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IG Group Holdings plc

Report and financial statements

31 May 2006

ERNST & YOUNG



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Directors

Executive directors

N B le Roux (chief executive)
T A Howkins (finance director and chief executive designate)
P G Hetherington
A R MacKay

Non-executive directors

J R Davie (chairman)
R P Yates (senior independent director)
Sir Alan Budd
D M Jackson
R R Lucas

Secretary

A R MacKay

Auditors

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

Bankers

Bank of Scotland
Citymark
150 Fountainbridge
Edinburgh EH3 9DE

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Brokers

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registered Office

Friars House
157-168 Blackfriars Road
London SE1 8EZ

Directors' biographies

Jonathan Davie (non-executive chairman, 59 years old)

Jonathan was a partner at Wedd Durlacher Mordaunt for ten years before becoming a managing director of Barclays de Zoete Wedd Holdings in the fixed income division and a main board director for nine years. From 1991 to 1996 he served as chief executive of BZW Global Equities followed by 18 months as deputy chairman. Jonathan is currently a vice-chairman of Credit Suisse First Boston, a position to which he was appointed following the acquisition of BZW Global Equities in April 1998. Jonathan joined IG as chairman in January 2004.

Nat le Roux (chief executive, 49 years old)

Nat read Law at St Catharine's College, Cambridge. He spent ten years in futures broking and stockbroking before joining IG in 1992. Initially he held the position of financial dealing director, which gave him operational management of all aspects of the financial division including dealing, risk management and marketing. He was promoted to deputy chief executive in 1999 in which role he took the lead in business development and overseas expansion. He has been chief executive since March 2002.

Tim Howkins (finance director and chief executive designate, 43 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 and was the partner responsible for IG's audit. He joined IG as finance director in 1999 and will become chief executive on appointment of a new finance director.

Peter Hetherington (chief operating officer, 37 years old)

Peter read Economics at Nottingham University and has a Masters in Finance from London Business School. Peter was an officer in the Royal Navy before joining IG, as a graduate trainee, in February 1994. He became head of financial dealing in 1999 and was appointed a director of IG Group in June 2002, since when he has performed the role of chief operating officer.

Andrew MacKay (legal director, 40 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.

Sir Alan Budd (non-executive director, 68 years old)

Sir Alan was appointed a non-executive director and the senior independent director of IG in April 2005. He was chief economic advisor to the Treasury and head of the government economic service between 1991 and 1997 and served as a member of the Monetary Policy Committee of the Bank of England between 1997 and 1999. Prior to 1991, he was group economic advisor at Barclay's Bank and Professor of Economics at the London Business School. He was chairman of the Gambling Review Body and is currently Provost of The Queen's College, Oxford.

Martin Jackson (non-executive director, 57 years old)

Martin was appointed a non-executive director of IG and chairman of the audit committee in April 2005. He was the group finance director of Friends Provident plc between 2001 and 2003 and Friends Provident Life Office between 1999 and 2001. Prior to that, he was the group finance director at London & Manchester Group plc from 1992 to 1998 up to the date of its acquisition by Friends Provident Life Office. He is a non-executive director and chairman of the audit committee of Admiral Group plc and is a fellow of the Institute of Chartered Accountants.

Directors' biographies

Robert Lucas (non-executive director, 43 years old)

Robert read Electrical Engineering at Imperial College, London. He joined Marconi post graduation until 1987, when he moved into private equity investment with 3i plc. In 1996, he joined CVC Capital Partners Limited as a director based in London and, in 2004, he became a partner. Robert is a non-executive director of a number of companies in which funds managed or advised by CVC Capital Partners Limited or its affiliates have invested, including Kwik-Fit Group Limited and AA Top Co Limited. He became a non-executive director in 2003.

Roger Yates (non-executive director, 49 years old)

Roger has 23 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. Roger was a director of AMP Limited between December 2002 and December 2003 and is currently chief executive of Henderson Group plc. He was appointed as a non-executive director on 9 February 2006.

Chairman's statement

for the year ended 31 May 2006

It is my pleasure to present my second annual statement after another year of record earnings for IG, as detailed in the chief executive designate's report.

Revenue for the year was £89m and profit before tax £51m. Cash generated from our operations was £129m. These results have emanated from our focus on broadening our domestic and international client base, by offering a wider range of products and excellent levels of customer service, mainly via our internet platform. IG now generates significant revenues from outside the UK. Our international strategy is to continue to widen our geographic spread where local regulation and market conditions are suitable.

Prior to the end of IG's financial year, Nat le Roux indicated to the board that he wished to relinquish his responsibilities as chief executive. The board is extremely grateful to Nat for the contribution that he has made to the development of IG over the four years he has held the position of chief executive, as well as his previous 10 years with the group. Nat has agreed to remain on the board as non-executive deputy chairman. I am delighted that IG will continue to benefit from his experience and expertise.

Tim Howkins will take over from Nat as chief executive as soon as a new finance director is appointed. Tim has been finance director for the last seven years and has worked closely with Nat in formulating the strategy of the group over the last four years. His appointment will ensure continuity of management and strategic direction for the group.

During the year we also strengthened our board with the appointment of Roger Yates as a non-executive director. Roger is our senior independent director and serves on the audit, remuneration and nomination committees. Roger is currently chief executive of Henderson Group plc.

In line with the dividend policy set out in our prospectus, your board will recommend at the AGM the payment of a final dividend of 4p per share. This will bring the total dividend for the year to 5.5p, which is approximately twice covered by earnings.

I would like to close by extending my thanks to our IG colleagues, whose skill and hard work have been instrumental in delivering the very strong growth in revenues and profits that we have experienced over the last year.

Together with all my colleagues at IG, I look forward to working towards another successful year for our businesses in 2006/7.

J R Davie

Chairman

24 July 2006

Chief executive designate's report

for the year ended 31 May 2006

IG has a track record of reporting good growth levels. Over the past eight years revenues have grown at a compound annual rate of approximately 40%. Even against this strong historic performance, growth rates this year were excellent with revenue up 44%, to £89m, EBITDA up 51% to £53m and normalised earnings per share up 61% to 10.88p. We have spent the last few years expanding our product range, enhancing our technology and beginning to develop IG from a UK-centric business into a multi-national operation. I believe that IG is well positioned for further growth.

Financial

Our regulated financial businesses performed strongly with revenue up 49% to £75.1m. Levels of equity market volatility remained subdued for most of the year, although increasing dramatically in the last two weeks of May. During this period of high market volatility our well-established risk management systems performed robustly with no loss making days and the volatility of our daily revenue remaining low.

Spread betting

Our financial spread betting business had its most successful year. Revenue was £54.8m, up 47%, accounting for 61% of group revenues. The rate of client recruitment increased significantly in the second half of the year and the run rate of account opening in the last three months of our financial year was approximately double the rate of six months earlier. This is the highest sustained level of account recruitment ever achieved. Account opening is a key leading indicator for the business and therefore I am optimistic about the continuing growth prospects of this business.

There are a number of factors that may be responsible for this acceleration in client recruitment. In part, it may simply reflect an increasing recognition that IG is the leading financial spread betting brand, with market-leading dealing software and product range. We continue to improve our client offering to ensure that we further extend this market lead. The increase may also reflect the impact of reducing our spreads on spot currencies in January. Markets which clients trade short-term show the most elasticity of demand after spread cuts and this was the last such market where our spreads were higher than some of our competitors. Moving to fully competitive spreads in these currency markets resulted in a significant increase in the number of new clients we are recruiting who are only, or primarily, interested in betting on currencies.

CFDs

Our London based contracts for difference (CFD) business achieved revenue growth of 60% to £15.0m and now accounts for 17% of group revenues. This business is becoming increasingly international, with more than 40% of revenues now coming from clients outside the UK, largely through a developing network of introducers.

Continental Europe was the most significant geographic area outside the UK, accounting for almost £3m of revenues. We intend to increase our presence in several European countries in the coming months and will commence marketing directly to end-clients rather than solely recruiting clients indirectly via introducers. We plan to establish an office in Germany which will handle account opening and initial enquiries from prospective clients. We will commence advertising in Germany within the next three months. We envisage commencing direct marketing in at least one other European country within the next six months.

Ireland is also becoming an increasingly important source of clients. This is a country which has seen a large increase in personal wealth over recent years. A substantial portion of this wealth is now managed by private client stock brokers who are increasingly seeking to offer their clients the opportunity to trade equity markets with gearing using CFDs. Over the last six months we have won mandates from many of the major private client stock brokers in Ireland and opened large numbers of accounts. The indications are that there is a significant amount of business still to win.

Chief executive designate's report

for the year ended 31 May 2006

CFDs (continued)

Looking further afield there are a number of countries where the regulatory regime enables us to offer foreign exchange trading, but not CFDs on individual equities or equity indices. Perhaps the most obvious of these is the US, where we already hold the necessary regulatory authorisation to enable us to offer currency trading to retail clients. We are looking for the right opportunities to allow us to generate substantial revenue in this regulated market. It remains our policy not to accept bets from US resident clients.

Australia

Our Australian office again delivered excellent growth, with revenue up 136% to £8.9m, accounting for 10% of group revenues. There are encouraging signs that we are gaining market share against the backdrop of a rapidly expanding overall market.

We have recently recruited a local marketing manager in Australia and she will be running our marketing efforts in both Australia and Singapore. This appointment will improve our ability to react quickly to changes in local market conditions. We are increasing our marketing expenditure in Australia and, as the market increases in sophistication, our view is that brand awareness is becoming increasingly more important.

During the current financial year our Melbourne office will be relocating to larger premises in order to provide room for future expansion. We also plan to open a small sales office in Sydney.

We continue to believe in the strength of our Australian business and in its potential to continue to deliver further significant growth.

Singapore

Our Singapore office opened in April and has made an encouraging start, with about 300 accounts opened so far.

The early signs are that client interest is primarily in currency markets rather than in CFDs on local shares. We are running seminars to increase awareness of the benefits of equity CFDs.

In addition to serving the Singapore market itself the office is proving a useful base from which to approach introducers in surrounding countries where the regulatory framework permits.

Financial binaries

The financial binary is viewed by most of our clients as an adjunct to the rest of our product range, rather than a stand-alone product. It provides a useful differentiator between our service and that of our competitors and since it is most attractive to clients in low volatility conditions enhances the diversification of our revenue. Volatility rose sharply towards the end of the financial year and this naturally resulted in some shift of client activity away from binaries and into our traditional scalar markets such as Daily FTSE and Daily Wall Street. As a consequence of these factors revenue growth from binaries was muted at only 5%.

Chief executive designate's report

for the year ended 31 May 2006

Sports

Our sport spread betting business achieved growth of 25% with revenues of £7.6m, 8.5% of group revenues. This is a commendable achievement in a year which, aside from England winning the Ashes, featured no major sporting events other than the normal annual calendar. Our software was originally designed to calculate and distribute prices for financial markets. Applying this technology to sport gives us the ability to price more markets with more frequent updates than any of our competitors.

Our smaller sport fixed odds business doubled its revenues, up to £1.5m, accounting for 2% of group revenues. This business encompasses sports binaries, extrabet and market making into exchanges. Extrabet and market making into exchanges were both new ventures this year and were intended to capitalise on our existing ability to make prices in order to provide incremental revenues from the existing infrastructure of the sports department. Market making into betting exchanges has been a success and while the revenue generated in the year was small, at only £0.3m, I feel that the prospects for this business are encouraging. We were market making in only one exchange for much of the year, and began market making into a second only a few days before the year end. Subsequent to the year end we have seen a significant increase in the volume of business we are transacting on exchanges as the second exchange has come on stream. I believe there is considerable further scope to grow this business, both on the existing exchanges and on others.

Our new sports fixed odds web-site, extrabet.com has received some very favourable coverage in the sporting press and client recruitment has been good: to date we have recruited almost 9,000 clients of whom about two thirds have placed a bet. Transaction sizes are significantly smaller than in our other businesses and the clients are significantly less "sticky", so that towards the end of the World Cup, while we had recruited about 8,000 clients only about 10% of these clients were logging-on on a daily basis. Our planned initial marketing has come to an end, and we will see how client recruitment and behaviour develops over the next few months as we enter the domestic football season.

Investing for the future

As a result of our success in generating new clients, transaction volumes and hence load on our systems have increased significantly. We have completed a capacity planning exercise and are in the process of building new data centres appropriate to the scale of business we hope to become over the next few years. We have also taken an additional floor in our London office building, which adds approximately 50% to our existing office space and is currently being fitted out. Taken together these projects represent significant but necessary capital expenditure to enable IG to continue to deliver the group's growth momentum.

Current trading and outlook

The strong trading that we have seen in recent months continued after the year end. June was another very good month for our financial business, with revenue significantly higher than in June 2005. The World Cup is the most important event in the four-year sporting calendar and helped our sports department produce its best ever month in June. Perhaps more importantly the World Cup proved a good client recruitment opportunity, with our sport spread betting business recruiting more clients than it did during either Euro 2004 or the 2002 World Cup.

Chief executive designate's report

for the year ended 31 May 2006

Current trading and outlook (continued)

I feel fortunate, as incoming chief executive, that I inherit a business which is performing strongly. We have well-established businesses in London and Melbourne which are delivering strong growth and I have no reason to believe that this growth will not continue, providing that we continue to develop and enhance our infrastructure and product offering. There are a great many opportunities to extend the reach of our business and the challenge for the coming year is to prioritise and allocate our resources so as to maximise the return on the investment of marketing, IT development and management time. My immediate priorities are to sustain high levels of growth from our existing businesses and to develop significant client bases within Europe, starting with Ireland and Germany.

I approach the chief executive role with great confidence in the future of IG.



Tim Howkins

Finance director and chief executive designate

24 July 2006

Group operating and financial review

for the year ended 31 May 2006

Introduction

The Accounting Standards Board issued Reporting Statement: Operating and Financial Review in January 2006. This statement does not have mandatory force and is not an accounting or reporting standard. The directors have considered the recommendations of this reporting statement in producing this operating and financial review (OFR). A discussion of the group's performance and future prospects has been included in the chief executive designate's report.

Nature, objectives and strategies

The group's businesses

The group has operated in three principal areas of activity throughout the year; financial, financial binaries and sports.

Financial

Spread bets on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial markets; spread bets on options on certain of these products; exchange traded futures and options. Spot and forward contracts for foreign exchange and contracts for differences (CFDs) on shares, indices and other financial markets.

Financial binaries

Fixed odds betting on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial markets.

Sports

Spread bets and fixed odds bets on sporting and other events.

Business objective

The group's objective is to maximise shareholder value by pursuing the following strategies

- Maintaining a leading position in the group's core UK financial spread betting market
- Continuing to broaden the client base
- Expanding the group's international reach
- Continuing to deliver product and technological innovation

Business strategies

Maintaining a leading position in the group's core UK financial spread betting market

The group is widely recognised as the market leader in the financial spread betting market, which is predominantly a UK business. The group's strategy is to continue to strengthen this market lead by offering the broadest range of products and by offering quality and speed of execution. The group's advertising in this market is focused on maintaining and enhancing awareness of the IG brand.

Continuing to broaden the client base

The group's strategy is to continue to broaden the client base from what has historically been a relatively narrow but sophisticated group of predominantly retail clients. This will include attracting a greater proportion of leisure-oriented clients for the group's fixed odds offerings and more market professionals and institutional clients for its CFD business. Further developing the business of market making on betting and financial exchanges, as well as white-labelling opportunities (where the group's products are branded and distributed in the name of third parties), will extend the reach of the group's products.

Group operating and financial review

for the year ended 31 May 2006

Nature, objectives and strategies (continued)

Expanding the group's international reach

The group continues to expand its non-UK client base. It now has offices in Australia and Singapore and will continue to explore the feasibility of other offices where local regulation and market conditions are suitable. In addition the group continues to extend the range of third parties who introduce clients to the group and this is an effective way of establishing a presence for the group's regulated financial business in territories which do not merit the establishment of a local office.

The group now has multi-lingual websites for its CFD, financial binary and sports fixed odds businesses and will continue to offer an increasing range of languages in order to further widen its global reach.

Continuing to deliver product and technological innovation

The group recognises the benefits it has experienced as a result of the introduction of innovative products such as binary bets and extrabet and the introduction of market leading dealing platforms. This culture of innovation is one which the group intends to maintain in order to continue to be at the forefront of the market in terms of product offering and technology platforms.

Five year summary

A discussion of the group's performance is included within the chief executive designate's report.

	Year ended 31 May ¹				
	2006	2005	2004 ²	2003 ²	2002 ²
	IFRS £000	IFRS £000	UK GAAP £000	UK GAAP £000	UK GAAP £000
Revenue	89,391	62,177	49,839	40,996	33,573
EBITDA ³	52,629	34,949	25,128	17,188	14,628
EBITDA margin ³	58.9%	56.2%	50.4%	41.9%	43.6%
Profit before tax	51,140	16,621	7,920	15,281	13,375
Basic earnings per share ⁴	10.92p	5.83p	1.55p	—	—
Diluted earnings per share ⁴	10.88p	5.41p	1.43p	—	—
Normalised earnings per share ³	10.88p	6.75p	4.94p	3.30p	2.86p
Interim dividend paid per share	1.5p	—	—	—	—
Final dividend proposed per share	4.0p	—	—	—	—
Total dividend per share	5.5p	—	—	—	—

¹ Figures reported for 2005 have been restated to reflect changes in accounting policies brought about as a result of the group's adoption of international financial reporting standards (IFRS) as explained in note 30 to the group financial statements. Figures prior to 1 June 2004 are prepared under UK GAAP rather than IFRS.

² The financial statements of IG Group Holdings plc include the results of the group from 5 September 2003 (the date of acquisition of the group). The five year summary presents revenue, EBITDA, profit before tax and normalised earnings per share as if IG Group Limited (formerly IG Group plc) was a member of the group throughout.

³ EBITDA, EBITDA margin, and normalised earnings per share are defined and explained in the key performance indicators commentary.

⁴ Basic and diluted earnings per share are presented for the period from 5 September 2003 to 31 May 2004 and for the full years ended 31 May 2005 and 2006. Comparatives are not available for the preceding years as IG Group Holdings plc was not in existence.

Group operating and financial review

for the year ended 31 May 2006

Group revenue

Group revenue by business segment

	2006 £000	2005 £000	Increase £000	Increase %
Financial	75,129	50,391	24,738	49.1%
Financial binaries	5,196	4,950	246	5.0%
Sports	9,066	6,836	2,230	32.6%
	<u>89,391</u>	<u>62,177</u>	<u>27,214</u>	<u>43.8%</u>

Group revenue by geographical segment

	2006 £000	2005 £000	Increase £000	Increase %
United Kingdom	80,466	58,401	22,065	37.8%
Australia and Singapore	8,925	3,776	5,149	136.4%
	<u>89,391</u>	<u>62,177</u>	<u>27,214</u>	<u>43.8%</u>

Group profit

	2006 £000	% of segment revenue	2005 £000	% of segment revenue
Financial	63,644	84.7%	39,623	78.6%
Financial binaries	3,593	69.1%	3,474	70.2%
Sports	2,517	27.8%	921	13.5%
Profit before unallocated items	<u>69,754</u>		<u>44,018</u>	
Unallocated administrative expenses	(20,650)		(14,047)	
Unallocated finance revenue	2,105		1,186	
Unallocated finance costs	(69)		(14,536)	
Profit before taxation	<u>51,140</u>		<u>16,621</u>	

Group operating and financial review

for the year ended 31 May 2006

Key performance indicators

The chief executive designate's report provides an overall assessment of the group's progress during the year and prospects for the future.

The directors have assessed that the following key performance indicators, together with revenue, EBITDA, EBITDA margin, and normalised earnings per share, are the most effective measures of progress towards achieving the group's strategies and as such towards fulfilling the company's objectives.

	<i>Year ended 31 May</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Number of clients dealing	32,924	26,102	21,263	16,700	15,678
Average revenue per client (£)	2,715	2,387	2,344	2,455	2,141
Number of accounts opened	21,891	18,747	15,992	7,736	6,644
Number of accounts dealing for the first time	14,705	11,297	9,376	5,240	5,005
Volatility of daily revenue					
Coefficient of variability at 31 May	0.56	0.54	0.75	0.88	1.46
Highest in year	0.56	0.75	0.89	1.75	1.59
Lowest in year	0.38	0.42	0.58	0.56	0.65

EBITDA and EBITDA margin

EBITDA represents earnings before exceptional administrative costs, depreciation, amortisation charges, taxation, interest payable on debt and interest receivable on corporate cash balances and includes interest receivable on clients' money net of interest payable to clients. The group's capital structure changed significantly in September 2003 when the company raised significant debt and preference shares in order to finance the purchase of IG Group plc by IG Group Holdings plc. This acquisition gave rise to significant goodwill. The group's capital structure changed again in May 2005 when this debt and preference shares were repaid at the time of the company's initial public offering (IPO). As a result of these changes in capital structure, profit measures such as profit before or after tax do not fully reflect the underlying financial performance of the business over time. The group therefore utilises EBITDA as a primary profit measure. The group seeks to achieve rapid growth in EBITDA, and bonuses for most staff other than directors of the company are linked to EBITDA.

EBITDA margin represents EBITDA as a percentage of revenue.

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Operating profit	44,070	26,288
Interest on client money	5,036	3,682
Depreciation	2,205	2,236
Amortisation	1,318	1,854
Exceptional administrative costs	—	889
EBITDA	52,629	34,949
EBITDA margin	58.9%	56.2%

EBITDA for the year reached £52.6m which represents an increase of 51% from the previous year. EBITDA margin improved from 56.2% in the previous year to 58.9% in the year under review. This reflects the group's ability to continue to benefit from operational gearing.

Group operating and financial review

for the year ended 31 May 2006

Key performance indicators (continued)

Normalised earnings per share

The directors consider that the basic and diluted earnings per share calculations for prior years do not fully reflect changes in the group's capital structure referred to above.

Normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue and to be issued, adjusted for normalising items. Normalising adjustments to earnings comprise the impact, net of tax, of exceptional administrative costs, interest and charges on debt finance, redeemable preference share interest payable and tax items relating to the financing structure. Normalising adjustments to the number of shares comprise the impact of restating the weighted average number of A ordinary shares to the equivalent weighted average ordinary shares in issue in the period and treating the issue of new ordinary shares at the time of the company's flotation as if it had taken place prior to 1 June 2004. For the year ended 31 May 2005 the number of shares in issue, excluding treasury shares, at 31 May 2005 was used as the basis of the normalised earnings per share calculation. The calculation is not intended to comply with IAS33.

The group seeks to maximise the growth in normalised earnings per share over time in order to maximise shareholder value. The group's long term incentive plan (LTIP) and directors' bonuses are both linked to growth in normalised earnings per share. Further details of both LTIP and directors' bonuses are set out in the remuneration report and note 23.

Normalised earnings per share was 10.88p compared with 6.75p in the previous year, an increase of 61.2%.

Number of clients dealing

Revenue is determined to a significant extent by the number of clients dealing.

The number of clients dealing reached almost 33,000 during the year which represents a 26% increase over the previous year. The most marked increase this year was in the financial spread betting business although all business lines improved from the previous year.

Average revenue per client

Average revenue per client represents the total revenue divided by the number of clients dealing. This varies significantly for different business segments and the overall average revenue reflects changes in the business mix in the period.

Average revenue per client improved 13.7% over the previous year. This was primarily as a result of an increased proportion of the group's business deriving from the financial segment where average revenues per client are higher than other segments. There were no significant changes in average revenues per client within each business segment.

Number of accounts opened and dealing for the first time

Over the long term the growth of IG's client base is a key driver of revenue growth. The number of accounts opened and the number of accounts dealing for the first time therefore provide a leading indicator of future prospects.

The number of accounts opened in the year improved by 16.8% during the year and the number of accounts dealing for the first time improved by 30%. This indicates that a much greater proportion of accounts which were opened in the year resulted in a bet or a trade on the account.

Group operating and financial review

for the year ended 31 May 2006

Key performance indicators (continued)

Volatility of daily revenue

The coefficient of variability of daily revenue is a statistical measure of the volatility of the group's revenue from day to day. The group calculates this as the 60 day standard deviation of daily revenues divided by the 60 day mean. Over recent years the coefficient of variability has fallen significantly as the group has sought to reduce the volatility of its revenues and hence improve the quality of earnings. The directors consider that the levels of coefficient of variability seen throughout the year ended 31 May 2006 represent an acceptable balance between the cost of hedging and volatility of income.

The coefficient of variability at 31 May 2006 increased slightly over the previous year because of the volatility in equity markets just prior to the year end. The variability of revenue for the year however continued to diminish with both the highest and lowest levels in the year reducing from the previous year.

Employees

The group's continued growth is highly dependent upon attracting and retaining high calibre employees.

The group pays performance related bonuses to all staff and has introduced a Long Term Incentive Plan (LTIP) awarded to key personnel and a Share Incentive Plan (SIP) awarded to all staff which reward employees for past performance and help to retain them in the future. The group provides a range of benefits to all of its employees, including pension contributions, private health cover and contributions towards health club membership.

The average number of employees in the group increased in the year from 267 to 312. Of these, the vast majority are based in the UK, with 20 staff based in Australia and 4 based in the Singapore office which was established during the year.

The group aims to provide a challenging and rewarding working environment and staff turnover has been low.

A significant proportion of the employment cost consists of performance related bonuses and commissions which vary according to revenue, profitability or earnings per share growth. These increased by 65.5% compared with the previous year. Performance related bonuses are awarded on a discretionary basis while commissions are calculated according to an agreed formula. Inclusive of national insurance and pension costs, employment costs comprise:

	2006	2005
	£000	£000
Fixed employment costs	15,326	12,770
Performance related bonuses and commissions	8,695	5,255
Share based payment schemes	1,696	—
	<u>25,717</u>	<u>18,025</u>

Group operating and financial review

for the year ended 31 May 2006

Financial position

Property plant and equipment

The group continues to invest heavily in technology in order to enhance the capacity and resilience of its systems which are critical to the success of the business. Additions during the year amounted to £2.7m compared with £1.8m in the previous year. Depreciation charged in the year amounted to £2.2m (2005: £2.2m).

Intangible fixed assets

The goodwill arising on the acquisition of the group amounting to £106.2m was capitalised and under the provisions of IFRS is subject to an annual impairment review. There were no impairment write offs in the year.

Development expenditure and software and licenses purchased during the year amounted to £0.5m (2005: £0.8m). Amortisation charged in the year amounted £1.3m (2004: £1.9m).

Working capital

	2006 £000	2005 £000
Amounts due from brokers	121,857	40,262
Amounts due from clients	5,254	3,735
Amounts due to clients	(285,635)	(127,358)
Net amounts due to clients	(280,381)	(123,623)
Cash and cash equivalents	247,277	120,550
Loan notes	(92)	(167)
Redeemable preference shares	(40)	(40)
Net funds	247,145	120,343

One of the main elements of working capital is amounts due from the brokers and other counterparties with whom the group hedges its financial business. The group places cash or treasury bills with these brokers in order to provide initial and variation margin to support its positions. This has increased significantly in the year under review as the magnitude of client positions has increased.

Amounts due to and from clients include unrealised profits and losses on clients' open positions, the result of closed positions as well as the cash balance on clients' accounts. The amounts due to and from clients therefore fluctuate according to the movement in markets.

The group only offers credit to a minority of clients. The charge for bad and doubtful debts was approximately 1.6% of revenue. The company continues to pursue outstanding debts vigorously.

Group operating and financial review

for the year ended 31 May 2006

Financial position (continued)

Cash flow

Cash and cash equivalents increased by £126.7m over the previous year because of the significant and profitable expansion of the business during the year.

Operating activities generated £128.8m of cash and interest received amounted to £10.6m. Expenditure on property, plant and equipment amounted to £2.7m while £0.5m was spent on additions to intangible assets. Payment in respect of the acquisition of the minority interest in IG Australia Pty Limited amounted to £0.9m, interest paid amounted to £3.6m, an interim dividend of £4.9m was paid during the year and loan notes amounting to £0.1m were redeemed.

The group holds client money on account in segregated bank accounts which at the year end amounted to £199.2m compared with £107.4m in the previous year.

Capital structure

	2006 £000	2005 £000
Equity share capital	16	16
Share premium	125,235	125,197
Retained earnings	45,157	12,706
Shareholders' equity	170,408	137,919
Minority interests	40	40
Total equity	170,448	137,959
Redeemable preference shares	40	40
Loan notes	92	167
Total liabilities	132	207

There were no issues of share capital during the year and the group remains debt free other than loan notes which are expected to be redeemed on 31 July 2006.

Dividend policy

The directors have adopted a progressive dividend policy which reflects the long term earnings and cash flow potential of the group, whilst targeting dividend cover of approximately two times earnings after tax. It is envisaged that interim dividends will be paid in February and final dividends paid in October. If the group accumulates surplus capital, the directors will give due consideration to returning it to shareholders.

During the year the company paid interim dividends amounting to £4.9m. The final dividend for 2006 proposed for approval by shareholders at the AGM is 4.00p per share which amounts to £13.1m taking the total dividends for the year to £18.0m. This represents a dividend cover of 1.98.

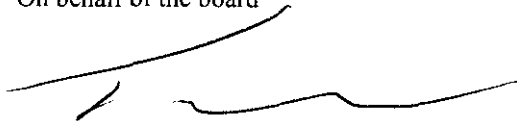
Group operating and financial review

for the year ended 31 May 2006

Regulatory capital

Two of the group's UK operating subsidiaries are regulated by the FSA. The FSA imposes a minimum level of regulatory capital which must be retained by each company and also an overall level of regulatory capital which must be maintained by the group. At 31 May 2006 the group had an overall consolidated regulatory capital surplus of approximately £30.4m.

On behalf of the board



Tim Howkins

Finance director and chief executive designate

24 July 2006

Corporate governance

Statement by the directors in compliance with the Combined Code

The board is satisfied that the group complied with the provisions of the Combined Code on corporate governance, issued by the Financial Reporting Council in July 2003, for the whole year, with the following exceptions:

- The group was not compliant with paragraphs A.3.2 and B.2.1 throughout the year; and
- The group was compliant with paragraph C.3.1 from 9 February 2006.

Paragraph A.3.2 of the Combined Code requires that at least half of the board, excluding the chairman, are independent non-executive directors. There were four executive directors and, exclusive of the chairman, three non-executive directors until 9 February 2006 when an additional non-executive director was appointed. However, Robert Lucas, a non-executive director, represents funds managed or advised by CVC Capital Partners Limited or its associates, which at 31 May 2006 held 11.5% of the ordinary share capital of the company. He is therefore not considered to be independent as he represents a substantial shareholder. All other non-executive directors are considered to be independent. The independent directors are of sufficient calibre and number that their views carry significant weight in the board's decision making and the board considers that its current composition is appropriate. The board is not currently intending to recruit additional non-executives in order to comply with paragraph A.3.2 of the Combined Code. Brief biographies of the directors appear on pages 2 and 3.

Paragraph B.2.1 of the Combined Code requires that the remuneration committee comprise only independent non-executive directors. The chairman of the committee is Jonathan Davie who was considered independent at the date of appointment. The Listing Rules are expected to make changes which require that the chairman should not chair the remuneration committee and the board will consider the composition of the committee at this time.

Until 9 February 2006 the company's remuneration committee included Robert Lucas, who, as discussed above, is not an independent director as he represents a substantial shareholder. The board did not consider that Robert Lucas' membership of the remuneration committee was inconsistent with the principles underlying the Combined Code as his views on directors' remuneration, as a representative of a substantial shareholder, were likely to be closely aligned to the interests of other shareholders.

Paragraph C.3.1 of the Combined Code requires that the audit committee should comprise at least three independent non-executive directors, except in the case of smaller companies. Until 9 February 2006 the company's audit committee comprised two independent non-executive directors.

On 9 February 2006 Roger Yates was appointed a non executive director and senior independent director and joined the remuneration committee, the audit committee and the nominations committee. On the same date Robert Lucas stepped down from the remuneration committee. The effect of these changes was to satisfy the requirements of paragraphs B.2.1 and C.3.1 of the Combined Code.

Corporate governance

The workings of the board and its committees

The board

The division of responsibilities between the chairman and the chief executive is clearly defined in writing and has been approved by the board.

The board is responsible to shareholders for the proper management of the group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 34 and a statement regarding the use of the going concern basis in preparing these financial statements is given on page 33.

The board has a formal schedule of matters specifically reserved to it. These include:

- Setting group strategy
- Approving major acquisitions, divestments and capital expenditure
- Approval of extension of the group's activities into new business or geographic areas
- Approving annual budgets
- Reviewing operational and financial performance
- Reviewing the group's systems of financial control and risk management
- Approving board, board committee and company secretarial appointments
- Ensuring adequate succession planning for the board and senior management
- Approving policies relating to directors' remuneration and the severance of directors' contracts
- Approving any changes to the group's risk management policy which materially increases the risk profile of the group
- Receiving reports on the views of the company's shareholders

Matters not specifically reserved to the board are delegated to the executive directors. These include:

- The development and recommendation of strategic plans for the group
- Implementation of the 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

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. Directors receive appropriate training as necessary when they are appointed. Training on the duties and responsibilities of directors is provided by the group's legal advisers. The appointment and removal of the company secretary is a matter for the board as a whole.

The group purchases appropriate liability insurance for all directors and staff.

Corporate governance

The workings of the board and its committees (continued)

The board meets regularly; at least six times a year. In addition to its regular meetings the board meets when necessary to discuss strategic opportunities such as acquisitions. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed to all directors in advance of board meetings and financial information is distributed monthly. The chairman ensures that the directors take independent professional advice as required.

The following committees deal with the specific aspects of the group's affairs:

Remuneration committee

The committee makes recommendations to the board, within agreed terms of reference, on an overall remuneration package for executive directors in order to attract, retain and motivate high quality directors capable of achieving the group's objectives. Consideration is given to pay and employment policies elsewhere in the group, especially when determining annual salary increases. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights, compensation payments and contingent share awards. The committee approves all share-based awards under the group's LTIP and SIP schemes. The board itself determines the remuneration of the non-executive directors.

Audit committee

The audit committee is chaired by Martin Jackson, who has recent and relevant financial experience. It meets not less than three times annually. The committee provides a forum for reporting by the group's external and internal auditors. Meetings are also attended, by invitation, by the chief executive, the finance director, the head of internal audit, the compliance officer, and the external auditors.

The terms of reference sets out the roles, responsibilities and objectives of the audit committee. The committee's key activities include selecting appropriate accounting policies, approving significant accounting judgements and estimates, monitoring the integrity of the half year interim report and annual financial statements before their submission to the board and reviewing the effectiveness of the internal control and risk management systems. The audit committee monitors and reviews the effectiveness of internal audit and advises the board on the appointment of external auditors and on their remuneration, and discusses the nature, scope and results of their work. The audit committee keeps under review the level of fees and the independence and objectivity of the external auditors and regularly monitors the non-audit services being provided. During the year the committee adopted a formal policy on the provision of non-audit services by the external auditors. This policy sets out types of assignment which the auditors are precluded from undertaking and those which they may undertake. It also sets limits for the levels of fees which may be paid to the external auditors without prior approval of the audit committee or, in the cases of certain types of assignment, without a competitive tendering process. The external auditors provide an annual report to the audit committee confirming the procedures they have undertaken to confirm their independence.

The committee undertakes an annual review of the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (whistleblowing). This review concluded that these arrangements were satisfactory.

Corporate governance

The workings of the board and its committees (continued)

Nomination committee

The nomination committee considers appointments to the board and meets as necessary. The nomination committee is responsible for nominating candidates to fill board vacancies and for making recommendations on board composition and balance.

The committee leads the process for making appointments to the board or where the appointee is likely to become a board member. The committee ensures there is a formal, rigorous and transparent procedure for the appointment of new directors to the board through a full evaluation of the skills, knowledge and experience of directors. The committee also ensures plans are in place for orderly succession for appointments to the board, and to other senior management positions. Responsibility for making senior management appointments is vested in the chief executive.

During the year the committee instructed external search consultants to provide support in relation to the appointment of a senior independent director. Following a search, interviews were carried out with a range of potential candidates, by the external agency, members of the committee and other members of the board. As a result of this process the committee recommended to the board, and the board agreed, that Roger Yates be appointed to the board as a non-executive director and as senior independent director.

In addition during the year the committee instructed external search consultants to undertake a search for a new finance director, following the decision that the existing finance director, Tim Howkins, would succeed Nat le Roux as chief executive.

The membership of these committees was as follows:

<i>Audit committee</i>	<i>Remuneration committee</i>	<i>Nomination committee</i>
Martin Jackson (chair)	Jonathan Davie (chair)	Jonathan Davie (chair)
Sir Alan Budd	Martin Jackson	Martin Jackson
Roger Yates*	Sir Alan Budd	Sir Alan Budd
	Robert Lucas**	Robert Lucas**
	Roger Yates*	Roger Yates*

* From 9 February 2006

** Until 9 February 2006

Copies of the terms of reference of these committees can be obtained from the company secretary on request and are available on the group's investor relations website.

Corporate governance

The workings of the board and its committees (continued)

Relations with shareholders

The board recognises the importance of communications with shareholders. The chairman's statement, chief executive designate's report and operating and financial review include a detailed review of the business and future developments. There is regular dialogue with institutional shareholders including presentations by management around the time of the company's preliminary announcement of the year end results and at the half year. These presentations are made available from the group's investor relations website at www.iggroup.com. 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 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 annual general meetings to answer questions.

Details of resolutions to be proposed at the annual general meeting will be contained in the notice of the meeting.

The group has established an investor relations website, www.iggroup.com, which provides information to shareholders and prospective shareholders.

The board has appointed Roger Yates as the senior independent director. He 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.

Internal control

The directors acknowledge that they have overall responsibility for risk management and are responsible for the group's systems of internal control and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The directors have reviewed the effectiveness of the group's systems of internal control, covering all key controls, including financial, operational and compliance controls and risk management, as operated during the year.

An ongoing process, in accordance with the guidance of the Turnbull committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The board regularly reviews the process.

The group has risk management, compliance and credit control departments, which are responsible to the board for the operation of the group's controls in these areas. Key elements of the group's control environment are its written policies on market risk management, credit risk management and various aspects of compliance. The role of the risk department in the monitoring and management of financial risk is discussed in the directors' report on pages 29-33. All changes to the group's risk management policies are approved by the chief executive and the finance director. The group also operates comprehensive financial control and budgeting processes.

The group operates an internal audit function, which is responsible for reviewing and testing the group's control environment. The internal audit function is independent of the management of the group and reports regularly to the audit committee.

Corporate governance

Attendance at board and committee meetings

The number of full board meetings and committee meetings attended by each director as members of each committee during the year was as set out below. In each case the first figure indicates the number of meetings attended and the second figure indicates the maximum number of meetings during the year for which each individual was a director or committee member.

	<i>Full board meetings</i>	<i>Nominations committee</i>	<i>Audit committee</i>	<i>Remuneration committee</i>
Jonathan Davie (chairman)	6/6	2/2	-	1/1
Nat le Roux (chief executive)	6/6	-	-	-
Tim Howkins	6/6	-	-	-
Peter Hetherington	6/6	-	-	-
Andrew Mackay	6/6	-	-	-
Martin Jackson	6/6	2/2	4/4	1/1
Sir Alan Budd	6/6	2/2	4/4	1/1
Robert Lucas	6/6	1/1	-	0/0
Roger Yates	2/2	1/1	1/1	1/1

Evaluation of the board's performance

During the year the board carried out an evaluation of itself and its committees. The evaluation consisted of detailed questionnaires completed by all directors and one-to-one discussions between the chairman and directors including meetings with the non-executive directors without the executive directors being present. The results of the evaluation were discussed at a board meeting in May 2006. 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), taking into account the views of the executive directors, following which Roger Yates gives feedback to the chairman.

Directors subject to re-election

The following directors are subject to election or re-election at the next annual general meeting: Roger Yates, Sir Alan Budd and Martin Jackson.

Directors' remuneration report

This report has been prepared by the board following the provisions in schedule 7A of the Companies Act 1985 and gives details of the remuneration and service contracts of the directors.

Information not subject to audit

The remuneration committee, whose composition is set out on page 21, determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights, compensation payments and contingent awards. The board itself determines the remuneration of the non-executive directors.

Basic salary

Salary is normally reviewed annually at the start of the financial year. Salaries for the executive directors were increased with effect from 1 June 2006.

Performance related bonuses

Executive directors' bonuses are based on a fixed formula which is determined in advance of each year by the remuneration committee. The formula for the year ended 31 May 2006 was linked to growth in normalised earnings per share compared with the year ended 31 May 2005. Normalised earnings per share, as set out and defined in note 11 to the financial statements, represents earnings per share adjusted to reflect the difference in capital structure of the group between the two years and also excludes exceptional administrative costs and non-recurring tax adjustments.

The formula produces bonuses equal to 20% of basic salary at no growth, 100% of basic salary at 20% growth and a maximum of 150% of basic salary, which is achieved at 31.1% growth.

The remuneration committee retains the right to vary the bonuses payable if it considers that the formula has not produced an appropriate result.

Performance related bonuses are paid in full within three months of the year end.

Long term incentive plan

The group operates a long term incentive plan (LTIP) for management, including the executive directors. No awards were made under the LTIP during the year ended 31 May 2006. Contingent share awards were made under the LTIP during the year ended 31 May 2005 which vest on publication of the results for the financial year to 31 May 2008 according to compound annual growth in normalised earnings per share for the three years ending 31 May 2008.

The executive directors were made awards under two IPO-related schemes during the year ended 31 May 2005, the vesting criteria for which are as follows:

Senior Management IPO high growth awards:

No vesting at 20% compound annual growth or less
Full vesting at 50% compound annual growth

Senior Management IPO basic awards:

No vesting at 15% compound annual growth
Full vesting at 25% compound annual growth

In both cases vesting is pro-rata between the lower and upper limits.

The remuneration committee considers that delivery of high rates of growth in earnings per share to be the primary driver of shareholder return. The above vesting criteria were selected to ensure that senior management has significant incentive to deliver high rates of growth.

Awards may be made to the executive directors in future on the recommendation of the remuneration committee. The remuneration committee will determine appropriate vesting conditions for future awards with regard to prevailing conditions at the time the awards are granted.

Directors' remuneration report

Information not subject to audit (continued)

Benefits

The group provides a range of benefits to all of its 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.

Pensions

The group contributes 15% of basic salary to personal pensions for each of the executive directors. As an alternative to the payment of part of a performance related bonus or basic salary, directors may elect to receive an equivalent contribution to their pension.

Fees

The fees for non-executive directors are determined by the board within the limits stipulated in the articles of association. The non-executive directors are not involved in any discussions or decisions by the board about their own remuneration.

Service contracts

Each of the executive directors is employed under a service contract, entered into on 12 April 2005 which can be terminated on six months notice by either the company or the executive directors.

The non-executive directors were each appointed for an initial term of 12 months with appointment continuing indefinitely thereafter subject to re-election, but capable of being terminated on 3 months notice. The letters of appointment for the non-executive directors were effective from the following dates:

Jonathan Davie	1 January 2004
Sir Alan Budd	6 April 2005
Martin Jackson	6 April 2005
Robert Lucas	12 April 2005
Roger Yates	9 February 2006

Under the terms of the relationship agreement between the company and funds managed or advised by CVC Capital Partners Limited or its associates, these funds were entitled to appoint one director to the board for so long as these funds hold in aggregate 15% of the ordinary share capital of the company. Robert Lucas was appointed as this director. The relationship agreement terminated on 23 January 2006 and the board invited Robert Lucas to continue to serve as a director, which he agreed to do.

There are no special provisions for compensation in the event of loss of office. The remuneration committee would consider the circumstances of individual cases of early termination and determine compensation payments accordingly.

Directors' remuneration report

Information not subject to audit (continued)

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 2006	31 May 2006	1 June 2005 or date of appointment	1 June 2005 or date of appointment
	Ordinary Shares	Preference Shares	Ordinary Shares	Preference Shares
J R Davie	1,790,800	—	1,790,800	—
N B le Roux	15,122,200	10,000	15,122,200	10,000
T A Howkins	5,731,800	10,000	5,731,800	10,000
P G Hetherington	5,709,900	10,000	5,709,900	10,000
A R MacKay	2,952,450	10,000	2,952,450	10,000
Sir Alan Budd	16,667	—	16,667	—
D M Jackson	—	—	—	—
R R Lucas	63,996	—	137,395	—
R P Yates (appointed 2 February 2006)	25,000	—	—	—

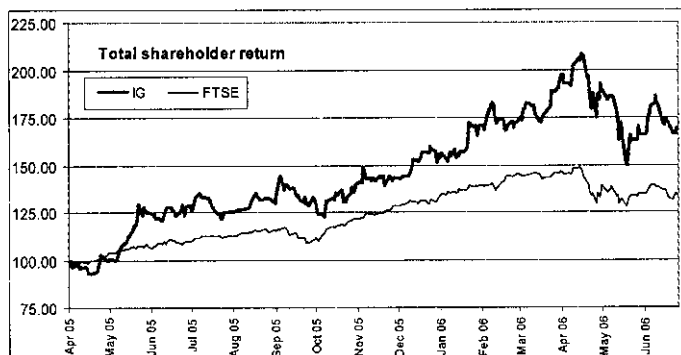
There have been no changes in directors' interests in share capital between the year end and the date of the annual report.

The market price of the company's ordinary shares on 31 May 2006 was 222p and the high and low share prices in the year were 250p and 120p respectively.

Performance graph

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 period since conditional dealings commenced on the London Stock Exchange on 27 April 2005. The most appropriate benchmark is considered by the directors to be the FTSE 250 index as it represents a broad equity market index in which the company is a constituent member.

The figures have been based to 100 as at 27 April 2005 in order to aid comparison and are presented to 21 July 2006.



Directors' remuneration report

Information subject to audit

Directors' remuneration

This section of the report sets out the remuneration of the directors for the year ended 31 May 2006.

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

	<i>Basic salary and fees £000</i>	<i>Non-cash benefits £000</i>	<i>Performance related bonuses £000</i>	<i>Year ended 2006 £000</i>	<i>Year ended 2005 £000</i>
Executive directors:					
N B le Roux	220	2	330	552	464
T A Howkins	170	1	255	426	345
P G Hetherington	118	1	150	269	241
A R MacKay	120	5	41	166	235
	628	9	776	1,413	1,285
Non-executive directors:					
J R Davie	65	—	—	65	51
Sir Alan Budd (appointed 6 April 2005)	30	—	—	30	5
D M Jackson (appointed 6 April 2005)	35	—	—	35	5
R R Lucas (appointed 12 April 2005)	30	—	—	30	26
R P Yates (appointed 2 February 2006)	10	—	—	10	—
J R Kaye (resigned 12 April 2005)	—	—	—	—	22
	798	9	776	1,583	1,394

Directors' non-cash benefits comprise professional subscriptions, private health cover and health club membership.

There was no compensation for loss of office paid during the year (2005: £ nil).

Pension entitlements

In addition, the group contributed to personal pensions for each of the executive directors as follows:

	<i>2006 £000</i>	<i>2005 £000</i>
N B le Roux	33	24
T A Howkins	26	23
P A Hetherington	134	134
A R MacKay	199	97
	392	278

P A Hetherington and A R MacKay elected to receive contributions of £111,660 (2005: £84,175) and £178,750 (2005: £62,320) respectively, in lieu of performance related bonuses and salary.

There were no contributions made for the non-executive directors.

Directors' remuneration report

Information subject to audit (continued)

Interests in long term incentive plans

Contingent share awards were made to each of the executive directors in the year ended 31 May 2005. There were no awards made in the year to 31 May 2006.

	<i>Senior management management IPO basic award</i>	<i>Senior management IPO high growth award</i>	<i>Total number of shares awarded</i>	<i>Market value at 31 May 2006</i>	<i>Market value at 31 May 2005</i>
N B le Roux	183,333	550,000	733,333	1,627,999	880,000
T A Howkins	141,666	425,000	566,666	1,257,999	679,999
P G Hetherington	125,000	375,000	500,000	1,110,000	600,000
A R MacKay	112,500	337,500	450,000	999,000	540,000

The awards were made on 16 May 2005 when the market price of the company's shares was 112.5p.

The company operates a share incentive plan (SIP) for all UK employees except executive directors who are not able to participate in the scheme.

On behalf of the board

Tim Howkins

Finance director and chief executive designate

24 July 2006

Directors' report

The directors have pleasure in submitting their report together with the group financial statements for the year ended 31 May 2006.

Principal activities

The principal activities of the group throughout the year have been those of running a spread betting market, trading as principal and market maker for foreign exchange and contracts for difference and acting as a fixed odds bookmaker. The group hedges unmatched bets and trades, as considered appropriate, to ensure that it is not unacceptably exposed to material losses.

Results

The group's profit for the year, after taxation amounted to £35,668,000, (2005: £12,126,000), an increase of 194% from the previous year. Of this, £nil (2005: £55,000 loss) is attributable to minority interests, leaving £35,668,000 (2005: £12,181,000) attributable to the members of the company.

Dividends

The directors recommend a final ordinary dividend of 4.00 pence per share, amounting to £13,100,000 making totals of 5.5 pence per share and £18,013,000 for the year. Because of the adoption of IFRS, dividends are now 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 12, is made up of this year's interim dividend only.

The final ordinary dividend, if approved, will be paid on 6 October 2006 to those shareholders on the register at 8 September 2006.

Review of business and future developments

A review of the group's progress, outlining developments during the year and giving an indication of likely future developments, is provided in the chief executive designate's report set out on pages 5 to 8.

An analysis of the position of the company at the year end and key performance indicators is provided in the operating and financial review on pages 9 to 17.

Directors and their interests

Details of the directors who served and their interests in the share capital of the company are set out in the directors' remuneration report on pages 24 to 28.

Major interests in shares

Pursuant to Section 198 of the Companies Act 1985, notifications have been received by the company of the following shareholdings of three per cent or more of the issued ordinary share capital:

	<i>As at 21 July 2006</i>		<i>As at 31 May 2006</i>	
	<i>No.</i>	<i>percentage</i>	<i>No.</i>	<i>percentage</i>
CVC European Equity Partners III LP	37,658,540	11.5%	37,658,540	11.5%
Janus Capital Management LLC	26,809,383	8.2%	25,309,382	7.8%
Prudential plc	19,531,154	6.0%	19,531,154	6.0%
N B le Roux	15,122,100	4.6%	15,122,100	4.6%
UBS AG	10,593,217	3.2%	10,593,217	3.2%
Tiger Partners LP	10,544,204	3.2%	10,544,204	3.2%

Directors' report

Supplier payment policy and practice

The company does not incur significant costs and 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 are 19 creditor days of suppliers' invoices outstanding at the year end (2005: 8) for the group.

Financial instruments

The principal activities of the group outlined above give rise to exposure to financial risks in the ordinary course of business.

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

The main risks associated with the group's financial assets and liabilities are set out below, as are the policies agreed by the board for their management.

Market risk

The group's products can be divided into two groups: those which relate to a liquid financial market in which it is normally easy for the group to hedge and those for which there is not an easily accessible and cost effective hedge. The group's revenue model for each of these product groups is set out below.

The group does not take proprietary positions based on an expectation of market movements. The hedging policy includes limits, or a methodology for setting limits, for every single liquid financial market which the group trades, as well as certain groups of markets which the directors consider to be correlated. These limits determine the maximum net exposure arising from client activity and hedging which the group is prepared to carry. IG's systems allow it to continually monitor its exposure against these limits. If the group's exposure exceeds these limits, the policy requires that sufficient hedging is carried out to bring the exposure back within the defined limit.

Changes to the hedging policy require approval by the group's risk committee, which comprises the chief executive, the finance director and the head of risk. Changes to the hedging policy which may result in a significant increase in market risk require approval of the board.

Sports spread bets and binary bets are difficult or not cost effective to hedge and there is often no direct underlying market which can be utilised in setting the price which IG quotes. The group normally undertakes no hedging for these markets. The directors aim to reduce the volatility of revenue from these markets by offering a large number of different betting opportunities the results of which should, to some extent, offset each other irrespective of the underlying market outcome.

Foreign currency risk

Foreign currency exposures arise in the normal course of business and the management of this risk forms part of the hedging policies outlined above.

Interest rate risk

The group has interest rate risk arising from its trading activities which is hedged as part of the overall market risk management. The group also has exposure to overnight interest rates arising from its cash and broker balances. This exposure is not normally hedged.

Directors' report

Financial instruments (continued)

Credit risk

A minority of clients are permitted to deal in circumstances where they may be capable of suffering losses greater than the funds they have on their account, or in some circumstances to trade without funds on the account. 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 and the account limits which are allocated.

IG also has potential credit risk arising from its exposure to market counterparties with which it hedges and with banks. The group sets limits for its maximum acceptable exposure to each market counterparty and bank to which it has credit exposure. These limits are approved by the risk committee and are reviewed at least annually.

Liquidity risk

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

At the year end the group had total bank facilities of £25.0m (2005: £25.0m), none of which were drawn. Subsequent to the year end these facilities were increased to £56.0m. Facilities of £30.0m are to provide the short term liquidity which may be necessary to meet payments to market counterparties before payment is received from clients in the event of a large market movement. Facilities of £26.0m provide the ability for paperless settlement of share transactions (CREST). The group had cash of £247.3m at the year end of which £199.2m was held on segregated accounts for clients and £48.1m was held in the group's own accounts.

In the directors' opinion the group has sufficient funds available to meet all operational requirements, future operations and stated strategies.

Other risks and uncertainties

Other than financial risks, outlined in the financial instruments section above, the directors have identified the following risks which are considered significant to the group.

Regulation

The group's spread betting, CFD and foreign exchange businesses are regulated in a number of jurisdictions. In addition, two of the group's subsidiaries hold bookmaker's licences under the Gambling Act 1995 regulated by the Gambling Commission. The group is also subject to various regulation and legislation relating to technology, the provision of internet services and the use of the internet. These regulatory frameworks impose restrictions on certain of the group's activities and resources which place constraints on the group operations and development.

The regulatory environment is regularly changing and imposes significant demands on the resources of the group. As the group's activities expand, offering new products and penetrating new markets, these regulatory demands will inevitably increase. The increasing complexity of the group's operations require training and recruitment be tailored to meet these regulatory demands and the costs of compliance are expected to increase.

Directors' report

Other risks and uncertainties (continued)

Technology

The group's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the group to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. IG has disaster recovery procedures and policies in place which are designed to allow the group to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the group is dependent upon providers of data, market information, telephone and internet connectivity, the group mitigates against the risk of failure of any of these suppliers by ensuring that where possible multiple providers and data routes are utilised.

To remain competitive, IG must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

Donations

The group made charitable donations of £1,291 in the year (2004: £1,908). The group made no political donations.

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim.

Employee involvement

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

The group's intranet is used to communicate with staff.

Employees participate directly in the success of the business through the group's performance related bonus schemes and employee share plans.

Events since the balance sheet date

There have been no significant events since the balance sheet date.

Annual general meeting

The group's annual general meeting will be held on 2 October 2006. A separate circular will be sent to all shareholders which will detail the agenda for the AGM.

Auditors

A resolution to re-appoint Ernst & Young LLP as the group's auditor will be put to the forthcoming annual general meeting.

Directors' report

Directors' statement as to disclosure of information to auditors

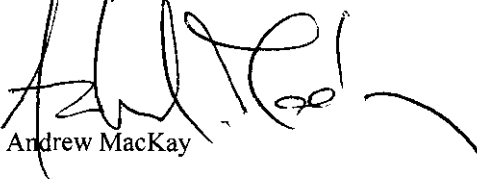
The directors who were members of the board at the time of approving the directors' report are listed on pages 2 to 3. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

After making enquiries, the directors have a reasonable expectation that the 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.

On behalf of the board



Andrew MacKay

Director

24 July 2006

Statement of directors' responsibilities in respect of the group financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law; for the company, United Kingdom Generally Accepted Accounting Practice (UK GAAP); and for the group, those International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK GAAP, for the company, or IFRS for the group, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Group income statement

for the year ended 31 May 2006

		<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
	<i>Notes</i>		
Revenue	3	89,391	62,177
Cost of sales		(1,584)	(2,528)
Gross profit		87,807	59,649
Administrative expenses		(43,737)	(33,361)
Operating profit	5	44,070	26,288
Finance revenue	8	10,681	6,013
Finance costs	9	(3,611)	(15,680)
Profit before taxation		51,140	16,621
Tax expense	10	(15,472)	(4,495)
Profit for the year		35,668	12,126
Profit for the year attributable to:			
Equity holders of the parent		35,668	12,181
Minority interest		—	(55)
		35,668	12,126
Earnings per share (pence)			
- Basic	11	10.92p	5.83p
- Diluted	11	10.88p	5.41p
- Normalised	11	10.88p	6.75p

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

Group statement of recognised income and expense

for the year ended 31 May 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Profit for the year		35,668	12,126
Total recognised income and expense for the year	24	35,668	12,126
Attributable to:			
Equity holders of the parent		35,668	12,181
Minority interest		--	(55)
		35,668	12,126

Group balance sheet

at 31 May 2006

	Notes	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment	13	4,091	3,614
Intangible assets	14	107,127	107,538
Deferred tax assets	10	2,511	1,435
		<u>113,729</u>	<u>112,587</u>
Current assets			
Trade receivables	16	127,111	43,997
Prepayments and other receivables		2,720	2,123
Cash and cash equivalents	17	247,277	120,550
		<u>377,108</u>	<u>166,670</u>
Total assets		<u>490,837</u>	<u>279,257</u>
Current liabilities			
Trade payables	18	285,635	127,358
Other payables	19	14,607	9,658
Income tax payable		20,015	3,575
Loan notes	29	92	167
		<u>320,349</u>	<u>140,758</u>
Non-current liabilities			
Other payables	19	–	500
Redeemable preference shares	20	40	40
		<u>40</u>	<u>540</u>
Total liabilities		<u>320,389</u>	<u>141,298</u>
NET ASSETS		<u>170,448</u>	<u>137,959</u>
Capital and reserves			
Equity share capital	21	16	16
Share premium	24	125,235	125,197
Retained earnings	24	45,157	12,706
		<u>170,408</u>	<u>137,919</u>
Shareholders' equity		<u>170,408</u>	<u>137,919</u>
Minority interests	24	40	40
TOTAL EQUITY		<u>170,448</u>	<u>137,959</u>

Director

Director

24 July 2006

Group cash flow statement

for the year ended 31 May 2006

	2006	2005
Note	£000	£000
Operating activities		
Group operating profit	44,070	26,288
<i>Adjustments to reconcile group operating profit to net cash flow from operating activities</i>		
Depreciation of property, plant and equipment	2,205	2,236
Amortisation of intangible assets	1,318	1,854
Share-based payments	1,696	—
Loss on disposal of property, plant and equipment	2	2
Increase in trade and other receivables	(83,627)	(11,190)
Increase in trade and other payables	163,264	39,601
	128,928	58,791
Cash generated from operations	(108)	(2,480)
Income taxes paid		
Net cash flow from operating activities	128,820	56,311
Investing activities		
Interest received	10,597	6,013
Purchase of property, plant and equipment	(2,682)	(1,841)
Payments to acquire intangible assets	(475)	(839)
Purchase of subsidiary undertakings	—	(21)
Purchase of residual interest in subsidiary undertaking	(934)	—
	6,506	3,312
Net cash flow from investing activities	6,506	3,312
Financing activities		
Interest paid	(3,611)	(11,934)
Interim dividends paid to equity shareholders of the parent	(4,913)	—
Proceeds from share issue	—	131,731
Issue costs of new shares	—	(5,779)
Repayment of financial liabilities	(75)	(102,097)
Redemption of redeemable preference shares	—	(35,660)
Payment of redeemable preference share dividends	—	(4,749)
	(8,599)	(28,488)
Net cash flow from financing activities	(8,599)	(28,488)
Net increase in cash and cash equivalents	126,727	31,135
Cash and cash equivalents at the beginning of the year	120,550	89,415
Net cash and cash equivalents at the end of year	17 247,277	120,550

Notes to the group financial statements

at 31 May 2006

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

The group financial statements of IG Group Holdings plc for the year ended 31 May 2006 were authorised for issue by the board of the directors on 24 July 2006 and the balance sheet signed on the board's behalf by T A Howkins and A R MacKay. 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's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the year ended 31 May 2006 applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the group are set out in note 2.

The company's financial statements, which immediately follow these group financial statements, have been prepared separately in accordance with UK GAAP.

2. Accounting policies

Basis of preparation

This is the first year in which the group has prepared its financial statements under IFRS and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS.

The group issued an announcement through a regulatory news service in January 2006 incorporating its preliminary IFRS financial statements for 2005 and the reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 30.

The accounting policies which follow have been applied in preparing the financial statements for the year ended 31 May 2006.

The group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

Basis of consolidation

The group financial statements incorporate the financial statements of IG Group Holdings plc and entities controlled by the company (its subsidiaries) made up to the reporting date as listed in note 31. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. 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 interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets, liabilities and contingent liabilities recognised. Losses applicable to the minority in a consolidated subsidiary's equity may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority 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 minority's share of losses previously absorbed by the majority has been recovered.

Minority 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 balance sheet, separately from parent shareholders' equity.

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Basis of consolidation (continued)

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. All inter-company transactions and balances between group entities are eliminated on consolidation.

Foreign currencies

The functional currency of the company and its subsidiaries is pounds sterling. Transactions in other currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 when hedge accounting is applied and 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.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet 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 transferred to a translation reserve. Such translation differences are recognised as income or as expenses 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 any recognised impairment loss. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives. Estimated residual value and useful lives are reviewed on an annual basis and residual values are based on prices prevailing at the balance sheet date. Depreciation is charged on a straight line basis as follows:

Leasehold improvements	-	over the lease term
Office equipment, fixtures and fittings	-	over 5 years
Computer equipment	-	over 2 or 3 years
Telephone equipment	-	over 3 years
Uninterruptible power supply and generator	-	over 5 years
Motor vehicles	-	over 4 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.

The gain or loss arising on the disposal or a retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary 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 on or after 1 June 2004 are accounted for under IFRS 3 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 balance sheet 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. Goodwill recognised as an asset as at 31 May 2004 is recorded at its carrying amount under UK GAAP and is not amortised. 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 is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated.

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

- | | | |
|-------------------------|---|------------------------|
| • Client list | - | over 5 years |
| • Development costs | - | over 3 years |
| • Software and licences | - | over the contract term |

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

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Impairment

At least annually, or when annual impairment testing is required, the directors review the carrying amounts of its 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. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not 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.

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 assets and financial liabilities at fair value through profit or loss

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

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

Determination of fair value

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

For all other derivative financial instruments where there is no underlying active market, the fair value is determined using an appropriate valuation technique as determined by the group at the year end. In the case of long-term bets where there is no underlying market, consideration is given to the impact of post period end settlement prices.

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Trade receivables and trade payables

Assets or liabilities resulting from profit or losses on open positions are reported in amounts due from/to clients and brokers 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.

Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process. Provision is made where there is objective evidence that the group will be unable to recover the balance in full. Balances are written off when the probability of recovery is considered remote.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition. For the purposes of 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 Financial Services Authority (FSA) and other regulatory bodies. This money is included within cash and cash equivalents on the balance sheet and the corresponding liability to clients is included in trade and other payables. The return received on managing client money is included within finance revenue.

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.

Loan notes

Loan notes are initially recognised at fair value of the consideration received and are subsequently measured at amortised cost using the effective interest rate method.

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 that have been enacted or substantively enacted by the balance sheet date.

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

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Taxation (continued)

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 balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event which it is possible will result in an outflow of economic benefits that can be reasonably estimated.

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired; 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.

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Derivative financial instruments and hedge accounting

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

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 balance sheet; 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.

Treasury shares

Shares held in trust by the company for the purposes of employee share schemes are classified in 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 performance statements on the purchase, sale, issue or cancellation of equity shares.

Revenue recognition

Revenue is recognised to the extent that economic benefits will flow to the group and the revenue can be reliably measured.

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

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

Cost of sales

Cost of sales represents duties and levies charged on betting revenues. Spread betting duties are charged at a fixed rate on client losses. Fixed odds duties are recalculated at fixed rates on net stake received.

Operating profit

Operating profit is 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/loss on sale of property, plant and equipment and other administrative expenses.

Notes to the group financial statements

at 31 May 2006

2. Accounting policies (continued)

Finance costs

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

Retirement benefit costs

The 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.

Exceptional administrative costs

Exceptional administrative costs are those material items of income and expense which, because of the nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Share-based payments

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

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

New standards and interpretations not applied

The IASB have issued the following standards and interpretations, which impacts upon the group, with an effective date after the date of these financial statements.

	<i>Effective date</i>	<i>Period of initial application</i>
<i>International Accounting Standards (IAS/IFRS)</i>		
<i>IFRS 7 Financial Instruments: Disclosures</i>	<i>1 January 2007</i>	<i>31 May 2008</i>
<i>IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures</i>	<i>1 January 2007</i>	<i>31 May 2008</i>

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

Notes to the group financial statements

at 31 May 2006

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2006 £000	2005 £000
Rendering of services	89,391	62,177
Finance revenue	10,681	6,013
Total revenue	<u>100,072</u>	<u>68,190</u>

4. Segment information

The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Primary reporting format – business segments

The primary segment reporting format is by business segment as described in the operating and financial review on pages 6-14 as the group's risks and rates of return are affected predominantly by differences in the products provided.

Year ended 31 May 2006

	Financial £000	Financial binaries £000	Sports £000	Total £000
Revenue	75,129	5,196	9,066	89,391
Results				
Segment result	63,644	3,593	2,517	69,754
Unallocated administrative expenses				(20,650)
Unallocated finance revenue				2,105
Unallocated finance costs				(69)
Profit before taxation				51,140
Income tax expense				(15,472)
Net profit for year				<u>35,668</u>

Notes to the group financial statements

at 31 May 2006

4. Segment information (continued)

Primary reporting format – business segments (continued)

Year ended 31 May 2006 (continued)

	Financial £000	Financial binaries £000	Sports £000	Total £000
Assets and liabilities				
Segment assets	431,950	1,259	6,229	439,438
Unallocated assets				51,399
Total assets				490,837
Segment liabilities	311,161	2,257	1,788	315,206
Unallocated liabilities				5,183
Total liabilities				320,389
Other segment information				
Capital expenditure				
Property, plant and equipment	1,080	38	589	1,707
Goodwill	434	–	–	434
Other intangible assets	318	9	148	475
Depreciation	877	24	507	1,408
Amortisation	1,028	4	286	1,318

Year ended 31 May 2005

	Financial £000	Financial binaries £000	Sports £000	Total £000
Revenue	50,391	4,950	6,836	62,177
Results				
Segment result	39,623	3,474	921	44,018
Unallocated administrative expenses				(14,047)
Unallocated finance revenue				1,186
Unallocated finance costs				(14,536)
Profit before taxation				16,621
Income tax expense				(4,495)
Net profit for year				12,126

Notes to the group financial statements

at 31 May 2006

4. Segment information (continued)

Primary reporting format – business segments (continued)

Year ended 31 May 2005 (continued)

	Financial £000	Financial binaries £000	Sports £000	Total £000
Assets and liabilities				
Segment assets	247,927	702	7,115	255,744
Unallocated assets				23,513
Total assets				279,257
Segment liabilities	135,325	1,347	926	137,598
Unallocated liabilities				3,700
Total liabilities				141,298
Other segment information				
Capital expenditure				
Property, plant and equipment	730	20	412	1,162
Goodwill	784	–	–	784
Other intangible assets	734	6	99	839
Depreciation	908	23	504	1,435
Amortisation	1,575	3	276	1,854

Unallocated assets and liabilities comprise those tangible fixed assets, deferred tax assets, prepayments and other debtors, cash and cash equivalents, accruals, tax liabilities and financial liabilities which are not specifically attributable to business segments.

Secondary reporting format – geographical segments

The group has offices in the United Kingdom, Australia and Singapore. Clients of the Australian office deal with two of the UK operating subsidiaries, but under customer agreements which are specific to the Australian office. Clients of the Singapore office are serviced by staff in Australia and Singapore. The results of the Singapore office are not material and are reported within the results of the Australian office. Clients of the London office may be situated anywhere else in the world. Accordingly, the group provides a geographical analysis based on the division of clients serviced from the United Kingdom and from Australia and Singapore.

Notes to the group financial statements

at 31 May 2006

4. Segment information (continued)

Secondary reporting format – geographical segments (continued)

Year ended 31 May 2006

	UK £000	Australia and Singapore £000	Total £000
Revenue	80,466	8,925	89,391
Segment assets	484,921	5,916	490,837

Other segment information

Capital expenditure			
Property, plant and equipment	2,630	52	2,682
Intangible assets	475	434	909

Year ended 31 May 2005

	UK £000	Australia and Singapore £000	Total £000
Revenue	58,401	3,776	62,177
Segment assets	277,650	1,607	279,257

Other segment information

Capital expenditure			
Property, plant and equipment	1,815	26	1,841
Intangible assets	839	784	1,623

Notes to the group financial statements

at 31 May 2006

5. Group operating profit

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
This is stated after charging/(crediting):		
Depreciation of property, plant and equipment	2,205	2,236
Amortisation of intangible assets	1,318	1,854
Operating lease rentals for land and buildings	785	763
Foreign exchange differences	(392)	607
(Profit)/loss on sale of property, plant and equipment	2	2
Exceptional administrative costs	–	889

Exceptional administrative costs in the year ended 31 May 2005 related to professional fees payable in connection with listing the company's shares on the London Stock Exchange.

6. Auditors' remuneration

New requirements for the disclosure of remuneration paid by the group to its auditors were introduced in the Companies (Audit, Investigations and Community Enterprise) Act 2004 and regulations specifying these requirements were issued in 2005, and are mandatory for accounting periods beginning on or after 1 October 2005.

Notwithstanding this, the group has elected to give disclosures that comply with these requirements, in particular regarding fees other than for the audit of the financial statements, as well as disclosing the total non-audit fees for the company and its UK subsidiary undertakings, in accordance with the extant legislation.

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Audit of the financial statements	154	156
Other fees to auditors - local statutory audits for subsidiaries	50	–
- IFRS transition	44	–
- advisory services	–	114
- corporate finance services	–	1,010
	94	1,124

Advisory services in the year ended 31 May 2005 related to loan covenant compliance and regulatory work.

Corporate finance services in the year ended 31 May 2005 related primarily to work undertaken in connection with the company's flotation and issue of shares.

Notes to the group financial statements

at 31 May 2006

7. Staff costs

The staff costs for the year including directors were as follows:

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Wages and salaries	21,838	15,093
Social security costs	2,480	1,829
Other pension costs	1,399	1,103
	<u>25,717</u>	<u>18,025</u>

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

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Performance related bonuses	8,695	5,255
Share-based payment schemes	1,696	–
	<u>10,391</u>	<u>5,255</u>

The directors' emoluments for the year ended 31 May 2006 and the comparative year can be found in the directors' remuneration report on page 27.

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

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Dealing, sales and client support	195	173
Management and administration	117	94
	<u>312</u>	<u>267</u>

8. Finance revenue

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Interest receivable from brokers	2,575	1,132
Bank interest receivable	8,106	4,881
	<u>10,681</u>	<u>6,013</u>

Notes to the group financial statements

at 31 May 2006

9. Finance costs

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Interest payable to clients and brokers	3,542	1,144
Interest payable on interest-bearing loans	5	8,815
Issue costs amortised on interest-bearing loans	—	2,826
Interest payable on redeemable preference shares	3	2,685
Other charges	61	210
	<u>3,611</u>	<u>15,680</u>

10. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Current tax:		
Corporation tax on profit for the year	17,526	4,979
Adjustment in respect of prior years	(978)	42
Total current tax (note 10(b))	<u>16,548</u>	<u>5,021</u>
Deferred tax:		
Origination and reversal of temporary differences	(1,076)	(526)
Tax expense in the income statement	<u>15,472</u>	<u>4,495</u>

Notes to the group financial statements

at 31 May 2006

10. Taxation (continued)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is marginally higher than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are reconciled below:

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Accounting profit before taxation	51,140	16,621
Accounting profit multiplied by the UK standard rate of corporation tax of 30%	15,342	4,986
Expenses not deductible for tax purposes	2,184	1,997
Non-taxable income	—	(2,004)
Adjustment in respect of prior years	(978)	42
Origination and reversal of temporary differences	(1,076)	(526)
Total tax expense reported in the income statement	15,472	4,495

(c) Deferred income tax

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

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Deferred tax assets:		
Decelerated capital allowances	884	702
Tax losses available for offset against future tax	755	469
Share based payments	469	—
Open positions valuation at bid or offer	379	212
Employees' short-term compensated absences	24	52
	2,511	1,435

Notes to the group financial statements

at 31 May 2006

10. Taxation (continued)

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

	<i>Year ended</i> <i>31 May</i> <i>2006</i> <i>£000</i>	<i>Year ended</i> <i>31 May</i> <i>2005</i> <i>£000</i>
Decelerated capital allowances	182	359
Tax losses available for offset against future tax	286	124
Share based payments	469	—
Open positions valuation at bid or offer	167	36
Employees' short-term compensated absences	(28)	7
	<u>1,076</u>	<u>526</u>

The tax losses available for offset against future tax relate to operating losses arising in IG Australia Pty Limited, the recoverability of which is dependent on future operating profits in that entity. It is anticipated that future operating profits will exceed the losses that have arisen to date.

Share-based payment awards have been charged to the income statement but are not allowable as a tax expense until the awards vest.

The open positions valuation at bid or offer and the employees' short-term compensated absences both arise because of the group's transition to IFRS. IFRS has not yet been adopted in the financial statements of the individual entities within the group and a deferred tax asset has arisen as a result of differences in the recognition of taxable items of income and expenditure between the group financial statements and those of the individual entities.

11. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to the group financial statements

at 31 May 2006

11. Earnings per ordinary share (continued)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Basic earnings attributable to ordinary shareholders	35,668	12,181
Effects of dilution	—	—
Diluted earnings attributable to ordinary shareholders	35,668	12,181
Basic weighted average number of equity shares	326,506,126	208,786,062
Effect of warrants	—	16,365,331
Employee share plans	1,373,861	—
Diluted weighted average number of ordinary shares	327,879,987	225,151,393
Basic earnings per share	10.92p	5.83p
Diluted earnings per share	10.88p	5.41p

On 31 March 2005 there were 1,000,000 A ordinary shares in issue. Each of these shares was re-designated and subdivided into 200 ordinary shares. The weighted average numbers of shares have been shown as if the re-designation and subdivision had taken place prior to 1 June 2004. The weighted average number of shares excludes treasury shares held in employee benefit trusts. There were no movements in treasury shares during the year.

The directors consider that the basic and diluted earnings per share calculations for the year ended 31 May 2005 do not fully reflect changes in the group's capital structure as a result of the flotation of the company on 4 May 2005. Normalised earnings per share represents earnings adjusted for normalising items, divided by the number of ordinary shares in issue and to be issued, adjusted for normalising items. Normalising adjustments to earnings comprise the impact, net of tax, of exceptional administrative costs, interest and charges on debt finance, redeemable preference share interest payable and tax items relating to the financing structure. Normalising adjustments to the number of shares comprise the impact of restating the weighted average number of A ordinary shares to the equivalent weighted average ordinary shares in issue in the period and treating the issue of new ordinary shares at the time of the company's flotation as if it had taken place prior to 1 June 2004. For the year ended 31 May 2005 the number of shares in issue, excluding treasury shares, at 31 May 2005 was used as the basis of the normalised earnings per share calculation. The calculation is not intended to comply with IAS33.

The warrants are described in note 21 and the employee share plans in note 23.

Notes to the group financial statements

at 31 May 2006

11. Earnings per ordinary share (continued)

	<i>Year ended 31 May 2006</i>		<i>Year ended 31 May 2005</i>	
	<i>Earnings</i>	<i>Earnings</i>	<i>Earnings</i>	<i>Earnings</i>
	<i>£000</i>	<i>per share</i>	<i>£000</i>	<i>per share</i>
		<i>pence</i>		<i>pence</i>
Diluted earnings and earnings per share	35,668	10.88	12,181	5.41
Normalising adjustment to number of shares	—	—	—	(1.67)
Normalising adjustments to earnings:				
Exceptional administrative costs	—	—	889	0.27
Interest and charges on debt finance	—	—	11,851	3.62
Tax effect of above items	—	—	(3,555)	(1.09)
Tax items relating to the financing structure	—	—	(2,004)	(0.61)
Redeemable preference share interest payable	—	—	2,685	0.82
Total normalising adjustments	—	—	9,866	1.34
Normalised earnings attributable to equity shareholders	35,668	10.88	22,047	6.75

	<i>Year ended</i>	<i>Year ended</i>
	<i>31 May</i>	<i>31 May</i>
	<i>2006</i>	<i>2005</i>
Diluted weighted average number of equity shares	327,879,987	225,151,393
Normalising adjustment to number of shares	—	101,354,733
Weighted average number of equity shares used as basis of normalised earnings per share calculation	327,879,987	326,506,126

12. Dividends

	<i>Year ended</i>	<i>Year ended</i>
	<i>31 May</i>	<i>31 May</i>
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
<i>Declared and paid during the year:</i>		
Interim dividend for 2006 at 1.5p per share (2005: nil)	4,913	—
<i>Proposed for approval by shareholders at the AGM:</i>		
Final dividend for 2006 at 4.00p per share (2005: nil)	13,100	—

Notes to the group financial statements

at 31 May 2006

13. Property, plant and equipment

	<i>Leasehold improvements</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer and other equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Cost:					
At 1 June 2004	1,274	189	3,980	—	5,443
Foreign currency adjustment	—	1	5	—	6
Additions	244	27	1,570	—	1,841
At 31 May 2005	1,518	217	5,555	—	7,290
Foreign currency adjustment	—	—	6	—	6
Additions	109	33	2,533	7	2,682
Disposals	—	—	(3)	—	(3)
At 31 May 2006	1,627	250	8,091	7	9,975
Depreciation:					
At 1 June 2004	180	51	1,206	—	1,437
Foreign currency adjustment	—	—	3	—	3
Provided during the year	284	69	1,883	—	2,236
At 31 May 2005	464	120	3,092	—	3,676
Foreign currency adjustment	—	—	4	—	4
Provided during the year	374	49	1,779	3	2,205
Disposals	—	—	(1)	—	(1)
At 31 May 2006	838	169	4,874	3	5,884
Net book value at 31 May 2006	789	81	3,217	4	4,091
Net book value at 31 May 2005	1,054	97	2,463	—	3,614
Net book value at 1 June 2004	1,094	138	2,774	—	4,006

Computer and other equipment includes telephone equipment and the uninterruptible power supply and generator.

Notes to the group financial statements

at 31 May 2006

14. Intangible assets

	<i>Goodwill</i>	<i>Client Development</i>	<i>Software</i>	
	<i>list</i>	<i>costs</i>	<i>and licences</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 1 June 2004	105,115	588	2,670	691
External purchases	784	—	423	416
Purchase price adjustment	(113)	—	—	—
At 31 May 2005	105,786	588	3,093	1,107
External purchases	434	—	33	442
Foreign currency adjustment	(2)	—	—	—
At 31 May 2006	106,218	588	3,126	1,549
Amortisation:				
At 1 June 2004	—	162	835	185
Provided during the year	—	220	1,186	448
At 31 May 2005	—	382	2,021	633
Provided during the year	—	206	761	351
At 31 May 2006	—	588	2,782	984
Net book value at 31 May 2006	106,218	—	344	565
Net book value at 31 May 2005	105,786	206	1,072	474
Net book value at 1 June 2004	105,115	426	1,835	506

The external purchase of goodwill relates to the acquisition of the minority interest in IG Australia Pty Ltd. The value of this acquisition was linked to the future performance of the group's Australian operation. This liability was settled in full during the year for £934,000, £500,000 of which was accrued in the year ended 31 May 2005 as shown in note 19.

15. Impairment of goodwill

For the purposes of impairment testing of goodwill, business segments are considered to correspond to cash generating units. The estimated recoverable amount of each segment is compared to the goodwill allocated to the segments and any deficits provided as an impairment to the carrying value of goodwill.

The carrying amount of goodwill has been allocated to each business segment as follows:

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Financial	100,968	100,536
Financial binaries	—	—
Sports	5,250	5,250
	<u>106,218</u>	<u>105,786</u>

Notes to the group financial statements

at 31 May 2006

15. Impairment of goodwill (continued)

Goodwill arising on the purchase of the group by IG Group Holdings plc on 5 September 2003 has been allocated according to the profitability of the segments at that date. Accordingly no goodwill has been allocated to the financial binaries segment as the segment commenced trading subsequent to this acquisition. Goodwill arising since that date has been allocated to the financial segment as it related to the purchase of financial subsidiaries.

The recoverable amount of each segment has been estimated using fair value less cost to sell. For the purposes of impairment testing costs to sell are assumed to be minimal. The fair value of the business as a whole is based on the market capitalisation of the group at the measurement date. This is allocated to business segments according to the relative profitability and management's expected growth rates of each segment at the measurement date, taking into consideration information available on the relative valuations of business similar in nature to an individual segment.

On this basis there was no impairment of goodwill during the year or the preceding year.

16. Trade receivables

	2006 £000	2005 £000
Amounts due from brokers	121,857	40,262
Amounts due from clients	5,254	3,735
	<u>127,111</u>	<u>43,997</u>

17. Cash and cash equivalents

	2006 £000	2005 £000
Cash at bank and in hand	47,447	13,123
Short-term deposits	605	—
Client money held	199,225	107,427
	<u>247,277</u>	<u>120,550</u>

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

18. Trade payables

	2006 £000	2005 £000
Amounts due to clients	285,635	127,358

Notes to the group financial statements

at 31 May 2006

19. Other payables

Current liabilities

	2006 £000	2005 £000
Accruals	13,974	8,373
Other taxes and social security	633	1,285
	<u>14,607</u>	<u>9,658</u>

Non-current liabilities

	2006 £000	2005 £000
Accruals (see note 14)	—	500
	<u>—</u>	<u>500</u>

20. Redeemable preference shares

	<i>Company and group</i>	
	2006 £000	2005 £000
<i>Authorised:</i>		
Preference shares of £1 each	40	40
	<u>40</u>	<u>40</u>

	<i>Company and group</i>	
	2006 £000	2005 £000
<i>Allotted, called up and fully paid:</i>		
Preference shares of £1 each	40	40
	<u>40</u>	<u>40</u>

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% (2005: 8%).

Notes to the group financial statements

at 31 May 2006

21. Authorised and issued share capital

	<i>Company and group</i>	
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Authorised:		
500,000,000 ordinary shares of 0.005p each	25	25
65,000 B shares of 0.001p each	—	—
	<u>25</u>	<u>25</u>
Allotted, called up and fully paid:		
	<i>Ordinary share capital</i>	<i>B shares</i>
	<i>£000</i>	<i>£000</i>
At 1 June 2004:		
1,000,000 A ordinary shares of 1p each	10	—
650 B ordinary shares 0.1p each	—	—
	<u>10</u>	<u>—</u>
Subdivided and redesignated on 31 March 2005 as:		
200,000,000 ordinary shares of 0.005p each	10	—
65,000 B shares of 0.001p each	—	—
	<u>10</u>	<u>—</u>
Issued during the year:		
127,500,959 ordinary shares of 0.005p each	6	—
At 31 May 2005 and at 31 May 2006	<u>16</u>	<u>—</u>
At 31 May 2006:		
327,500,959 ordinary shares of 0.005p each	16	—
65,000 B shares of 0.001p each	—	—
	<u>16</u>	<u>—</u>

On 31 March 2005 each A ordinary share of 1p each was subdivided and redesignated as 200 ordinary shares of 0.005p each.

Consideration received in respect of the issue of 127,500,959 ordinary shares in the year ended 31 May 2005 amounted to £131,731,000.

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.

Notes to the group financial statements

at 31 May 2006

21. Authorised and issued share capital (continued)

B shares

On 31 March 2005 each B ordinary share of 0.1p each was subdivided and redesignated as 100 B shares of 0.001p each.

The B shares carry no entitlement to dividends and no voting rights. The B shares entitlement to capital was based on a progressive formula linked to the total return to certain holders of A Ordinary shares. On the company listing on the London Stock Exchange the valuation of each B share was equivalent to that of approximately 122 ordinary shares. To the extent not already received by them the B shareholders shall, on a winding up of the company be entitled to receive a consideration equal to the amount realised by the sale by the trustee of approximately 122 ordinary shares. The B shares are held in the Jersey employee benefit trust as explained in note 22.

Warrants

The company had issued warrants giving the holders the right to subscribe for 88,629 A ordinary shares at par. On 4 May 2005 these warrants were exercised when the company listed on the London Stock Exchange. The warrant holders received 17,725,800 ordinary shares as a result of the re-designation and subdivision of each A ordinary share into 200 ordinary shares. There are no further warrants outstanding.

22. Employee benefit trusts

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. At 31 May 2006 482,758 (2005: 482,758) were held in the trust and at the balance sheet date have reduced shareholders' equity by £24 (2005: £24). These include 89,071 (2005: 12,000) which were not allocated to employees and are available for future SIP awards. The market value of the shares held conditionally at the balance sheet date was £1,071,723 (2005: £579,310).

The group has a Jersey resident Employee Benefit Trust which holds shares in the company. At the balance sheet date the trust held 512,075 (2005: 512,075) ordinary shares which are available to satisfy awards under the SIP and LTIP schemes. The shares held at the balance sheet date have reduced shareholders' equity by £26 (2005: £26). The market value of the shares held conditionally at the balance sheet date was £1,136,807 (2005: £614,490).

Upon flotation of the company on 4 May 2005 5,861,497 ordinary shares and cash of £2.4m 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 2006 4,600 (2005: 16,941) B shares were sold by B shareholders to the trust. The trust sold 561,037 (2005: nil) ordinary shares in order to realise the funds necessary to purchase these B shares. The trust unconditionally held 21,541 (2005: 16,941) B shares at the balance sheet date. It also held 5,300,460 (2005: 5,861,497) ordinary shares which it may sell in order to satisfy its obligations to B shareholders, all of whom are current or former employees.

23. Employee share plans

The company operates two employee share plans; a share incentive plan and a long term incentive plan. There were no awards made during year ended 31 May 2006 although the company intends to make awards in future years.

In the year ended 31 May 2005, the SIP awarded all UK employees, except executive directors, a total of 94,267 free shares which vested immediately and with additional free shares which vest after three years. There are no further performance conditions other than remaining in employment with IG for the term of the award. These additional shares awarded under the scheme are held in a UK trust in accordance with HM Revenue and Customs rules.

Notes to the group financial statements

at 31 May 2006

23. Employee share plans (continued)

The LTIP allows the award of nil cost or nominal cost shares referred to as "awards". The awards made during the year ended 31 May 2005 were conditional upon growth in normalised earnings per share in the three years to 31 May 2008. There are three separate schemes under which shares vest according to different growth criteria. The vesting date of these awards is upon publication of the group's results for the year ended 31 May 2008 which is expected to be 23 July 2008.

The management IPO awards do not vest unless there is 10% compound annual growth in normalised earnings per share and vest fully at 15% compound annual growth. The senior management IPO basic awards do not vest unless there is 15% compound annual growth in normalised earnings per share and vest fully at 25% compound annual growth. The senior management IPO high growth awards do not vest unless there is 20% compound annual growth in normalised earnings per share and vest fully at 50% compound annual growth. Vesting is pro rata between these limits.

LTIP awards to Australian employees are legally categorised as options although in substance they are identical to awards made to UK employees, except that Australian employees are required to exercise their options at the vesting date whereas UK employees' awards vest automatically.

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

	<i>Expected vesting date</i>	<i>Value of shares at date of award</i>	<i>As at 31 May 2005 No.</i>	<i>Lapsed during the year No.</i>	<i>As at 31 May 2006 No.</i>	<i>Weighted average fair value of award £000</i>
Share incentive plan	3 May 2008	120p	470,758	(77,071)	393,687	500,235
Senior management IPO high growth award	23 July 2008	112.5p	4,785,625	(575,000)	4,210,625	5,183,963
Senior management IPO basic award	23 July 2008	112.5p	1,372,398	(162,499)	1,209,899	1,523,939
Management IPO award	23 July 2008	112.5p	1,555,104	(205,498)	1,349,606	1,625,267
			<u>8,183,885</u>	<u>(1,020,068)</u>	<u>7,163,817</u>	<u>8,833,404</u>

The weighted average fair values of the awards are calculated based upon the market value of the shares at the date of the award. There are no dividends or other features of the shares that are incorporated into the measurement of the fair value of the awards.

The amount charged to the income statement and transferred to retained earnings in respect of employee share plans was £1,696,497 (2005: nil).

Notes to the group financial statements

at 31 May 2006

24. Reconciliation of movements in equity

	<i>Equity share capital £000</i>	<i>Share premium £000</i>	<i>Retained earnings £000</i>	<i>Share- holders' equity £000</i>	<i>Minority interests £000</i>	<i>Total equity £000</i>
At 1 June 2004	10	—	319	329	40	369
Total recognised income and expense for the year	—	—	12,181	12,181	(55)	12,126
Issue of ordinary share capital	6	131,725	—	131,731	—	131,731
Costs of share issue	—	(6,528)	—	(6,528)	—	(6,528)
Minority interest losses	—	—	(55)	(55)	55	—
Purchase of minority interest	—	—	261	261	—	261
At 1 June 2005	16	125,197	12,706	137,919	40	137,959
Total recognised income and expense for the year	—	—	35,668	35,668	—	35,668
Adjustment to costs of share issue	—	38	—	38	—	38
Employee share-based payments	—	—	1,696	1,696	—	1,696
Equity dividends paid	—	—	(4,913)	(4,913)	—	(4,913)
At 31 May 2006	16	125,235	45,157	170,408	40	170,448

Retained earnings includes the share-based payment reserve which relates to the estimated cost of employee share plans based on a straight line basis over the vesting period. Retained earnings also includes the foreign currency translation reserve.

The costs of share issue relate to professional fees associated with the flotation of the company on the London Stock Exchange on 4 May 2005.

Minority interest losses are allocated against the majority interest by way of a transfer to retained earnings.

On acquisition of the minority interest in IG Australia Pty Limited the accumulated minority interest losses were treated as a cost of acquisition and form part of goodwill.

25. Net funds/(debt)

	<i>At 1 June 2004 £000</i>	<i>Cash flow £000</i>	<i>At 1 June 2005 £000</i>	<i>Cash flow £000</i>	<i>At 31 May 2006 £000</i>
Cash at bank and in hand	23,076	(9,953)	13,123	34,324	47,447
Short-term deposits	—	—	—	605	605
Client money held	66,339	41,088	107,427	91,798	199,225
Loan notes	(570)	403	(167)	75	(92)
Redeemable preference shares	(35,220)	35,180	(40)	—	(40)
	53,625	66,718	120,343	126,802	247,145

Notes to the group financial statements

at 31 May 2006

26. Obligations under leases

Operating lease agreements where the group is lessee

The group has entered into commercial leases on certain properties. The lessee has options of renewal on each of these leases with a notice period of three months. There were no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2006	2005
	£000	£000
Future minimum payments due:		
Not later than one year	1,097	763
After one year but not more than five years	4,032	2,860
After more than five years	2,278	2,221
	<u>7,407</u>	<u>5,844</u>

27. Transactions with directors

Directors' interests in share capital and directors' emoluments are described in the directors' remuneration report on pages 24 to 28. The group had no other transactions with its directors other than in relation to the management of the group.

28. Related party transactions

Funds managed or advised by CVC Capital Partners Limited or its affiliates made loans of £18,061,731 to the company in the period ended 31 May 2004. These loans were 11% subordinated loans and were repaid in full along with interest of £3,304,060 on 4 May 2005, £1,469,681 of which was accrued as at 31 May 2004.

During the year, fees amounting to £50,000 (2005: £48,000) were paid to CVC Capital Partners Limited relating to the services of Rob Lucas as a director of IG Group Holdings plc of £30,000 (2005: £26,000), Jonathan Kaye as a director of IG Group Holdings plc of £nil (2005: £22,000) and four other individuals as directors of IG Group Limited amounting to £20,000 (2005: £nil).

Funds managed or advised by CVC Capital Partners Limited or its affiliates held 11.5% of the ordinary share capital of the company at 31 May 2006 (2005: 22.7% of the ordinary share capital).

The executive directors are considered to be the key management personnel of the group in accordance with IAS 24. The directors' remuneration report on pages 24 to 28 discloses all benefits and share-based payments made during the year and the preceding year to the executive directors.

There were no further related party transactions during the year or the preceding year.

Notes to the group financial statements

at 31 May 2006

29. Derivatives and other financial instruments

An explanation of the group's financial risk management objectives, policies and strategies are set out on pages 30 and 31 in the directors' report.

Interest rate risk profile of financial assets and liabilities

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

As at 31 May 2006

	<i>Within 1 year £000</i>	<i>More than 5 years £000</i>	<i>Total £000</i>
<i>Fixed rate</i>			
Redeemable preference shares (8%)	–	(40)	(40)
<i>Floating rate</i>			
Cash and cash equivalents	247,277	–	247,277
Loan notes (LIBOR minus 1%)	(92)	–	(92)
	<u>247,185</u>	<u>(40)</u>	<u>247,145</u>

As at 31 May 2005

	<i>Within 1 year £000</i>	<i>More than 5 years £000</i>	<i>Total £000</i>
<i>Fixed rate</i>			
Redeemable preference shares (8%)	–	(40)	(40)
<i>Floating rate</i>			
Cash and cash equivalents	120,550	–	120,550
Loan notes (LIBOR minus 1%)	(167)	–	(167)
	<u>120,383</u>	<u>(40)</u>	<u>120,343</u>

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Other financial instruments of the group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The loan notes bear interest at LIBOR minus 1% and will be repaid in full on 31 July 2006.

Fair value hedges

During the year ended 31 May 2005 the company had Euro denominated loans that bore interest at EURIBOR plus 4%. The company entered into a currency basis swap in order to hedge its foreign exchange risk to these loans. Under the terms of that swap the company paid LIBOR plus 9 basis points and received EURIBOR on a principal amount equal to the principal amount of the Euro denominated loans.

The currency basis swap was cancelled on 4 May 2005 at the same time as the Euro denominated loans were repaid. The hedge relationship was also terminated on this date.

Notes to the group financial statements

at 31 May 2006

29. Derivatives and other financial instruments (continued)

Credit risk

The group has credit exposure to the banks with which it deposits funds and the market counterparties with which it hedges. The group has no concentration of credit exposure to its clients. The group accepts collateral from clients to mitigate against credit risk.

Fair values of financial assets and financial liabilities

There are no significant differences between the fair value of the group's financial assets and liabilities and their carrying values in the financial statements. The trade receivables and trade payables are classified as held for trading. The book and fair value of the group's financial assets and liabilities, analysed into appropriate categories, is as follows:

	<i>Book value and fair value</i>	
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
<i>Financial assets</i>		
Cash and cash equivalents (note 17)	247,277	120,550
Trade receivables (note 16)	127,111	43,997
<i>Financial liabilities</i>		
Loan notes	(92)	(167)
Redeemable preference shares (note 20)	(40)	(40)
Trade payables (note 18)	(285,635)	(127,358)
	<u>88,621</u>	<u>36,982</u>

Currency risk

The functional currency of the company and its subsidiaries is sterling. The net financial assets and liabilities analysed by currency at the balance sheet date were as follows:

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Sterling	115,218	55,474
US Dollars	(13,077)	(5,182)
Euro	(25,143)	(15,930)
Australian dollars	6,025	2,121
Other	5,598	499
	<u>88,621</u>	<u>36,982</u>

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS)

This is the first year that the group has presented its financial statements in accordance with IFRS. The last financial statements under UK GAAP were for the year ended 31 May 2005.

The group has applied the provisions of IFRS 1 First-time Adoption of International Financial Reporting Standards. The date of transition to IFRS was 1 June 2004 and all comparative information in these financial statements has been restated to reflect the group's adoption of International Financial Reporting Standards at that date.

Exemptions applied

IFRS 1 contains a number of exemptions which companies are permitted to apply. The group has selected:

- to present comparative information on financial instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement;
- not to apply IFRS 3 Business Combinations to acquisitions of subsidiaries that occurred before 1 June 2004;
- that cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 June 2004.

Balance sheet reconciliation at 1 June 2004

The effect of the changes to the group's accounting policies on the equity of the group at the date of transition, 1 June 2004, was as follows:

		31 May 2004 UK GAAP £000	Effect of transition to IFRS £000	1 June 2004 IFRS £000
	Notes			
Non-current assets				
Property, plant and equipment	a	6,347	(2,341)	4,006
Goodwill	b	105,115	–	105,115
Client list	b	426	–	426
Other intangible assets	a	–	2,341	2,341
Deferred tax assets	c	–	909	909
Available-for-sale investments		2	–	2
		111,890	909	112,799
Current assets				
Trade receivables		33,647	–	33,647
Prepayments and other receivables		1,283	–	1,283
Deferred tax assets	c	688	(688)	–
Cash and cash equivalents	d	23,076	66,339	89,415
		58,694	65,651	124,345
Total assets		170,584	66,560	237,144

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Balance sheet reconciliation at 1 June 2004 (continued)

		31 May 2004 UK GAAP £000	Effect of transition to IFRS £000	1 June 2004 IFRS £000
	Notes			
Current liabilities				
Trade payables	e	19,920	67,363	87,283
Other payables	f	9,779	151	9,930
Loan notes		570	–	570
Income tax payable		1,034	–	1,034
		31,303	67,514	98,817
Non-current liabilities				
Interest-bearing loans and borrowings	g	101,113	(439)	100,674
Redeemable preference shares	h	–	37,284	37,284
		101,113	36,845	137,958
Total liabilities		132,416	104,359	236,775
Minority interests	i	166	(166)	–
NET ASSETS		38,334	(37,965)	369
Capital and reserves				
Equity share capital		10	–	10
Redeemable preference shares	h	35,220	(35,220)	–
Retained earnings		3,104	(2,785)	319
Shareholders' equity		38,334	(38,005)	329
Minority interests	i	–	40	40
TOTAL EQUITY		38,334	(37,965)	369

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Balance sheet reconciliation at 31 May 2005

The effect of the changes to the group's accounting policies on the equity of the group at 31 May 2005, the date of the last annual financial statements presented under UK GAAP, was as follows:

	Notes	31 May 2005 UK GAAP £000	Effect of transition to IFRS £000	31 May 2005 IFRS £000
Non-current assets				
Property, plant and equipment	a	5,160	(1,546)	3,614
Goodwill	b	100,336	5,450	105,786
Client list	b	206	—	206
Other intangible assets	a	—	1,546	1,546
Deferred tax assets	c	—	1,435	1,435
		105,702	6,885	112,587
Current assets				
Trade receivables		43,997	—	43,997
Prepayments and other receivables		2,123	—	2,123
Deferred tax assets	c	1,171	(1,171)	—
Cash and cash equivalents	d	20,832	99,718	120,550
		68,123	98,547	166,670
Total assets		173,825	105,432	279,257
Current liabilities				
Trade payables	e	26,934	100,424	127,358
Other payables	f	9,485	173	9,658
Loan notes		167	—	167
Income tax payable		3,575	—	3,575
		40,161	100,597	140,758
Non-current liabilities				
Redeemable preference shares	h	—	40	40
Other payables		500	—	500
		500	40	540
Total liabilities		40,661	100,637	141,298
Minority interests	i	(40)	40	—
NET ASSETS		133,124	4,835	137,959

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Balance sheet reconciliation at 31 May 2005 (continued)

	Notes	31 May 2005 UK GAAP £000	Effect of transition to IFRS £000	31 May 2005 IFRS £000
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent company				
Equity share capital		16	–	16
Redeemable preference shares	h	40	(40)	–
Share premium account		125,197	–	125,197
Retained earnings		7,871	4,835	12,706
Shareholders' equity		133,124	4,795	137,919
Minority interests	i	–	40	40
TOTAL EQUITY		133,124	4,835	137,959

Retained earnings reconciliations

The following illustrates the adjustments to retained earnings as shown in the balance sheet reconciliations:

	1 June 2004 £000	31 May 2005 £000
Adjustments relating to the period:		
Amortisation of goodwill (b)	–	5,450
Deferred tax (c)	–	43
Open positions valuation provision for adjustment from mid-market to bid-offer prices (e)	–	(121)
Compensated short-term absences accrual (f)	–	(22)
Finance expense adjustment for interest provided on redeemable preferences shares (h)	–	(2,685)
	–	2,665
Adjustments made directly through equity:		
Deferred tax (c)	221	221
Open positions valuation position for adjustment from mid-market to bid-offer prices (e)	(585)	(585)
Compensated short-term absences accrual (f)	(151)	(151)
Finance expense adjustment for interest provided on redeemable preference shares (h)	(2,064)	2,685
Minority interest losses (i)	(206)	–
	(2,785)	2,170
Total effect of transition to IFRS on retained earnings	(2,785)	4,835

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Reconciliation of profit for the year ended 31 May 2005

The changes in the accounting policies had the following effect on the profit reported for the year ended 31 May 2005:

		31 May 2005 UK GAAP £000	Effect of transition to IFRS £000	31 May 2005 IFRS £000
	Notes			
Revenue	j	62,298	(121)	62,177
Cost of sales		(2,528)	–	(2,528)
Gross profit		59,770	(121)	59,649
Administrative expenses	k	(38,789)	5,428	(33,361)
Operating profit		20,981	5,307	26,288
Finance revenue		6,013	–	6,013
Finance costs	l	(12,995)	(2,685)	(15,680)
Profit before tax		13,999	2,622	16,621
Tax expense	m	(4,538)	43	(4,495)
Profit for the period		9,461	2,665	12,126
Attributable to:				
Equity holders of the parent		9,516	2,665	12,181
Attributable to minority interests		(55)	–	(55)
		9,461	2,665	12,126

Cash flow reconciliations

The only material adjustment to the cash flow statement for the year to 31 May 2005 arising from transition to IFRS is as a result of reclassifying client money, which was off-balance sheet under UK GAAP, but which is included within cash and short term deposits and amounts due to clients under IFRS. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities: operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Reconciliation of cash flows for the year ended 31 May 2005

	31 May 2005 UK GAAP £000	Effect of transition to IFRS £000	31 May 2005 IFRS £000
Net cash generated from/(absorbed by) operations (d)	25,412	33,379	58,791
Income taxes paid	(2,480)	—	(2,480)
Net cash inflow from investing activities	3,312	—	3,312
Net cash outflow from financing activities	(28,488)	—	(28,488)
Net (decrease)/increase in cash and cash equivalents	(2,244)	33,379	31,135
Net cash and cash equivalents at the beginning of the year	23,076	66,339	89,415
Net cash and cash equivalents at the end of the year	20,832	99,718	120,550

Notes relating to the effect of transition to IFRS

Balance sheet adjustments

a – On transition to IFRS the group has recognised other intangible assets in relation to development costs and software licences. The effect of this was to reclassify balances previously held in property, plant and equipment. Items previously depreciated under UK GAAP have been amortised under IFRS but this reclassification has no impact on profit.

b – Under UK GAAP goodwill was amortised over a period not exceeding 20 years. Adoption of IFRS has resulted in the group ceasing annual goodwill amortisation and testing for impairment annually at the cash generating unit level. Under UK GAAP the client list was amortised over 5 years and in the interim financial report under IFRS amortisation was not provided on the client list. In these financial statements, however, the client list is amortised over 5 years; therefore, there is no adjustment shown from UK GAAP to IFRS.

c – On transition to IFRS the group has reclassified deferred tax assets as non-current assets from current assets. Transition adjustments relate to the valuation of open positions and employee short-term compensated absence accruals. These have no effect on profit before tax and have had no effect on taxable income in the subsidiaries of the group but have given rise to deferred tax assets upon consolidation.

d – Client money which was recorded off-balance sheet under UK GAAP has now been included within cash and short-term deposits under IFRS.

e – Open positions in bets and derivatives were valued at mid-market value under UK GAAP whereas under IFRS open net long positions are valued at bid prices and open net short positions are valued at offer prices. As noted in note d above, client money which was recorded off-balance sheet under UK GAAP has been included within cash and the equivalent liability to clients included within trade and other payables under IFRS.

f – Under IFRS expenses are accrued for employees' short-term compensated absences which were not accrued under UK GAAP as these are accounted for on a pay as you go basis.

g – Under IFRS the company has applied hedge accounting to a currency basis swap which is disclosed separately from the loan, whereas under UK GAAP the hedge was netted off against the loan in the balance sheet.

Notes to the group financial statements

at 31 May 2006

30. Explanation of transition to International Financial Reporting Standards (IFRS) (continued)

Notes relating to the effect of transition to IFRS (continued)

Balance sheet adjustments (continued)

h – Redeemable preference shares which were classified as equity instruments under UK GAAP are classified as financial liabilities under IFRS. Under UK GAAP the distributions were treated as dividends and accounted for on a cash basis while under IFRS the distributions are classified as interest and are charged to the income statement using the effective interest rate method.

i – Minority interests are presented as part of equity while under UK GAAP these were disclosed separately in the consolidated balance sheet. Losses applicable to minority interests under IFRS have been allocated against the majority interest.

Income statement adjustments

j – Open positions in bets and derivatives were valued at mid-market value under UK GAAP whereas under IFRS open net long positions are valued at bid prices and open net short positions are valued at offer prices.

k – Amortisation on goodwill charged in the period under UK GAAP has been reversed as this is not charged under IFRS. An employee short-term compensated absence provision has been provided under IFRS which was not provided under UK GAAP.

l – The finance expense recognised on redeemable preference shares is calculated using the effective interest rate method under IFRS whereas under UK GAAP interest charges were recognised on an accruals basis.

m – Adjustments to the valuation of open positions and employee short-term compensated absence accruals, which are made in the consolidated financial statements but not in the financial statements of the individual entities within the group, have resulted in deferred tax credits in the income statement upon consolidation.

Notes to the group financial statements

at 31 May 2006

31. Group companies

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

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Subsidiary undertakings held directly:				
IG Finance	UK	Ordinary shares	100%	Financing
IG Group Limited	UK	Ordinary shares	100%	Holding company

Subsidiary undertakings held indirectly:

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
extrabet Limited (formerly Binarybet Limited)	UK	Ordinary shares	100%	Fixed odds bookmaker
IG Asia Pte Limited	Singapore	Ordinary share	100%	Margin trading and foreign exchange
IG Australia Pty Limited	Australia	Ordinary shares	100%	Australia sales and marketing office
IG Finance Four	UK	Ordinary Shares	100%	Financing
IG Finance Three	UK	Ordinary Shares	100%	Financing
IG Finance Two	UK	Ordinary shares	100%	Financing
IG Financial Markets Inc	USA	Ordinary shares	100%	Not yet trading
IG Index plc	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
ITS Market Solutions Limited	UK	Ordinary shares	60%	Software development and sales
Market Data Limited	UK	Ordinary shares	100%	Data distribution
Market Risk Management Inc	USA	Ordinary shares	100%	Market maker

Employee benefit trusts:

IG Group Holdings plc Inland Revenue Approved Share Incentive Plan (UK trust)

IG Group Limited Employee Benefit Trust (Jersey trust)

Independent auditors' report

to the members of IG Group Holdings plc

We have audited the group financial statements of IG Group Holdings plc for the year ended 31 May 2006 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense and the related notes 1 to 31. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the company financial statements of IG Group Holdings plc for the year ended 31 May 2006 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the group financial statements give a true and fair view, the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and that the information given in the directors' report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the review of business section of the directors' report.

We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the chairman's statement, the chief executive designate's report, the operating and financial review, the corporate governance statement and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

Independent auditors' report

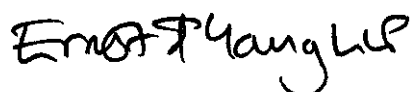
to the members of IG Group Holdings plc (continued)

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 May 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.



Ernst & Young LLP
Registered auditor
London
24 July 2006

Company balance sheet

at 31 May 2006

	Notes	2006 £000	2005 <i>Restated</i> £000
Non-current assets			
Investments in subsidiaries	35	301,471	301,471
Current assets			
Other receivables	36	63	129
Cash and cash equivalents		1	112
		<u>64</u>	<u>241</u>
Total assets		<u>301,535</u>	<u>301,712</u>
Current liabilities			
Other payables	37	31,960	45,100
Non-current liabilities			
Redeemable preference shares	39	40	40
Total liabilities		<u>32,000</u>	<u>45,140</u>
Net assets		<u>269,535</u>	<u>256,572</u>
Capital and reserves			
Equity share capital	39	16	16
Share premium account	38	125,235	125,197
Retained earnings	38	144,284	131,359
Total equity		<u>269,535</u>	<u>256,572</u>

ERNST & YOUNG

Director

Director

24 July 2006

Company reconciliation of shareholders' equity

for the year ended 31 May 2006

	2006	2005
	£000	<i>Restated</i> £000
Profit for the financial year	17,838	126,158
Dividends on equity shares	(4,913)	—
	12,925	126,158
Issue of equity share capital	—	131,731
Costs of share issue	38	(6,528)
	12,963	251,361
Net addition to shareholders' equity		
Opening equity	256,572	5,211
Closing equity	269,535	256,572

Notes to the company financial statements

at 31 May 2006

32. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Foreign currencies

Assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate prevailing on the date of the transaction. Differences arising are taken to the income statement.

Investments in subsidiaries

Investments are stated at cost, unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process. Provision is made where there is objective evidence that the group will be unable to recover the balance in full. Balances are written off when the probability of recovery is considered remote.

Cash and cash equivalents

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

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.

Loan notes

Loan notes are initially recognised at fair value of the consideration received and are subsequently measured at amortised cost using the effective interest rate method.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date or where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Notes to the company financial statements

at 31 May 2006

32. Accounting policies (continued)

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 balance sheet; 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.

Treasury shares

Shares held in trust by the company for the purposes of employee share schemes are classified in 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 performance statements on the purchase, sale, issue or cancellation of equity shares.

Revenue recognition

Revenue is recognised to the extent that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

Interest

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

Dividends

Revenue is recognised when the shareholder's right to receive the payment is established.

Finance costs

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

Exceptional administrative costs

Exceptional administrative costs are those material items of income and expense which, because of the nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Notes to the company financial statements

at 31 May 2006

32. Accounting policies (continued)

Share-based payments

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

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

Changes in accounting policies

The company has adopted the following standards which became effective for the first time on these financial statements. The impact of each of these standards upon the financial statements is as follows:

FRS 20 Share-based payments

The company made awards during the year ended 31 May 2005 in respect of the group's LTIP and SIP schemes. No charge has been recognised in the financial statements of the company as it has no employees. Charges have been recognised in the financial statements of IG Index plc and IG Australia Pty Ltd to whose employees' these awards relate in accordance with this standard. The awards made are disclosed in note 23 to the group financial statements.

FRS 21 Events after the balance sheet date

The company has proposed a final dividend for approval by shareholders at the AGM of 4.00p per share which amounts to £13,100,000 as disclosed in note 12 to the group financial statements. No liability has been recognised in the company or group financial statements in respect of this dividend in accordance with this standard.

FRS 25 Financial instruments: disclosure and presentation and FRS 26 Financial instruments: measurement

Redeemable preference shares are presented as liabilities, and the charge presented as interest in accordance with these standards. In prior years these were presented as a non-equity element of shareholders' equity and the charge was presented as dividends. The redeemable preference shares are disclosed in note 20 to the group financial statements.

33. Profit and loss account

IG Group Holdings plc has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual profit and loss account. The profit after tax dealt with in the financial statements of the company was £17,838,000 (2005: £126,158,000).

Notes to the company financial statements

at 31 May 2006

34. Auditors' remuneration

New requirements for the disclosure of remuneration paid by the company to its auditors were introduced in the Companies (Audit, Investigations and Community Enterprise) Act 2004 and regulations specifying these requirements were issued in 2005, and are mandatory for accounting periods beginning on or after 1 October 2005.

Notwithstanding this, the company has elected to give disclosures that comply with these requirements, in particular regarding fees other than for the audit of the financial statements, as well as disclosing the total non-audit fees for the company, in accordance with the extant legislation.

	<i>Year ended 31 May 2006 £000</i>	<i>Year ended 31 May 2005 £000</i>
Audit of the financial statements	40	30
Other fees to auditors - IFRS transition	44	-
- advisory services	-	48
- corporate finance services	-	1,010
	44	1,058

In the previous year the advisory fees related to compliance with loan covenants.

Corporate finance services in the year to 31 May 2005 related primarily to work undertaken in connection with the company's flotation and issue of shares.

Notes to the company financial statements

at 31 May 2006

35. Fixed asset investments

Investments in subsidiaries at cost

£000

At 1 June 2005 and at 31 May 2006

301,471

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Subsidiary undertakings held directly:				
IG Finance	UK	Ordinary shares	100%	Financing
IG Group Limited	UK	Ordinary shares	100%	Holding company
Subsidiary undertakings held indirectly:				
extrabet Limited (formerly Binarybet Limited)	UK	Ordinary shares	100%	Fixed odds bookmaker
IG Asia Pte Limited	Singapore	Ordinary share	100%	Margin trading and foreign exchange
IG Australia Pty Limited	Australia	Ordinary shares	100%	Australia sales and marketing office
IG Finance Four	UK	Ordinary Shares	100%	Financing
IG Finance Three	UK	Ordinary Shares	100%	Financing
IG Finance Two	UK	Ordinary shares	100%	Financing
IG Financial Markets Inc	USA	Ordinary shares	100%	Not yet trading
IG Index plc	UK	Ordinary shares	100%	Spread betting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
ITS Market Solutions Limited	UK	Ordinary shares	60%	Software development and sales
Market Data Limited	UK	Ordinary shares	100%	Data distribution
Market Risk Management Inc	USA	Ordinary shares	100%	Market maker

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 company financial statements

at 31 May 2006

36. Other receivables

	2006	2005
		<i>Restated</i>
	£000	£000
Amounts due from group companies	28	19
Other receivables	—	85
Prepayments	35	25
	<u>63</u>	<u>129</u>

37. Other payables

	2006	2005
		<i>Restated</i>
	£000	£000
Amounts due to group companies	31,450	42,711
Other taxes and social security costs	—	780
Accruals	415	1,442
Loan notes	92	167
Interest on redeemable preference shares	3	—
	<u>31,960</u>	<u>45,100</u>

The loan notes bear interest at LIBOR minus 1% and will be repaid on 31 July 2006.

38. Reserves

	<i>Share premium account £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At 31 May 2004	—	5,201	5,201
Arising on the issue of shares	131,725	—	131,725
Costs of share issue	(6,528)	—	(6,528)
Profit for the year	—	126,158	126,158
	<u>125,197</u>	<u>131,359</u>	<u>256,556</u>
At 31 May 2005	125,197	131,359	256,556
Adjustment to costs of share issue	38	—	38
Profit for the year	—	12,925	12,925
	<u>125,235</u>	<u>144,284</u>	<u>269,519</u>
At 31 May 2006	125,235	144,284	269,519

39. Redeemable preference shares, authorised and issued share capital, employee benefit trusts and employee share plans

Disclosures required for the redeemable preference shares, authorised and issued share capital, employee benefit trusts and employee share plans of the company are included in notes 20 to 23 to the group financial statements.

Independent auditors' report

to the members of IG Group Holdings plc

We have audited the company financial statements of IG Group Holdings plc for the year ended 31 May 2006 which comprise the balance sheet and the related notes 32 to 39. These company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of IG Group Holdings plc for the year ended 31 May 2006.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, the directors' remuneration report and the company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the statement of directors' responsibilities.

Our responsibility is to audit the company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the company financial statements give a true and fair view, the company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the company financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited company financial statements. The other information comprises only the chairman's statement, the chief executive designate's report, the operating and financial review, the statement of directors' responsibilities, and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

Independent auditors' report

to the members of IG Group Holdings plc

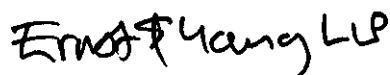
Basis of audit opinion (continued)

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

Opinion

In our opinion:

- the company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2006; and
- the company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the company's financial statements.



Ernst & Young LLP
Registered auditor
London
24 July 2006