-	-	(11,944)	210,684
14 Aug 2007	311.00p	14 Aug 2010	14,700	-	-	-	14,700
21 Aug 2007	304.00p	21 Aug 2010	48,331	-	-	(48,331)	-
30 Sep 2008	313.75p	30 Sep 2011	2,691,343	-	(1,619,929)	(980,528)	90,886
25 Sep 2009	318.80p	25 Sep 2012	3,302,399	-	-	(119,982)	3,182,417
Total			6,356,743	-	(1,623,966)	(1,201,451)	3,531,326

Further information on the Company's VSP and LTIP awards is given in the Directors' remuneration report.

Fair value of equity-settled awards

The fair value of the equity-settled share-based payments to employees is determined at the grant date. The weighted average fair value of the equity-settled awards granted during the year was £19,025,911 (2011: £16,492,467).

For SIP awards, the fair value is determined to be the share price at the grant date without making an adjustment for expected dividends, as awardees are entitled to dividends over the vesting period.

For VSP awards made under the growth in profit before tax criteria, the fair value is determined to be the share price at the date of grant after a deduction for the expected present value of future dividends, over the vesting period. For VSP awards made under the Total Shareholder Return (TSR) criteria, fair value is calculated using a Monte Carlo pricing model. Please refer to the Directors' remuneration report for more information.

The inputs below were used to determine the fair value of the VSP award issued on 20 July 2011:

Share price at grant date (pence)	450.00
Three-month average market capitalisation at award date (£m)	1,671
Expected life of awards (years)	2.7
Risk-free sterling interest rate (%)	1.12
IG expected volatility (%)	47
Benchmark index expected volatility (%)	33
Expected dividend yield (%)	4.2

The weighted average fair values per award granted are as follows:

	At the start of the year	Awarded during the year	Lapsed during the year	Exercised during the year	At the end of the year
Year ended 31 May 2012	266.29p	263.86p	188.44p	217.70p	279.09p
Year ended 31 May 2011	223.90p	351.34p	261.57p	266.26p	266.29p

31. CAPITAL COMMITMENTS

Capital expenditure contracted for at the year-end but not yet incurred is as follows:

	Group	
	2012 £000	2011 £000
Property, plant and equipment	470	879
Intangible assets	603	345
	1,073	1,224

32. OBLIGATIONS UNDER LEASES

Operating lease agreements

The Group and Company have entered into commercial leases on certain properties. Future minimum rentals payable under non-cancellable operating leases are as follows:

Group	2012 £000	2011 £000
Future minimum payments due:		
Not later than one year	2,712	3,259
After one year but not more than five years	12,917	13,281
After more than five years	20,829	19,918
	36,458	36,458

Company	2012 £000	2011 £000
Future minimum payments due:		
Not later than one year	512	-
After one year but not more than five years	8,949	6,500
After more than five years	17,626	16,079
	27,087	22,579

33. TRANSACTIONS WITH DIRECTORS

The Group had no transactions with its Directors.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

34. RELATED PARTY TRANSACTIONS

34(a) Group

There were no related party transactions during the year. During the prior year, fees amounting to £10,583 were paid to CVC Capital Partners Limited relating to the services of Robert Lucas as a Director of IG Group Holdings plc.

The Directors are considered to be the key management personnel of the Group in accordance with IAS 24. The Directors' remuneration report discloses all benefits and share-based payments made during the year and the preceding year to the Directors. The total compensation for key management personnel was as follows:

	2012 £000	2011 £000
Salaries and other short-term employee benefits	4,229	1,895
Post-employment benefits	185	214
Share-based payments	1,689	1,210
	6,103	3,319

34(b) Company

The Company pays for certain expenses incurred by subsidiaries and received preference dividends from IG Group Limited of £128.9 million (2011: 120.8 million).

The Company had the following amounts outstanding with subsidiaries at the year-end:

	2012 £000	2011 £000
Loans to related parties	144,190	63,688
Loans from related parties	26,759	2,255

All amounts remain outstanding at the year-end and are repayable on demand. A number of intercompany amounts were subject to offset arrangements during the year.

35. FINANCIAL INSTRUMENTS

Accounting classifications and fair values – Group

The table below sets out the classification of each class of financial assets and liabilities and their fair values (excluding accrued interest). The Group considers the carrying value of all financial assets and liabilities to be a reasonable approximation of fair value and represents the Group's maximum credit exposure without taking account of any collateral held or other credit enhancements.

'Cash and cash equivalents' represent cash held on demand and on deposit with financial institutions (note 20).

'Trade receivables – due from brokers' represent balances with brokers where the combination of cash held on account (disclosed as loans and receivables) and the valuation of financial derivative open positions (disclosed as held for trading) results in an amount due to the Group. These positions are held to hedge client market exposures and hence are considered to be held for trading, and are accordingly accounted for at fair value through profit and loss (FVTPL). These transactions are conducted under terms that are usual and customary to standard margin trading activities and are reported net in the Group statement of financial position as the Group has both the legal right and intention to settle on a net basis.

'Trade receivables – due from clients' represent balances owed to the Group by clients.

'Trade payables – due to clients' represent balances where the combination of client cash held on account and the valuation of financial derivative open positions results in an amount payable by the Group. 'Trade payables – due to clients' are reported net in the Group statement of financial position, as the Group adjusts the gross amount payable to clients (ie monies held on behalf of clients) for profits or losses incurred on a daily basis, consistent with the legal right and intention to settle on a net basis.

'Redeemable preference shares' are disclosed in note 26.

The Group's financial instruments are classified as follows:

Group	FVTPL - held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
As at 31 May 2012					
Financial assets					
Cash and cash equivalents	-	228,156	-	228,156	228,156
Trade receivables – due from brokers					
Non-exchange-traded instruments	(6,244)	175,710	-	169,466	169,466
Exchange-traded instruments	(4,599)	42,130	-	37,531	37,531
Total trade receivables – due from brokers	(10,843)	217,840	-	206,997	206,997
Trade receivables – due from clients	-	2,425	-	2,425	2,425
Trade receivables – other amounts due from clients	-	12,920	-	12,920	12,920
	(10,843)	461,341	-	450,498	450,498
Financial liabilities					
Trade payables – due to title transfer clients	-	-	59,852	59,852	59,852
Redeemable preference shares	-	-	40	40	40
	-	-	59,892	59,892	59,892

NOTES TO THE FINANCIAL STATEMENTS
(continued)

35. FINANCIAL INSTRUMENTS (continued)

Accounting classifications and fair values – Group (continued)

Group (restated)	FVTPL - held for trading £000	Loans and receivables £000	Other amortised cost £000	Total carrying amount £000	Fair value £000
As at 31 May 2011					
Financial assets					
Cash and cash equivalents	-	124,528	-	124,528	124,528
Trade receivables – due from brokers					
Non-exchange-traded instruments	(5,607)	238,514	-	232,907	232,907
Exchange-traded instruments	543	34,342	-	34,885	34,885
Total trade receivables – due from brokers	(5,064)	272,856	-	267,792	267,792
Trade receivables – due from clients	-	2,312	-	2,312	2,312
	(5,064)	399,696	-	394,632	394,632
Financial liabilities					
Trade payables – due to title transfer clients	-	-	71,453	71,453	71,453
Trade payables – other amounts due to clients	-	-	11,639	11,639	11,639
Redeemable preference shares	-	-	40	40	40
	-	-	83,132	83,132	83,132

Financial instrument valuation hierarchy

The hierarchy of the Group's financial instruments carried at fair value is as follows:

Group	Level 1(1) £000	Level 2(2) £000	Level 3(3) £000	Total fair value £000
As at 31 May 2012				
Financial assets				
Trade receivables – due from brokers	(4,599)	(6,244)	-	(10,843)

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes the Group's exchange-traded open hedging positions

(2) Valued using techniques where a price is derived based significantly on observable market data. For example, where an active market for an identical financial instrument to the product offered by the Group to its clients or used by the Group to hedge its market risk does not exist

(3) Valued using techniques that incorporate information other than observable market data that is significant to the overall valuation

There have been no changes in the valuation techniques for any of the Group's financial instruments held at fair value in the year. During the year ended 31 May 2012, there were no transfers (2011: none) between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Group	Level 1(1) £000	Level 2(2) £000	Level 3(3) £000	Total fair value £000
As at 31 May 2011				
Financial assets				
Trade receivables – due from brokers	543	(5,607)	-	(5,064)

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes the Group's exchange-traded open hedging positions

(2) Valued using techniques where a price is derived based significantly on observable market data. For example, where an active market for an identical financial instrument to the product offered by the Group to its clients or used by the Group to hedge its market risk does not exist

(3) Valued using techniques that incorporate information other than observable market data that is significant to the overall valuation

Reconciliation of the movement in level 3 of the valuation hierarchy

Group	At 1 June 2011 £000	Gains or losses in revenue(1) £000	Cash settled positions(2) £000	Transfers £000	At 31 May 2012(3) £000
Financial liabilities					
Trade payables – due to clients	-	18,077	(18,077)	-	-

---

(1) Disclosed in trading revenue in the income statement. This represents client positions that have closed in the year as well those open at the year-end

(2) Value of client positions that have cash settled in the year

(3) Value of open, unsettled client positions at the year-end disclosed in trading revenue in the income statement

The impact of a reasonably possible alternative valuation assumption on the valuation of 'trade payables – due to clients', reported within Level 3 of the valuation hierarchy, is not significant.

Accounting classifications and fair values – Company

As at 31 May 2012, the Company held cash and cash equivalents of £151,000 (2011: £304,000) classified as 'loans and receivables' and redeemable preference shares of £40,000 (2011: £40,000) classified as 'other amortised cost'.

Items of income, expense, gains or losses – Group

Gains and losses arising from financial assets and liabilities classified as held for trading amounted to net gains of £366,971,000 (2011: £320,392,000).

Finance income (refer to note 9) totalled £2,487,000 (2011: £2,403,000). An amount of £2,181,000 (2011: £2,020,000) represents interest income on financial assets not at fair value through profit or loss, and includes interest receivable in respect of non-segregated client balances, part of which is held with brokers.

Finance costs (refer to note 10) totalled £2,283,000 (2011: £2,432,000). An amount of £1,042,000 represents interest expense on financial liabilities not at fair value through profit or loss (2011: £1,347,000). The remainder, £1,241,000 (2011: £1,085,000) represents fee expense arising from maintaining the Group's committed bank facilities.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

36. FINANCIAL RISK MANAGEMENT

Responsibility for risk management, including financial risks, resides at all levels within the Group, starting with the Board. Our Corporate Governance Framework, including details of how the Board delegates responsibility for internal control and risk management to our Audit and Risk Committees, is described in detail in the Corporate Governance section.

The Group's Internal Capital Adequacy Assessment Process (ICAAP) provides an ongoing assessment of the risks the Group believes have the potential to have a significant detrimental impact on its financial performance and future prospects, and describes how the Group mitigates these risks subject to the Group's risk appetite.

Financial risks arising from financial instruments are analysed into market, credit, concentration and liquidity risks, and these are discussed below.

(i) Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. This is analysed into market price, currency and interest rate risk components.

The Group's market risk is managed under the 'market risk policy' on a group-wide basis, and exposure to market risk at any point in time depends primarily on short-term market conditions and the levels of client activity. The Group utilises market position limits for operational efficiency and does not take proprietary positions based on an expectation of market movements. As a result, not all net client exposures are hedged and the Group may have a residual net position in any of the financial markets in which it offers products, up to the market risk limit.

The Group's market risk policy incorporates a methodology for setting market position limits, consistent with the Group's risk appetite, for each financial market in which the Group's clients can trade, as well as certain markets which the Board consider to be correlated. These limits are determined with reference to the liquidity and volatility of the underlying financial product or asset class, and represent the maximum long and short client exposure that the Group will hold without hedging the net client exposure.

The Group's real-time market position monitoring system allows it to monitor its market exposure against these limits continuously. If exposure exceeds these limits, the policy requires that hedging is undertaken to bring the exposure back within the defined limit.

There is a significant level of 'natural' hedging arising from the Group's global client base pursuing varying trading strategies, which results in a significant portfolio hedging effect. This reduces the Group's net market exposure prior to the Group hedging any residual net client exposures, as well as minimising concentration risk within the market risk portfolio.

Where the Group has residual positions in markets for which it has not been possible or cost-effective to hedge, the Risk Committee determines the appropriate action and reviews these exposures regularly, subject to the Risk Management Framework approved by the Board.

Binary bets are typically 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 hedge specific positions if considered necessary. The Group aims 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.

(a) Market price risk

This is the risk that the fair value of a financial instrument fluctuates as a result of changes in market prices other than due to the effect of currency or interest rate risks.

Equity market price risk:

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.

The equity exposure at the year-end was £16,535,000 (2011: £14,877,000), against an exposure limit of £16,500,000 (2011: £16,500,000) and an average equity exposure limit for the year of £16,500,000 (2011: £16,500,000). As noted earlier in this section, the Group's market risk policy requires that when exposure exceeds the exposure limit hedging is undertaken to bring the exposure back within that limit as soon as practical.

The Group has no significant concentration of market risk.

No sensitivity analysis is presented for equity market price risk, as the impact of reasonably possible market movements on the Group's net trading revenue and equity is not significant, being less than the Group's average daily net trading revenue from financial instruments (2012: £1,401,000; 2011: £1,252,000). 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.

Other market price risk:

The Group also has market price risk as result of its trading activities (offering bets and contracts for difference on interest rate derivatives and commodities), which is hedged as part of the overall market risk management. The exposure is monitored on a Group-wide basis and is hedged 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.

The exposure to interest rate derivatives and commodities at the year-end is as follows:

	2012 £000	2011 £000
Interest rate derivatives	11,278	21,332
Commodities	6,717	10,261

No sensitivity analysis is presented for other market price risk, as the impact of reasonably possible market movements on the Group's net trading revenue is not significant. Changes in risk variables have no direct impact on the Group's equity, as the Group has no financial instruments designated in hedging relationships.

(b) Foreign currency risk

The Group is exposed to two sources of foreign currency risk:

(i) Translational foreign currency risk

Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the Group's presentation currency. The functional currency of each company in the Group is that denominated by the country of incorporation as disclosed in note 17. The Group does not hedge translational exposures as they do not have a significant impact on the Group's capital resources.

(ii) Transactional foreign currency risk

Transactional foreign currency exposures represent financial assets or liabilities denominated in currencies other than the functional currency of the transacting entity. Transaction 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, while the Company's exposure to foreign currency risk is not considered by the Directors to be significant.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

36. FINANCIAL RISK MANAGEMENT (continued)

(i) Market risk (continued)

The Group monitors transactional foreign currency risks including currency statement of financial position 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 year-end was as follows:

	2012 £000	2011 £000
US dollar	2,773	(212)
Euro	(8,037)	351
Australian dollar	(5,348)	(1,134)
Yen	39	5,711
Other	4,046	4,593

No sensitivity analysis is presented for foreign exchange risk, as the impact of reasonably possible market movements on the Group's net trading revenue are not significant. Changes in risk variables have no direct impact on the Group's equity, as the Group has no financial instruments designated in hedging relationships.

(c) Non-trading interest rate risk

The Group also has interest rate risk relating to financial instruments not held at fair value through profit and loss. These exposures are not hedged.

The interest rate risk profile of the Group's financial assets and liabilities as at each year-end was as follows:

	Within 1 year		More than 5 years		Total	
Group	2012 £000	2011 £000 (restated)	2012 £000	2011 £000 (restated)	2012 £000	2011 £000 (restated)
Fixed-rate						
Redeemable preference shares (8%)	-	-	(40)	(40)	(40)	(40)
Floating-rate						
Cash and cash equivalents	228,156	124,528	-	-	228,156	124,528
Trade receivables – due from brokers	206,997	267,792	-	-	206,997	267,792
Trade payables – amounts due to clients	(59,852)	(71,453)	-	-	(59,852)	(71,453)
	375,301	320,867	(40)	(40)	375,261	320,827

Interest on financial instruments classified as fixed-rate is fixed until the maturity of the instrument.

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.

Interest rate risk sensitivity analysis

A non-traded interest rate risk sensitivity analysis has been performed on net interest income on segregated client funds, based on the value of client funds held at the year-end, on the basis of a 0.25% (2011: 0.25%) per annum fall and a 0.75% (2011: 0.75%) rise in interest rates, at the beginning of the year, as these are considered 'reasonably possible'. The impact of such a fall in interest rates would reduce net interest income on segregated client funds by approximately £2.0 million (2011: £1.6 million) per annum. The impact of such a rise in interest rates would increase net interest income on segregated client funds by approximately £5.5 million (2011: £5.3 million) per annum. Changes in risk variables have no direct impact on the Group's equity, as the Group has no financial instruments designated in hedging relationships.

(ii) 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. The Group's credit risk is managed on a Group-wide basis.

The Group's principal sources of credit risk are financial institution and client credit risk.

(a) Financial institution credit risk

Financial institution credit risk is managed in accordance with the Group's counterparty credit management policy.

Financial institutional counterparties are subject to a credit review when a new relationship is entered into, and this is updated semi-annually (or more frequently as required, eg on change in the financial institution's corporate structure or a change in its external credit rating or credit default swap (CDS) price). Proposed maximum exposure limits for these financial institutions are then reviewed and approved by the Risk Committee.

As part of its management of concentration risk, the Group is also committed to maintaining multiple brokers for each asset class. Where possible, the Group negotiates for its funds to receive client money protection, which can reduce direct credit exposure.

In respect of financial institution credit risk, the following key metrics are monitored on a daily basis:

- Balances held with each counterparty group, against limits approved by the Risk Committee
- Any change in short- and long-term credit rating
- Any change in CDS price

The Group is responsible under various regulatory regimes for the stewardship of client monies. These responsibilities are defined in the Group's counterparty credit management policy, and include the appointment and periodic review of institutions with which client money is deposited. The Group's policy is that all financial institutional counterparties holding client money accounts must have minimum Standard and Poor's short- and long-term ratings of A-2 and A- respectively, although in some operating jurisdictions, where accounts are maintained to provide local banking facilities for clients, it can be problematic to find a banking counterparty satisfying these minimum ratings requirements. In such cases the Group will seek to use the best available counterparty. These are also the target minimum ratings for the Group's own bank accounts held with financial institutions. The Group also actively manages the credit exposure to each of its broking counterparties by typically keeping the minimum required balances at each broker.

In addition, the majority of deposits are made on an overnight or breakable term basis, which enables the Group to react immediately to any downgrading of credit rating or material widening of CDS spreads, and deposits of an unbreakable nature or requiring notice are only held with a subset of counterparties which have been approved by the Risk Committee.

(b) Client credit risk

The Group operates a real-time mark-to-market trading platform, with client profits and losses being constantly updated on each client's account.

Client credit risk principally arises when a client's total funds deposited with the Group are insufficient to cover any trading losses incurred. In addition, a small number of clients are granted credit limits to cover open losses and margin requirements as described below.

In particular, client credit risk can arise where there are significant, sudden movements in the market, ie due to high general market volatility or specific volatility relating to an individual financial instrument in which the client has an open position. Credit risk is mitigated in part through our client suitability criteria, supported by an extensive training programme which aims to educate clients in all aspects of trading and risk management and encourage them to collateralise their accounts at an appropriate level.

The principal types of client credit risk exposure are managed under the Group's client credit management policy and depend on the type of account and any credit offered to clients.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

36. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

Clients subject to the Group's 'close-out monitor'

The Group's management of client credit risk is supported by a significantly automated liquidation process, the 'close-out monitor' (COM), whereby accounts which have broken the liquidation threshold are automatically identified. If the margin of a client which is subject to COM liquidation process is eroded, the client is requested to deposit additional funds up to at least the required margin level, and will also be restricted from increasing their market positions. If subsequently the client's intra-day losses increase such that their total equity falls below the specified liquidation level, positions will be liquidated immediately. This results in significantly improved client liquidation times and reduced credit risk exposure for the Group.

In addition, a subset of clients has what are known as 'limited risk' accounts. For such accounts a level is set in advance (the guaranteed stop level) at which the deal will be closed, meaning a maximum client loss can be calculated at the opening of the trade. Clients placing trades with guaranteed stop levels pay a small premium on each transaction. The maximum loss is then the amount the client is required to deposit to open the trade, meaning that in most circumstances the client can never lose more than their initial margin deposit. Although it is no longer offered to new clients, the Group still has a significant number of clients with this type of account. This type of account results in the transfer of an element of market risk to the Group, which is managed under the Group's market risk policy, and this type of trade is not available on all products. Clients with any type of account may still choose to use guaranteed stops where available.

The majority of client positions are monitored on the Group's real-time COM system, or are limited risk accounts with guaranteed stop-losses. As at 31 May 2012, 98.9% (2011: 98.8%) of financial client accounts are subject to the automatic COM procedure or are limited risk accounts.

Credit accounts

Clients holding other types of accounts are permitted to deal in circumstances where they may be capable of suffering losses greater than the funds they have deposited 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.

The Group may offer credit limits, with the result any 'open loss' can be paid subject to agreed credit terms. These accounts typically only create a credit exposure when the client's loss exceeds their initial margin deposit.

In addition to the waiver of payment of open losses on a trade, the Group may also offer clients credit in respect of their initial margin. This is a permanent waiving of initial margin requirements while the limit is active on the account, subject to the credit limit.

Credit limits are only granted following provision by the client of evidence of their available financial resources, and credit accounts limits are continuously reviewed by the Group's credit department. Credit accounts are small in number, are not actively promoted, and in general they are not made available to new clients.

Risk-based tiered margins

The Group applies a tiered margin requirement for equities and other instruments, with risk-adjusted margin requirements dependent on several factors, including the volatility and liquidity of the underlying instrument.

This has resulted in a potential margin requirement of up to 90% of the value of the notional client position for large client positions, but a reduced margin requirement for smaller client positions.

These tiered margins, in addition to the COM discussed earlier, contribute to the further mitigation of the Group's client counterparty credit risk exposure.

Management of non-cash client collateral

The Group also accepts non-cash collateral from a small number of clients in the form of shares or other securities, which mitigate the Group's credit risk. Clients retain title to the securities lodged whilst their trading account is operating normally, but are required to sign a collateral agreement which will allow the Group to take title and sell the securities in the event of the client defaulting on any margin obligations.

Securities accepted as collateral are normally restricted to FTSE 100 stocks, UK gilts or other high-quality bonds. The collateral value assigned to the client account is updated daily, and each security is assigned a 'haircut' value, eg a client is typically allowed to use 80% of a FTSE 100 current market value and 90-95% of a UK gilt market value.

Clients are only permitted to use non-cash collateral value to cover initial margin requirements; running losses on open positions are not covered under the agreement and are required to be covered by cash as part of the normal margining process.

The fair value of collateral held at 31 May 2012 against amounts due from clients was £3,864,000 (2011: £5,788,000).

The following tables present further detail on the Group's and the Company's exposure 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. No external credit rating of clients is available, and therefore the balances are classified as unrated.

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

The analysis of neither past due nor impaired credit exposures in the following table excludes individual client funds held in segregated client money accounts or money market facilities established under the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates. Under these rules, client money funds held with trust status are protected in the event of the insolvency of the Group.

	Cash and cash equivalents		Trade receivables – due from brokers		Trade receivables – due from clients		Collateral held at fair value	
	2012	2011	2012	2011	2012	2011	2012	2011
	£000	£000	£000	£000	£000	£000	£000	£000
Group	(note 20)		(note 19)		(note 19)			
Individually impaired								
Gross exposure	-	-	-	-	17,853	19,408	-	-
Allowance for impairment	-	-	-	-	(17,202)	(18,382)	-	-
	-	-	-	-	651	1,026	-	-
Past due but not impaired								
Ageing profile:								
0-3 months	-	-	-	-	246	523	-	-
4-6 months	-	-	-	-	-	-	-	-
7-9 months	-	-	-	-	-	-	-	-
10-12 months	-	-	-	-	61	-	-	-
> 12 months	-	-	-	-	-	-	-	-
	-	-	-	-	307	523	-	-
Neither past due nor impaired								
Credit rating:								
AA+ & above	-	-	-	-	-	-	1,152	3,509
AA to AA-	509	28,420	54,839	75,814	-	-	22	161
A+ to A-	223,606	89,489	149,758	189,035	-	-	541	757
BBB+ to BBB-	3,469(1)	5,954(1)	-	638	-	-	885	751
BB+ to B	234	420	-	-	-	-	-	102
CCC	16	-	-	-	-	-	-	-
Unrated	322	245	2,400(1)	2,305(1)	1,467	763	1,264	508
	228,156	124,528	206,997	267,792	1,467	763	3,864	5,788
Total carrying amount	228,156	124,528	206,997	267,792	2,425	2,312	3,864	5,788

(1) Balances are primarily related to the Group's operations in South Africa

Prepayments and other receivables are all unrated (2011: all unrated).

NOTES TO THE FINANCIAL STATEMENTS
(continued)

36. FINANCIAL RISK MANAGEMENT (continued)

(ii) Credit risk (continued)

Impairment of trade receivables due from clients

The Group records specific impairments of trade receivables due from clients in a separate allowance account. Impairments are recorded where the Group 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 year:

Group	2012 £000	2011 £000
Balance at 1 June	18,382	21,461
Impairment loss for the year		
- gross charge for the year	2,337	1,159
- recoveries	(1,226)	(3,321)
Write-offs	(1,779)	(1,172)
Foreign exchange	(512)	255
Balance at 31 May	17,202	18,382

Credit risk - Company

Held within prepayments and other receivables in the statement of financial position of the Company are amounts payable to the Company from related parties that are unrated. Refer to note 34(b). The Company is not otherwise exposed to material amounts of credit risk.

(iii) Concentration risk

Concentration risk is defined as all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of the Group. In respect of financial risk, such exposures may be caused by credit risk, market risk, liquidity risk or a combination or interaction of those risks.

The following table analyses the Group's credit exposures, at their carrying amounts, by geographical region, and excludes individual client funds held in segregated client money accounts or money market facilities established under the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates.

Analysis of credit exposures at carrying amount by geographical segment:

Group	UK £000	Europe £000	Australia £000	Japan £000	Rest of World £000	Total £000
As at 31 May 2012						
Financial assets						
Cash and cash equivalents	40,090	111,814	69,824	5,014	1,414	228,156
Trade receivables – due from brokers	71,001	71,306	20,741	-	43,949	206,997
Trade receivables – due from clients	2,134	141	150	-	-	2,425
Total financial assets	113,225	183,261	90,715	5,014	45,363	437,578

Group	UK £000	Europe £000	Australia £000	Japan £000	Rest of World £000	Total £000
As at 31 May 2011						
Financial assets						
Cash and cash equivalents	28,967	44,059	39,296	9,133	3,073	124,528
Trade receivables – due from brokers	76,774	134,190	31,492	-	25,336	267,792
Trade receivables – due from clients	2,048	86	178	-	-	2,312
Total financial assets	107,789	178,335	70,966	9,133	28,409	394,632

The Group's largest credit exposure to any one individual broker at 31 May 2012 was £55,145,000 (AA rated), or 26% of the exposure to all brokers (2011: £73,312,000, AA rated, 27%). Included in cash and cash equivalents, the Group's largest credit exposure to any bank at 31 May 2012 was £69,818,000 (A+ rated), or 31% of the exposure to all banks (2011: £39,116,000, A+ rated, 31%). The Group has no significant exposure to any one particular client or group of connected clients.

All of the Company's credit exposures arise in the UK at both 31 May 2012 and 31 May 2011.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or other financial assets.

Management of liquidity risk

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

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

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

In order to mitigate this and other liquidity risks, the Group regularly stress tests its three-year liquidity forecast to validate the correct level of committed unsecured bank facilities held. At the year-end, these amounted to £180.0 million (2011: £180.0 million) and, other than for testing purposes, were not drawn upon during the current nor preceding financial year. As well as the three-year liquidity forecast, the Group also produces more detailed short-term liquidity forecasts and detailed stress tests.

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

NOTES TO THE FINANCIAL STATEMENTS
(continued)

36. FINANCIAL RISK MANAGEMENT (continued)

(iv) Liquidity risk (continued)

The key measure used by the Group for managing liquidity risk is the level of total available liquidity. For this purpose total available liquidity is calculated as set out in the following table, inclusive of undrawn committed facilities.

Total available liquidity at each year-end was as follows:

	2012 £000	2011 £000 (restated)
Own cash and title transfer funds	228,156	124,528
Amounts due from brokers	206,997	267,792
Add back / (less) other amounts due from / (to) clients[1]	12,920	(11,639)
Available cash resources	448,073	380,681
Analysed as:		
Own funds	388,221	309,228
Title transfer funds	59,852	71,453
Available liquidity		
Available cash resources	448,073	380,681
Less broker margin requirement	(195,954)	(217,360)
Net available cash	252,119	163,321
Less title transfer funds	(59,852)	(71,453)
Net own cash available	192,267	91,868
Of which declared as dividend	(60,769)	(53,051)
Committed banking facilities[2]	180,000	180,000
Total available liquidity (including facilities)	311,498	218,817

(1) The comparative amount has been restated to disclose 'other amounts due from / (to) clients' which represent balances that will be transferred from the Group's own cash into segregated client funds on the immediately following working day in accordance the UK's Financial Services Authority (FSA) 'CASS' rules and similar rules of other regulators in whose jurisdiction the Group operates

(2) Drawdown of the committed banking facilities is capped at 80% of the actual broker margin requirement on the drawdown date. For example the actual committed facilities available for drawdown at 31 May 2012 based on the year-end broker margin requirement of £196.0 million were £156.8 million. Available drawdown of £156.8 million facility equates to total available liquidity as at 31 May 2012 of £288.3 million

The Group's available cash resources enable the funding of large broker margin requirements when required – the level of available cash resources at 31 May 2012 should be considered in the light of the intra-year high broker margin requirement of £277.1 million, the continued growth of the business and the Group's commitment to segregation of individual clients' money, as well as the final proposed 2012 dividend, all of which draw upon available cash resources. In the Directors' opinion the Group has sufficient liquid funds available to meet all operational requirements in the event of a large market movement. Liquidity management is also dependent on credit risk management previously described.

Derivative and non-derivative cash flows by remaining contractual maturity – Group
The following tables present the undiscounted cash flows receivable and payable (excluding interest payments) by the Group under derivative and non-derivative financial assets and liabilities allocated to the earliest period in which the Group can be required to pay although the remaining contractual maturities may be longer.

Amounts payable on demand

	Derivative £000	Non-derivative £000	Total £000
As at 31 May 2012			
Financial assets			
Cash and cash equivalents	-	228,156	228,156
Trade receivables – due (to) / from brokers	(10,843)	217,840	206,997
Trade receivables – other amounts due from clients	-	12,920	12,920
Trade receivables – amounts due from clients	-	2,425	2,425
	(10,843)	461,341	450,498
Financial liabilities			
Trade payables – due to clients	-	(61,076)	(61,076)
	(10,843)	400,265	389,422

Derivative trade receivables and payables disclosed in the table above represent the Group's open positions with brokers. Non-derivative trade receivables and payables disclosed in the table above represent cash margin held at brokers, closed client debtors, and client trading margin held on deposit respectively. Derivative and non-derivative cash flows are presented alongside each other in the table above as they result from the same underlying trading relationship, and as the Group has both the legal right and intention to settle on a net basis.

Trade receivables are disclosed as repayable on demand, as when client positions are closed the 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.

Trade payables are disclosed in the table above as repayable on demand, as 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.

Amounts payable on demand

Restated	Derivative £000	Non-derivative £000	Total £000
As at 31 May 2011			
Financial assets			
Cash and cash equivalents	-	124,528	124,528
Trade receivables – due (to) / from brokers	(5,064)	272,856	267,792
Trade receivables – amounts due from clients	-	2,312	2,312
	(5,064)	399,696	394,632
Financial liabilities			
Trade payables – due to clients	-	(71,851)	(71,851)
Trade payables – other amounts due to clients	-	(11,639)	(11,639)
	(5,064)	316,206	311,142

Amounts payable over five years
The Group has non-derivative cash flows payable over five years in relation to the redeemable preference shares at 31 May 2012 and 2011, as disclosed in note 26.

Derivative and non-derivative cash flows by remaining contractual maturity – Company
There were no Company derivative cash flows as at 31 May 2012 (2011: £nil).

At 31 May 2012 the Company held cash and cash equivalents of £151,000 (2011: £304,000) available on demand, and redeemable preference shares of £40,000 (2011: £40,000), the terms of which are disclosed in note 26.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

37. CAPITAL MANAGEMENT AND RESOURCES

Capital management

The Group is supervised on a consolidated basis by the UK's Financial Services Authority (FSA). The Group's operations in Australia, Japan, Singapore, South Africa and the United States are also regulated. Individual capital requirements in these jurisdictions are taken into account when managing the Group's capital resources.

The Group's regulatory capital resources management objective is to ensure that the Group complies with the regulatory capital resources requirement set by the FSA and other global regulators in jurisdictions in which the Group's entities operate.

The Group's capital management policy aims to maximise returns on equity while maintaining a strong capital position, to enable the Group to take advantage of growth opportunities, whether organic or by acquisition. The Group does not seek to generate higher returns on equity by introducing leverage through, for example, the use of long-term debt finance.

The Group's 2011 ICAAP was approved by the Board in January 2012. There have been no capital requirement breaches during the financial year. The Group also regularly undertakes three-year stress and scenario testing of its main financial and operational risks to project its future capital and liquidity adequacy requirements.

The Group's Pillar 3 Disclosures are published on its website www.iggroup.com, and these provide additional information on the Group's enterprise-wide Risk Management Framework and its management of regulatory capital on a consolidated and solo entity basis.

Capital resources

The Group had significant surplus regulatory capital resources over the regulatory capital resources requirement throughout the year. An analysis of the Group's consolidated capital resources and capital resources requirement is provided in the Operating and Financial Review.

The following table summarises the Group's capital adequacy on a consolidated basis:

£m	**2012**	**2011**
Total Tier 1 capital	448.7	380.1
Less intangible assets	(115.4)	(115.3)
Less investment in own shares	(1.5)	(1.2)
Total capital resources (CR)	331.8	263.6
Capital resources requirement (CRR)	(100.4)	(89.6)
Surplus	231.4	174.0
CR expressed as a % of CRR	330.5%	294.2%

38. SUBSEQUENT EVENTS

On 17 July 2012, Andrew MacKay, Director of Corporate Strategy, announced his decision to step down from the Board with effect from 31 July 2012, as noted in the Chairman's statement and Chief Executive's review.

39. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The financial statements of IG Group Holdings plc (the Company) and its subsidiaries (together the Group) for the year ended 31 May 2012 were authorised for issue by the Board of Directors on 17 July 2012, and the statements of financial position signed on the Board's behalf by Tim Howkins and Christopher Hill. IG Group Holdings plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and International Financial Reporting Interpretations Committee (IFRIC) interpretations as they apply to the financial statements of the Group and of the Company for the year ended 31 May 2012, and applied in accordance with the provisions of the Companies Act 2006. The Group and Company financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivatives) at fair value through profit and loss.

The principal accounting policies adopted by the Group and the Company are set out in note 40.

40. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow have been applied in preparing the financial statements for the year ended 31 May 2012.

As permitted by Section 408(1)(b), (4) of the Companies Act 2006, the individual income statement of IG Group Holdings plc (the Company) has not been presented in these financial statements. The amount of profit after taxation for the financial year dealt with in the financial statements of IG Group Holdings plc is £127,932,000 (2011: £122,278,000). A statement of comprehensive income for IG Group Holdings plc has also not been presented in these financial statements. No items of other comprehensive income arose in the year (2011: £nil).

The Group and Company financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£000), except where otherwise indicated.

Going concern

The Directors have prepared the financial statements on a going concern basis, which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Basis of consolidation

The Group financial statements consolidate the financial statements of IG Group Holdings plc and the entities it controls (its subsidiaries), made up to the reporting date, as listed in note 17.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities, and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights or by way of contractual agreement. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intercompany balances and transactions between Group entities, including unrealised profits arising from them, are eliminated on consolidation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of consideration paid including an estimate of any contingent or deferred consideration. Contingent or deferred consideration is re-measured at each statement of financial position date, with periodic changes to the estimated liability recognised in the consolidated income statement. Acquisition-related costs are expensed as incurred. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the profit and loss in the period of acquisition.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Non-controlling interests

Where the Group and a non-controlling shareholder enter into a forward contract (symmetrical put and call options) under which the Group is required to purchase the non-controlling interest for its fair value (formulae-based valuation), at the forward date, the Group continues to recognise the non-controlling interest at the proportionate share of the acquiree's identifiable net assets, until expiry of the arrangement. The forward liability is also recognised for management's best estimate of the present value of the redemption amount with a corresponding entry in equity. The accretion of the discount on the liability is recognised as a finance charge in the consolidated income statement. The liability is re-measured to the final redemption amount with any periodic changes to the estimated liability recognised in the consolidated income statement. On expiry of the forward contract the liability is eliminated as paid and any difference in the value of the non-controlling interest to the exercise price deducted from equity.

On an acquisition-by-acquisition basis non-controlling interests are measured either at fair value or at the non-controlling interest proportionate share of the acquiree's net assets. The Group has elected to apply the proportionate share of the acquiree's net assets methodology to the acquisition completed during the year.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the non-controlling interest is recorded in equity.

Losses applicable to the non-controlling shareholder in a consolidated subsidiary's equity may exceed the non-controlling interest in the subsidiary's equity. The excess, and any further losses applicable to the non-controlling shareholder, are allocated against the majority interest, except to the extent that the non-controlling shareholder has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interests until the non-controlling shareholder's share of losses previously absorbed by the majority has been recovered.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group, and is presented within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Foreign currencies

The functional currency of each company in the Group is that of the country of incorporation (as disclosed in note 17) as this is consistent with the primary economic environment in which the entity operates. The Group's most significant functional currency is sterling. Transactions in other currencies are initially recorded in the functional currency by applying spot exchange rates prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing on the same date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are taken to the income statement, except for exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

40. ACCOUNTING POLICIES (continued)

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. 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 statement of financial position 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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition (fair value of consideration paid) over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a business at the date of acquisition. Goodwill is recognised as an asset and is allocated to cash-generating units for purposes of impairment testing. Cash-generating units represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Business combinations are accounted for using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.
After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level, as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

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, such as a trade name or customer relationship, is recognised at fair value 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
- The correlation between development costs and future revenue has been established

Following initial recognition, the historic 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 over their expected useful lives, as follows:

Development costs	-	straight-line basis over 3 years
Software and licences	-	straight-line basis over the contract term of up to 5 years
Trade names	-	sum of digits method over 2 years
Client lists and customer relationships	-	sum of digits method over 3 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.

Impairment of assets

At least annually, or when impairment testing is required, the Directors review the carrying amounts of the Group'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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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, although impairment losses relating to goodwill may not be reversed.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses.

Operating leases

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

Financial instruments

The Group 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 instruments are disclosed in note 35 to the financial statements.

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 the financial derivative open positions included in 'trade receivables – due from brokers' and 'trade payables – due to clients', as shown in the statement of financial position and related notes. Financial instruments are classified as held for trading if they are expected to settle in the short-term. The Group uses derivative financial instruments, in order to hedge derivative exposures arising from open client positions, which are also classified as held for trading.

All financial instruments at fair value through the profit and loss are carried in the statement of financial position at fair value, with gains or losses recognised in revenue in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

40. ACCOUNTING POLICIES (continued)

Determination of fair value

Financial instruments arising from open client positions and the Group's hedging positions are stated at fair value and disclosed according to the valuation hierarchy required by IFRS 7. Fair values are predominantly determined by reference to third party market values (bid prices for long positions and offer prices for short positions) as detailed below:

- Level 1: valued using unadjusted quoted prices in active markets for identical financial instruments.
- Level 2: valued using techniques where a price is derived based significantly on observable market data. For example, where an active market for an identical financial instrument to the product offered by the Group to its clients or used by the Group to hedge its market risk does not exist.
- Level 3: valued using techniques that incorporate information other than observable market data that is significant to the overall valuation.

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

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

Financial liabilities

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

Trade receivables and trade payables

Assets or liabilities resulting from profit or losses on open positions are carried at fair value. Amounts due from or 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 Group. 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 Group.

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, and when economic benefit is consumed. A provision for impairment is established where there is objective evidence of non-collectability.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits which may be accessed without penalty. Cash equivalents comprise short-term highly-liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value. For the purposes of the consolidated cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

The Group holds money on behalf of clients in accordance with the client money rules of the UK Financial Services Authority (FSA) and other regulatory bodies. Such monies are classified as either 'cash and cash equivalents' or 'segregated client funds' in accordance with the relevant regulatory requirements. Segregated client funds comprise individual client funds held in segregated client money accounts or money market facilities. Segregated client money accounts hold statutory trust status, restricting the Group's ability to control the monies, and accordingly such amounts and are not held on the Group's statement of financial position.

The amount of segregated client funds held at year-end is disclosed in note 20 to the financial statements. The return received on managing segregated client funds is included within net operating income.

Title transfer funds are held by the Group under a Title Transfer Collateral Arrangement (TTCA), by which a client agrees that full ownership of such monies is unconditionally transferred to the Group. Title transfers funds are accordingly held on the Group's statement of financial position, with a corresponding liability to clients within trade payables.

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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. Where material, provisions are discounted and recognised at the present value of expenditures expected to settle the obligation, with the unwind of the discount recognised as an interest expense.

Taxation

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

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

Deferred tax is 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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 Group intends to settle its current tax assets and liabilities on a net basis.

Classification of shares as debt or equity

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

Equity instruments issued by the Company are recorded 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 Group after deducting all of its liabilities.

Own shares held in Employee Benefit Trusts

Shares held in trust by the Company for the purposes of employee share schemes are classified as a deduction from shareholders' equity and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

40. ACCOUNTING POLICIES (continued)

Revenue recognition

Trading revenue represents gains and losses arising on client trading activity, primarily in financial spread betting, contracts for difference, or binary bets and the transactions undertaken to hedge the risk associated with client trading activity. Open client and hedging 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. The policies and methodologies associated with the determination of fair value have been discussed above under Financial Instruments.

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

Trading revenue is reported gross of introducing broker commission, as these amounts are directly linked to trading revenue. Introductory broker commission, along with betting duties paid, are disclosed as an expense in arriving at net operating income.

Finance revenue and interest income on segregated client funds is accrued on a time basis, by reference to the principal client funds 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. Interest income on segregated client funds is disclosed within revenue, and therefore operating profit, as this is consistent with the nature of the Group's operations.

Net trading revenue, disclosed on the face of the consolidated income statement and in the notes to the financial statements, represents trading revenue from financial instruments carried at fair value through profit and loss, and has been disclosed net of introductory broker commission as this is consistent with the management information received by the Chief Operating Decision Maker.

Dividends receivable are recognised when the shareholders' right to receive the payment is established.

Operating profit

Operating profit is the sum of the results of the principal activities of the Group after charging depreciation of property, plant and equipment, amortisation of intangible assets, operating lease rentals on land and buildings, foreign exchange differences, profit or loss on sale of property, plant and equipment and other administrative expenses.

Exceptional items

Exceptional items are those items of income and expense that the Group considers are material and/or of such a nature that they merit separate presentation in order to aid a reader's understanding of the Group's financial performance.

Finance costs and interest expense on segregated client funds

Finance costs and interest expense on segregated client funds are 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.

Interest expense on segregated client funds is disclosed within operating profit, as this is consistent with the nature of the Group's operations.

Retirement benefit costs

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

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Income statement presentation - discontinued operations

Discontinued operations consist of a single major line of business or a geographical area that have either been closed or sold during the period or are classified as held for sale at the year-end.

In the year ended 31 May 2012, the Group's Sport business has been disclosed as a discontinued operation and the comparative balances restated accordingly. The financial performance and cash flows of discontinued operations are separately reported in note 12.

Share-based payments

The Company operates three employee share plans: a share incentive plan, a value-sharing plan, and a long-term incentive plan (the last award of which was made in 2010), all of which are equity-settled. The costs of these awards are measured at fair value calculated using option pricing models (refer to the share based payment note for additional detail of the models and assumptions used for the various award schemes) and are recognised as an expense in the income statement on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

At each statement of financial position 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 statement of financial position date is recognised in the income statement as part of administrative expenses, with a corresponding entry in equity.

The grant by the Company of options over its equity instruments to employees of the subsidiary undertakings in the Group is treated as a capital contribution. The fair value of the employee services received is recognised over the vesting period as an increase in the investment in subsidiary undertakings, with a corresponding credit to equity.

Segment information

The Group's segmental information is disclosed in a manner consistent with the basis of internal reports regarding components of the Group that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to assess the performance and to allocate resources to those 'operating segments'. The Group has therefore determined its operating segments based on the management information received on a regular basis by the Executive Directors of the IG Group Holdings plc Board, as they are considered to be the CODM. Operating segments that do not meet the quantitative thresholds required by IFRS 8 are aggregated.

The Group has also early-adopted the IFRS Improvements Standard issued in April 2009 that provides an amendment to IFRS 8, such that segment assets are not required to be disclosed as segment assets and are not reported to the CODM.

The Group envisages that the reportable segments may change as overseas businesses move towards operational maturity, breaking through the quantitative thresholds of IFRS 8. The segments are therefore subject to annual review and the comparatives restated to reflect any reclassifications within the segmental reporting.

Changes in accounting policies

The accounting policies adopted in the preparation of financial statements are consistent with those followed in the preparation of the Group's Annual Report for the year ended 31 May 2011, other than the presentational changes referred to in note 1.

New and amended standards adopted by the Group

The Group has adopted the following new or amended standards as of 1 June 2011:

- Amendment to IFRS 7 (revised) financial instruments: disclosures. The amended standard introduces additional disclosures in relation to the transfers of financial assets
- IAS 24 (revised) related party disclosures, issued in November 2009 (effective 1 January 2011). This standard clarifies the definition of a related party and includes an explicit requirement to disclose commitments involving related parties

The following new standards and interpretations are also effective for accounting periods beginning 1 June 2011 but have not had a material impact on the presentation of, nor the results or financial position of, the Group:

- IFRIC 14 prepayments of a minimum funding requirement (effective January 2011)
- IFRIC 19 extinguishing financial liabilities with equity instruments

Other new standards, amendments and interpretations, including those listed below, have been issued but are not effective for accounting periods beginning 1 June 2011 and have not been early adopted by the Group:

- IFRS 9 financial instruments, issued in November 2009, amended 2010. This standard is the first step in the process to replace IAS 39, financial instruments, recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2015 and has not yet been endorsed by the EU. The Group has yet to assess the impact of IFRS 9
- IFRS 13 fair value measurement (effective 1 January 2013)
- IFRS 10 consolidated financial statements (effective 1 January 2013)
- IFRS 11 joint arrangements (effective 1 January 2013)
- IFRS 12 disclosure of interests in other entities (effective 1 January 2013)
- IAS 19 (revised 2011) employee benefits (effective 1 January 2013)
- Amendment to IFRS 7 financial instruments: disclosures (effective 1 July 2013)
- IAS 32 financial instruments: presentation (effective 1 January 2014)
- Amendment to IAS 12 income taxes on deferred tax assets or liabilities on investment property (effective 1 January 2012)
- Amendment to IAS 1 presentation of financial statements on OCI (effective 1 July 2012)
- IAS 28 investment in associates and joint ventures (effective 1 January 2013)
- Amendment to IFRS 7 disclosures - offsetting financial assets and financial liabilities (effective 1 January 2013)

The new standards and amendments listed above are not expected to have a material impact on the Group or Company.

INVESTOR RESOURCES AND OTHER INFORMATION →

FIVE-YEAR SUMMARY

GROUP INCOME STATEMENT

For the year ended 31 May	2012 (1) £000	2011 (1) £000	2010 £000	2009 £000	2008 £000
Net trading revenue	**366,812**	**312,721**	**298,551**	**257,089**	**184,008**
Other net operating income	2,358	5,875	1,172	377	(621)
Net operating income	369,170	318,596	299,723	257,466	183,387
Adjusted administrative expenses	(172,897)	(145,075)	(133,782)	(126,380)	(84,894)
EBITDA	196,273	173,521	165,941	131,086	98,493
Depreciation, amortisation and amounts written off property, plant and equipment	(10,760)	(10,308)	(8,654)	(6,423)	(4,922)
EBIT	185,513	163,213	157,287	124,663	93,571
Finance revenue	2,487	2,403	2,664	2,887	4,047
Finance costs	(2,283)	(2,411)	(2,312)	(1,678)	(628)
Adjusted profit before taxation	**185,717**	**163,205**	**157,639**	**125,872**	**96,990**
Amortisation and impairment of intangibles arising on consolidation	-	(150,703)	(17,298)	(14,613)	-
Profit before taxation from continuing operations	185,717	12,502	140,341	111,259	96,990
Tax expense	(48,583)	(32,792)	(38,855)	(32,607)	(29,702)
Loss from discontinued operations	(374)	(5,002)	-	-	-
Profit / (loss) for the year	136,760	(25,292)	101,486	78,652	67,288

(1) The 2012 and 2011 numbers have been restated to remove the discontinued Sport business and present as a discontinued operation

GROUP STATEMENT OF FINANCIAL POSITION

As at 31 May	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Assets					
Non-current assets					
Property, plant and equipment	15,555	16,761	9,632	11,632	9,824
Intangible assets	115,366	117,202	265,328	260,607	112,056
Deferred tax assets	11,915	11,264	14,264	7,562	8,053
	142,836	145,227	289,224	279,801	129,933
Current assets					
Trade receivables	222,342	270,104	206,243	183,085	263,323
Prepayments and other receivables	9,745	8,199	7,084	4,928	5,690
Cash and cash equivalents	228,156	124,528	128,097	99,407	102,759
	460,243	402,831	341,424	287,420	371,772
TOTAL ASSETS	603,079	548,058	630,648	567,221	501,705
Liabilities					
Current liabilities					
Trade payables	61,076	83,490	57,673	90,642	213,726
Other payables	64,815	45,149	44,825	27,326	26,715
Provisions	1,353	1,427	1,377	-	-
Income tax payable	28,652	37,060	38,863	36,560	16,508
	155,896	167,126	142,738	154,528	256,949
Non-current liabilities					
Deferred tax liabilities	-	-	11,463	16,740	-
Provisions	-	1,991	1,779	-	-
Redeemable preference shares	40	40	40	40	40
	40	2,031	13,282	16,780	40
Total liabilities	155,936	169,157	156,020	171,308	256,989
Capital and reserves					
Total shareholders' equity	446,997	378,700	471,449	393,364	244,676
Non-controlling interests	146	201	3,179	2,549	40
Total equity	447,143	378,901	474,628	395,913	244,716
TOTAL EQUITY AND LIABILITIES	603,079	548,058	630,648	567,221	501,705

Each of the summary statements of financial position presented above has been restated in order to be prepared consistently with the accounting policies disclosed in the financial statements for the year ended May 2012.

FIVE-YEAR SUMMARY (continued)

OTHER METRICS

For the year ended 31 May	2012(1)	2011(2)	2010	2009	2008
Earnings per share					
Basic adjusted earnings per share	37.90p	32.86p	30.98p	24.85p	20.62p
Diluted adjusted earnings per share	37.54p	32.57p	30.77p	24.74p	20.28p
Basic earnings / (loss) per share	37.90p	(5.66p)	28.19p	22.42p	20.62p
Diluted earnings / (loss) per share	37.54p	(5.66p)	28.00p	22.31p	20.28p
Dividend per share					
Interim dividend per share	5.75p	5.25p	5.0p	4.0p	3.0p
Final dividend per share	16.75p	14.75p	13.5p	11.0p	9.0p
Total dividend per share	22.5p	20.0p	18.5p	15.0p	12.0p
Dividend payout ratio (against basic adjusted EPS)	60.0%	61.4%	59.7%	60.4%	58.2%
Profit margin					
Adjusted profit before taxation margin(3)	50.6%	52.2%	52.8%	49.0%	52.7%
EBITDA margin(4)	53.5%	55.5%	55.6%	51.0%	53.5%

(1) EPS presented for the continuing business. In the year ended 31 May 2012, there has been no amortisation or impairment of intangible assets associated with the Group's Japanese business and therefore adjusted and unadjusted EPS measures are equivalent

(2) 31 May 2011 figures have been restated for the continuing business only and exclude the discontinued Sport business

(3) Calculated as adjusted profit before tax divided by net trading revenue. For 31 May 2012 this is based on unadjusted profit before tax

(4) Calculated as EBITDA divided by net trading revenue

CLIENT METRICS

For the year ended 31 May	2012	2011	2010	2009	2008
Average revenue per financial client (£)	2,560	2,341	2,425	2,263	3,064
Number of active financial clients	143,304	133,580	120,689	109,747	56,291
Number of financial accounts opened	67,593	71,344	81,134	74,331	42,693
Number of financial accounts trading for the first time	48,029	49,246	55,674	50,364	29,211

CLIENT METRICS – EXCLUDING IG MARKETS SECURITIES (FORMERLY FXONLINE)

For the year ended 31 May	2012	2011	2010	2009	2008
Average revenue per financial client (£)	2,695	2,491	2,600	2,495	3,064
Number of active financial clients	130,006	117,252	103,338	88,336	56,291
Number of financial accounts opened	61,988	60,331	63,757	61,538	42,693
Number of financial accounts dealing for the first time	45,292	44,803	46,612	44,291	29,211

EXAMPLE
'BUYING' A SPREAD BET

INTRODUCTION

In this example, you decide to 'buy' A plc (assumed to be a FTSE 100 company) at £100 per point, as you expect that A plc's share price will rise. Later in the day the share price has indeed risen and you decide to close your position by 'selling' A plc at our then current bid price.

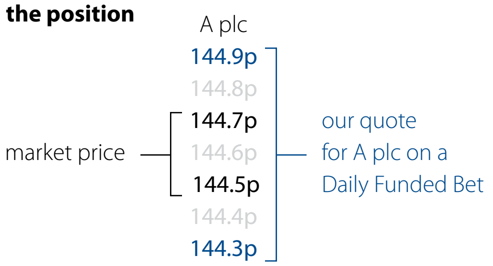
Your profit is the difference between the 'buying' and 'selling' prices, plus or minus any funding charges or other costs (discussed in Steps 3 and 5).

As long as your bet is open, your account will show any 'running' profit or loss on your open position (not illustrated below). You must have deposited sufficient funds to cover any running losses.

You cannot place a bet without having any money in your account. In this example, we assume you have £1,000. It is important to note that you can make losses in excess of your initial deposit, if the market moves against you.

Step 1

Opening the position



You decide to 'buy' £100 per point at 144.9p, our offer price. In this example one point represents a 1p movement in the underlying share price, so your £100 per point bet is equivalent to buying 10,000 shares in A plc.

Bet details

You **'buy' £100** per point at **144.9p** ⟵ the offer price

Your initial deposit requirement[1]

$$\underset{\text{bet size}}{\boxed{\text{£}100}} \times \overset{\text{mid-price}}{\boxed{144.6p}} \times \underset{\text{deposit factor}}{\boxed{5\%}} = \overset{\text{initial depost required}}{\boxed{\text{£}723}}$$

Spread[2]

$$\underset{\text{our quote}}{\boxed{144.9p}} - \overset{\text{market price}}{\boxed{144.7p}} \times \underset{\text{per point}}{\boxed{\text{£}100}} = \overset{\text{spread}}{\boxed{\text{£}20}}$$

---

(1) The deposit factor (and therefore deposit requirement) depends on your account type and other factors such as the volatility and liquidity of the underlying share

(2) Our dealing spread varies depending on the market and asset class traded and can be variable, especially in volatile market conditions. For examples please see our website, www.igindex.co.uk

Step 2

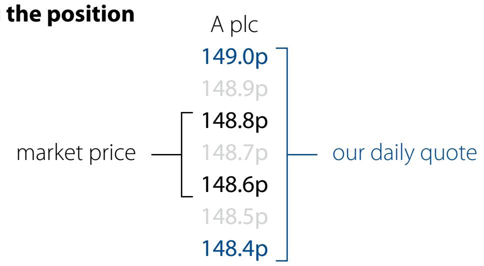
When you open the position, you are required to have the initial £723 deposit requirement in your account. The available funds in your account will therefore fall from £1,000 to £277 (ie £1,000 – £723). The available funds remaining in your account need to be enough to cover any running losses you may incur, or you run the risk of being closed out of the bet. It is important to note that the £723 is held as a deposit against the risk of the open position and will be released on the closing of the position: it is still your money but is not available for withdrawal from the account whilst the position is open.

Step 3

We will also reflect the impact of any corporate action on the underlying share, such as a dividend or a rights issue. In this example we have kept things simple and assumed no corporate actions occur; however for more details please see our website, www.igindex.co.uk.

Step 4

Closing the position



In the afternoon the A plc share price has indeed risen and you decide to close the position realising your profit on the bet. At this point A plc is trading in the market at 148.6/148.8p and our daily quote is 148.4p/149.0p.

Bet details

You **'sell' £100** per point at **148.4p** ⟵ the bid price

Gross profit on the bet

$$\underset{\text{closing position price}}{\boxed{148.6p}} - \overset{\text{opening position price}}{\boxed{144.7p}} \times \underset{\text{per point}}{\boxed{\text{£}100}} = \overset{\text{gross profit}}{\boxed{\text{£}390}}$$

Spread

$$\underset{\text{market price}}{\boxed{148.6p}} \times \overset{\text{our quote}}{\boxed{148.4p}} \times \underset{\text{per point}}{\boxed{\text{£}100}} = \overset{\text{spread}}{\boxed{\text{£}20}}$$

Of course, had the market moved in the opposite direction, you would have made a loss of £100 for every penny the share price fell, which may have exceeded your initial deposit.

Step 5

Calculating the profit or loss

	Client	IG[3]
'Buying' spread (Step 1)	(£20.00)	£20.00
'Selling' spread (Step 4)	(£20.00)	£20.00
Gross profit (Step 4)	£390.00	(£390.00)
IG hedging gain[3]	n/a	£390.00
Net gain	£350.00	£40.00

For many markets (for example index futures) we build funding charges into the quote price. For share Daily Funded Bets we make funding adjustments each day at 10pm. We apply funding at the rate of one-month LIBOR +/- a spread (generally 2.5%). In the example above, if the bet had remained open at 10pm, and assuming one-month LIBOR of 0.68%, a funding charge of £1.31 would have been applied against the client account and recorded as revenue for IG (calculated as (£100 x 150.0p (assumed closing price) x 3.18%) / 365 = £1.31).

---

(3) This simple example assumes IG is 100% hedged on the client bet and makes an equal and opposite gain on our broker position to the amount paid to the client. The cost of our hedging with the broker has been ignored for simplicity. Therefore our net profit is £40.00, which is recorded in trading revenue and is equivalent to the spread included in our quoted prices

EXAMPLE
'SELLING' A CONTRACT FOR DIFFERENCE

INTRODUCTION

In this example, on day one you decide to 'sell' a CFD for 20,000 shares in B plc (assumed to be a FTSE 100 company) as you expect B plc's share price to fall. On day two the share price has indeed fallen, and you decide to close your position as you now believe the share price will rise again.

As long as your contract is open, your account will show any 'running' profit or loss on your open CFD position (not illustrated below). You must have deposited sufficient funds to cover any running losses.

You cannot place a trade without having any money in your account. In this example, we assume you have £1,000. It is important to note that you can make losses in excess of your initial deposit requirement (referred to as 'margin requirement' in CFD trading), if the market moves against you.

Step 1

Day one – opening the position

B plc
80.35p — offer price
80.3p — mid price
bid price — 80.25p

Trade details

You 'sell' 20,000 shares at 80.25p ← the bid price

Your initial margin requirement[1]

mid-price → 80.3p; initial margin required → £803
20,000 x 80.3p x 5% = £803
number of shares → 20,000; margin percentage → 5%

Commission[2]

bid price → 80.25p; commission → £16.05
20,000 x 80.25p x 0.10% = £16.05
number of shares → 20,000; commission rate → 0.10%

---

(1) The margin percentage (and therefore margin requirement) depends on the size of your CFD position and other factors such as the volatility and liquidity of the underlying share. In this example we have used a margin requirement of 5%

(2) Commissions are variable, but for UK FTSE 100 CFDs (as assumed for B plc), the rate was 0.10% on 15 May 2012

Step 2

When you open the position, you are required to have enough funds in your account to cover the initial margin plus commission on the trade. In this example the margin requirement is £803 and the commission is £16.05, so the available funds in your account will fall from £1,000 to £180.95 (ie £1,000 – £803 – £16.05). It is important to note that the £803 is held as a margin requirement against the risk of the open position and will be released on the closing of the position: it is still your money but is not available for withdrawal from the account whilst the position is open.

Step 3

Traditionally, clients who held long positions overnight would need to pay a funding charge, while clients with short positions would receive interest if held overnight. This charge or interest is calculated as the one-month sterling LIBOR rate +/- a spread. However, with current market interest rates lower than the spread, clients with short positions also incur a charge. As at 15 May 2012, the current LIBOR rate was 0.68%, while the spread was 2.5%, resulting in a net financing charge of 1.82% for short CFD positions held overnight (which for UK CFDs means those open at 10pm UK time). A corresponding long CFD position would incur a charge of 3.18%. This is re-calculated daily.

Daily interest charged

closing price (day one) → 80.75p; days → 365
20,000 x 80.75p x 1.82% / 365 = £0.81
number of shares → 20,000; financing rate → 1.82%; financing change → £0.81

Step 4

We will also reflect the impact of any corporate action on the underlying share, such as a dividend or a rights issue. In this example we have kept things simple and assumed no corporate actions occur; however for more details please see our website, www.igmarkets.co.uk.

Step 5

Day two – closing the position

B plc
78.35p — offer price
bid price — 78.25p

On day two, the share price has fallen and you decide to close the position as you believe the price will now rise. The bid/offer price at that point is 78.25p/78.35p.

Trade details

You '**buy**' 20,000 shares at 78.35p ← the offer price

Commission

offer price → 78.35p; commission → £15.67
20,000 x 78.35p x 0.10% = £15.67
number of shares → 20,000; commission rate → 0.10%

Gross profit on the trade

'buying' price → 78.35p; gross profit → £380
80.25p - 78.35p x 20,000 = £380
'selling' price → 80.25p; number of shares → 20,000

Of course, had the market moved in the opposite direction, you would have made a loss of £200 for every penny the share price gained, which may have exceeded your initial margin outlay.

Step 6

Calculating the profit or loss

	Client	IG[3]
'Selling' commission (step 1)	(£16.05)	£16.05
Financing charge (step 3)	(£0.81)	£0.81
'Buying' commission (step 5)	(£15.67)	£15.67
Gross profit (step 5)	£380.00	(£380.00)
IG hedging gain[3]	n/a	£380.00
Net gain	£347.47	£32.53

(3) This simple example assumes IG is 100% hedged on the client trade and makes an equal and opposite gain on our broker position to the amount paid to the client. The cost of our hedging with the broker has been ignored for simplicity. Thus our net profit is £32.53, which is recorded in trading revenue and consists of the commission and financing charges levied on the client

GLOSSARY OF TERMS

APB	Auditing Practices Board
AGM	Annual General Meeting
ASIC	Australian Securities and Investment Commission
Binary bet	A special form of spread bet with only two outcomes at expiry – if a specific result is achieved, the bet is closed at a level of 100. If the result is not achieved, the bet closes at 0. Binary bets therefore have something in common with a traditional fixed-odds bet, except that the Group makes a continuous price for the binary, between 0 and 100, allowing closure of the bet before the final settlement to crystallise any running profits or losses before expiry
CFTC	US Commodities Futures Trading Commission
Close-out monitor	The Group's automatic real-time position-closing system (see the Managing our Business Risks section in the business review and note 36 to the financial statements)
Combined Code	The Combined Code on Corporate Governance (Combined Code) sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders Provision A3.2 – at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent Principle A6 – performance management - the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors
Company	IG Group Holdings plc
Consolidated regulatory capital resources	Tier 1 and Tier 3 capital are calculated under the GENPRU rules of the UK's Financial Services Authority
Contract for difference	A CFD is an agreement to exchange the difference in value of a financial instrument at the time in which the contract is opened and the time at which it is closed
DMA	Direct Market Access allows clients to send orders directly into the order book of a stock exchange
FSA	The UK's Financial Services Authority
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards (as adopted by the EU)
LIBOR	London inter-bank offered rate
LTIP	Long-term incentive plans
MTF	Multilateral trading facilities
OTC	'Over the counter' means non-exchange-traded financial instruments
Pillar 1 – capital resources requirement	Minimum FSA specified rule-based capital requirements for credit, market and operational risk under the FSA's BIPRU Rulebook
Pillar 3 Disclosures	Public disclosure of capital adequacy to facilitate the wider market's role in ensuring regulated firms hold appropriate levels of capital – disclosed on our corporate website (www.iggroup.com)
Pip	A 'percentage in point' is generally, though not always, the fourth decimal place, ie 0.0001. Used predominantly in forex transactions
Risk appetite statement	Approved by the Group's Board of Directors and sets out the level of risk that the Group is willing to take in pursuit of its business objectives
Spread bet	A bet on whether a financial market (the underlying market) will rise or fall. We offer two prices on every market; the difference is known as the bid/offer spread. If you think a market is set to rise you 'buy' at the higher (or offer) price, and if you think it will fall you 'sell' at the lower (bid) price. Whether you gain or lose money on the bet – and how much – depends on the size/direction of any movement in the underlying market
SIP	Share incentive plan
Tiered margining	We use a system of four margin tiers ranging from 5% in Tier 1 (small trade sizes) to potentially 90% under Tier 4. It includes risk-adjusted margin requirements dependent on specific financial instrument volatility and individual client type
TSR	Total Shareholder Return
Variation margin	A margin is collateral that the holder of a financial instrument has to deposit to cover some or all of the credit risk of his counterparty. The variation margin is not collateral, but a daily payment of running profits and losses on the open position
VSP	Value-sharing plan

GLOBAL OFFICES

UK

London (headquarters)

IG Index Limited
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2YA

+44 (0)20 7896 0011
helpdesk@igindex.co.uk
www.igindex.co.uk

IG Markets Limited
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2YA

+44 (0)20 7896 0011
helpdesk@igmarkets.com
www.igmarkets.co.uk

EUROPE (EXCLUDING UK)

Amsterdam

IG Markets Netherlands
Paascheuvelweg 1
1105 BE Amsterdam
NETHERLANDS

+31 (0)20 7946 610
info@igmarkets.nl
www.igmarkets.nl

Düsseldorf

IG Markets Limited
Zweigniederlassung Deutschland
Berliner Allee 10
40212 Düsseldorf
GERMANY

+49 (0)211 88 23 70 00
info@igmarkets.de
www.igmarkets.de

Lisbon

IG Markets Limited
Av. Eng. Duarte Pacheco
Amoreiras, Torre 1
6º andar, Escritório 6
1070-101 Lisboa
PORTUGAL

+351 800 814 763
info@igmarkets.pt
www.igmarkets.pt

Luxembourg

IG Markets Limited
15, rue du fort Bourbon
L1249
LUXEMBOURG

+352 24 87 11 17
info@igmarkets.lu
www.igmarkets.lu

Madrid

IG Markets Limited
Paseo de la Castellana, 13
Planta 1ª, Derecha
28046 Madrid
SPAIN

+34 91 414 15 15
info@igmarkets.es
www.igmarkets.es

Milan

IG Markets Limited
Via Paolo da Cannobio n.33,
7° Piano, 20122 Milano
ITALY

+39 800 897 582
italiandesk@igmarkets.it
www.igmarkets.it

Paris

IG Markets Limited
17 Avenue George V
75008 Paris
FRANCE

+33 (0)1 70 98 18 18
info@igmarkets.fr
www.igmarkets.fr

Stockholm

IG Markets Limited
Stureplan 2
114 35 Stockholm
SWEDEN

+46 (0)8 5051 5000
kundservice@igmarkets.se
www.igmarkets.se

ASIA PACIFIC

Beijing

IG Markets Limited Beijing
Representative Office
St Regis Hotel Office Building
Room 901
9th Floor
No 21 Jian Guo Men Wai Avenue
Chao Yang District
Beijing
P.R. CHINA 100020

+(86 10) 8532 3886
RepOffice@igmarkets.com.cn
www.igmarkets.com.cn/en

Melbourne

IG Markets Limited
Level 7
417 St Kilda Road
Melbourne VIC 3004
AUSTRALIA

+61 (3) 9860 1711
helpdesk@igmarkets.com.au
www.igmarkets.com.au

Singapore

IG Markets Limited
22-03 Chevron House
30 Raffles Place
SINGAPORE 048622

+(65) 6390 5118
helpdesk@igmarkets.com.sg
www.igmarkets.com.sg

Tokyo

IG Markets Securities Limited
Shiodome
City Center 10F
1-5-2 Higashi-Shinbashi
Minato-ku, Tokyo 105-7110
JAPAN

+81 3 6704 8500
helpdesk@igmarkets.co.jp
www.igmarkets.co.jp

NORTH AMERICA

Chicago

Nadex, Inc.
311 South Wacker Drive
Suite 2675
Chicago, IL 60606
USA

+1 312 884 0100
customerservice@nadex.com
www.nadex.com

SOUTH AFRICA

Johannesburg

IG Markets South Africa Limited
Royal Melbourne
Fourways Golf Park
Roos Street
Fourways
Johannesburg
SOUTH AFRICA

+27 (0)11 467 8500
helpdesk@igmarkets.co.za
www.igmarkets.co.za

SHAREHOLDER AND COMPANY INFORMATION

RECEIVING SHAREHOLDER INFORMATION BY EMAIL

You may supply the Company with an email address for the purpose of receiving shareholder information, as an alternative to posting whenever shareholder communications are added to the Company website, by visiting www.capitashareportal.com and registering online for electronic communications ('e-coms').

If you subsequently wish to change your election, or receive documents or information by post, you can do so by contacting the Company's registrars at:

Capita Registrars
Freepost Plus RLYX-GZTU-KRRG
SAS
The Registry
34 Beckenham Road
Beckenham
BR3 4TU

Or contact them by telephone on: 0871 664 0391 (calls cost 10p per minute plus network extras, lines are open 9am – 5.30pm, Mon-Fri). From outside the UK call: +44 (0) 20 8639 3367.

RECEIVING SHAREHOLDER INFORMATION BY MEANS OF OUR CORPORATE WEBSITE

For many shareholders, it will be convenient to access shareholder information on our corporate website at www.iggroup.com. We will notify you by post, or by email if you have elected for e-coms, when shareholder information has been placed on the website and indicate where on the site you can access it.

2012 Final dividend dates

Ex-dividend date	19 September 2012
Record date	21 September 2012
Last day to elect for DRIP	28 September 2012
AGM	18 October 2012
Payment date	23 October 2012

Annual shareholder calendar

(a) Company reporting

Final results announced	17 July 2012
Annual Report published	21 September 2012
FY13 Q1 Interim Management Statement	11 September 2012
Annual General Meeting	18 October 2012
FY13 interim results announced	w/c 14 January 2013
FY13 Q3 Interim Management Statement	w/c 11 March 2013

(b) Dividend payment

Interim	March
Final	October

Interim Report

As part of our e-coms programme, we have decided not to produce a printed copy of our Interim Report. Instead the Interim Report will be published on our website and will be available around mid-January each year.

COMPANY INFORMATION

Directors

Executive Directors
T A Howkins (Chief Executive)
C F Hill
P G Hetherington
A R MacKay

Non-Executive Directors
J R Davie (Chairman)
D Currie
S G Hill
D M Jackson
N B le Roux (Deputy Chairman)
R P Yates (Senior Independent Director)

Company Secretary
B Messer

Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Bankers
Lloyds Banking Group plc
10 Gresham Street
London EC2V 7AE

Royal Bank of Scotland Group plc
280 Bishopsgate
London EC2M 4RB

Solicitors
Linklaters
1 Silk Street
London EC2Y 8HQ

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Brokers
UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Numis Securities Limited
10 Paternoster Square
London EC4M 7LT

Registered office
Cannon Bridge House
25 Dowgate Hill
London EC4R 2YA

Registered number
04677092

Investor relations
Kieran McKinney (Head of Investor Relations)
investors@iggroup.com

CAUTIONARY STATEMENT

Certain statements included in our 2012 Annual Report, or incorporated by reference within it, may constitute 'forward-looking statements' in respect of the Group's operations, performance, prospects and/or financial condition.

By their very nature, forward-looking statements involve uncertainties because they relate to events, and depend on circumstances, that will or may occur in the future. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. The forward-looking statements contained herein reflect knowledge and information available at the date of this report and the Group undertakes no obligation to update these forward-looking statements.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the Company, and nothing in this report should be construed as a profit forecast.

IG Group Holdings plc
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2YA
Tel: +44 (0)20 7896 0011
Fax: +44 (0)20 7896 0010
www.iggroup.com