

A copy of this document, which comprises a prospectus relating to IG Group Holdings plc (the “Company”) prepared in accordance with the listing rules made under Part VI of the Financial Services and Markets Act 2000, has been delivered to the Registrar of Companies for registration in England and Wales in accordance with Section 83 of the Financial Services and Markets Act 2000.

UBS Limited (“UBS”), Lexicon Partners Limited, Bridgewell Limited and Numis Securities Limited are acting for the Company and no-one else in connection with the Global Offer. None of UBS, Lexicon Partners Limited, Bridgewell Limited or Numis Securities Limited will be responsible to anyone other than the Company for providing the protections afforded to clients of UBS, Lexicon Partners Limited, Bridgewell Limited or Numis Securities Limited, as the case may be, or for giving advice to any other person in relation to the Global Offer or the contents of this document or any transaction or arrangement referred to herein.

The Directors of the Company, whose names appear on page 8 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Ordinary Shares offered in the Global Offer have not been, and will not be, registered under the US Securities Act of 1933 (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States or under the applicable securities laws of Australia, Canada or Japan. Accordingly, the Ordinary Shares may not be offered or sold directly or indirectly in or into the United States, Australia, Canada or Japan or to or for the account or benefit of any national, resident or citizen of Australia, Canada or Japan except as determined by the Company in its sole discretion and pursuant to applicable laws. This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. Persons outside the United Kingdom into whose possession this document comes are required by the Company and UBS to inform themselves about and to observe any restrictions as to the offer or sale of Ordinary Shares and the distribution of this document. The Ordinary Shares may be offered and sold within the United States only to persons reasonably believed to be “qualified institutional buyers” (as defined in Rule 144A under the Securities Act (“Rule 144A”)) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Ordinary Shares are being offered and sold outside the United States in accordance with Regulation S under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Ordinary Shares and the distribution of this document, see “US Selling Restrictions” and “Other Selling Restrictions” in paragraphs 15 and 16, respectively, of Part XI (Additional Information).



## IG Group Holdings plc

(Incorporated under the Companies Act 1985 and registered in England and Wales with Registered No. 4677092)

### **Global Offer of 178,964,828 Ordinary Shares of 0.005p each at a price expected to be between 112p and 139p per Ordinary Share and admission to the Official List and trading on the London Stock Exchange**

Application has been made to the UK Listing Authority for the whole of the issued and to be issued ordinary share capital of the Company to be admitted to the Official List and to the London Stock Exchange for the Ordinary Shares to be admitted to trading on its market for listed securities. It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence, at 8.00 a.m. on 4 May 2005. Dealings on the London Stock Exchange before Admission will be settled only if Admission takes place. All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned.

Expected share capital immediately following Admission based on the Assumptions set forth in this document:

Authorised			Issued	
Number	Nominal Value		Number	Nominal Value
500,000,000	£25,000	Ordinary Shares of 0.005p each	322,805,593	£16,140

105,079,793 New Ordinary Shares are being offered by the Company and 73,885,035 Existing Ordinary Shares are being offered by certain Shareholders of the Company in the Global Offer. On Admission, the New Ordinary Shares and Existing Ordinary Shares now being offered will rank *pari passu* in all respects with all outstanding Ordinary Shares in issue and will rank in full for all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company.

**Prospective investors should read the entire document and, in particular, Part III entitled “Risk Factors” when considering an investment in the Company.**

The Ordinary Shares are concurrently being offered to institutional investors through an institutional offer, to certain employees of the Group through an employee offer and to certain clients of the Group in the United Kingdom through a client offer. Details of the Global Offer are set out in Part IX of this document. If you are in any doubt whether or not to apply for Ordinary Shares, you should ask for your own financial advice from your stockbroker, bank manager, accountant or other independent duly authorised adviser.

*The Global Coordinator, Bookrunner and Sponsor*



*Joint Lead Managers*

Bridgewell Limited

Numis Securities Limited

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Prospective investors should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised.

This document does not constitute or form part of an offer or invitation to sell or issue, or any solicitation of an offer to subscribe for or buy, any securities other than the securities to which it relates or an offer or invitation to sell or issue, or the solicitation of an offer to subscribe for or buy, such securities by any person in any circumstances in which such offer or solicitation is unlawful.

The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Ordinary Shares are not transferable except in accordance with, and the distribution of this document is subject to, the restrictions set out under “US Selling Restrictions” and “Other Selling Restrictions” in paragraphs 15 and 16 respectively of Part XI (Additional Information).

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

**The Offer Price may be set within, above or below the Indicative Offer Price Range. Applications received in respect of the Public Offer are irrevocable and are based on the amount the applicant wishes to invest and not a number of shares or the Offer Price. Applications, once received, cannot be withdrawn if there is a change to the Indicative Offer Price Range or if the Offer Price is set above or below this range.** Following determination of the Offer Price, a supplementary prospectus will be published setting out, *inter alia*, the Offer Price and the aggregate number of New Ordinary Shares to be issued by the Company and the Existing Ordinary Shares to be sold by the Selling Shareholders. Further details of the Global Offer, including the terms and conditions applicable to the Public Offer, are set out in Parts IX and X of this document.

## **AVAILABLE INFORMATION**

For so long as any of the Ordinary Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, IG will, during any period in which it is not subject to Section 13 or 15(d) under the US Securities Exchange Act of 1934 (the “Exchange Act”), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of an Ordinary Share, or to any prospective purchaser of an Ordinary Share designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document, including those under the captions “Key Information”, “Business of IG”, “Risk Factors” and “Operating and Financial Review”, constitute “forward-looking statements”. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “prepares”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of IG, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding IG’s present and future business strategies and the environment in which IG will operate in the future. Such risks, uncertainties and other factors are set out more fully in Part III (Risk Factors) of this document and include, among others: changes to the regulatory regime governing the Group’s operations, changes in tax law, the Group’s ability to manage growth, the

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competitive environment for the Group's business, general economic conditions, the Group's intellectual property rights and those other factors set out in Part III (Risk Factors). These forward-looking statements speak only as at the date of this document. Except as required by the UK Listing Authority, the London Stock Exchange or applicable law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Except as required by the UK Listing Authority, the London Stock Exchange or applicable law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## **NOTICE**

This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction and is not for distribution in or into the United States, Australia, Canada or Japan, except as determined by the Company in its sole discretion and pursuant to applicable laws. In particular, the Ordinary Shares offered by this document have not been and will not be registered under the Securities Act, or under the applicable state securities laws of any state of the United States or under the applicable securities laws of Australia, Canada or Japan and may not be offered or sold directly, or indirectly, in or into the United States, Australia, Canada or Japan, or to any person resident in Australia, Canada or Japan except as determined by the Company in its sole discretion and pursuant to applicable laws.

The Ordinary Shares have not been nor will they be qualified by prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the Ordinary Shares in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Prospective investors in Canada should refer to "Other Selling Restrictions — Canada" and Ontario purchasers in particular should refer to the subsection entitled "Statutory Rights of Action (Ontario Purchasers)" set out in paragraph 16 of Part XI (Additional Information). **The Offer Price is disclosed in pence Sterling. On 11 April 2005, being the latest practicable date prior to the publication of this document, £1.00 = Cdn\$2.33, based on the Bank of Canada noon exchange rate.**

The Ordinary Shares may be offered and sold within the United States only to persons reasonably believed to be "qualified institutional buyers" (as defined in Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby notified that the Sellers of the Ordinary Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Ordinary Shares are being offered and sold outside the United States in accordance with Regulation S under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Ordinary Shares and the distribution of this document, see "US Selling Restrictions" and "Other Selling Restrictions" in paragraphs 15 and 16, respectively, of Part XI (Additional Information).

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority nor have such authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or adequacy of the Prospectus. Any representation to the contrary is a criminal offence in the United States.

None of the Company, UBS, Lexicon Partners Limited, Bridgewell Limited or Numis Securities Limited or their respective representatives is making any representation to any offeree or purchaser of the Ordinary Shares offered hereby regarding the legality of an investment by such offeree or purchaser under appropriate investment or similar laws. Each prospective investor should consult with his, her or its own advisers as to the legal, tax, business, financial and related aspects of purchase or subscription of the Ordinary Shares.

## **FINANCIAL PRESENTATION AND CURRENCIES**

Financial information in this document comprises information for the financial years ended 31 May 2002, 2003 and 2004 for IG (the “financial years 2002, 2003 and 2004”, respectively), and the six month periods ended 30 November 2003 and 2004 and has been extracted without material adjustment from Part VI (Accountants’ Report on the Group) of this document or from the accounting records which form the underlying basis of the financial statements on which the Accountants’ Report is based.

Unless otherwise indicated, financial information in this document has been prepared and presented in accordance with UK GAAP.

References in this document to IG being the UK market leader in spread betting on financial markets are measured by reference to turnover based on the latest published annual accounts of IG and its competitors as at the date of this document.

References in this document to EBITDA are to earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group’s indebtedness and interest receivable on corporate cash balances and include interest receivable by the Group on clients’ money net of interest payable to clients.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

Unless the context otherwise requires or it is expressly provided to the contrary, this document assumes that no Overallotment Shares are sold pursuant to the Overallotment Option.

All references in this document to “pounds Sterling”, “pence”, “£” or “p” are to the lawful currency of the United Kingdom and references to “US dollars” are to the lawful currency of the United States. The Group prepares its financial statements in pounds Sterling.

## **PRESENTATION OF OTHER INFORMATION**

Unless the context otherwise requires or it is expressly provided to the contrary, the information in this document assumes:

- ▶ the Offer Price is 125.5p, the mid-point of the Indicative Offer Price Range;
- ▶ 105,079,793 New Ordinary Shares are issued by the Company under the Global Offer. The actual number of New Ordinary Shares to be issued by the Company under the Global Offer will depend on the Offer Price and may vary significantly above or below the assumed figure;
- ▶ 73,885,035 Existing Ordinary Shares are sold by the Selling Shareholders under the Global Offer. The actual number of Existing Ordinary Shares to be sold under the Global Offer will only be decided by the

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Selling Shareholders, together with the Global Coordinator and the Company, at the same time as determination of the Offer Price and may vary significantly above or below the assumed figure;

- ▶ Admission occurs on 4 May 2005;
- ▶ the Overallotment Option is not exercised; and
- ▶ the Warrants are exercised by the Warrantholders.

All information in this document relating to IG's clients, including the number of clients, the number of clients dealing, the number of accounts and transactions opened, the average number of opening transactions per client and the number of online account openings, has been derived from the Group's client database and management reporting systems.

Various references are made in this document to the current tax treatment in the United Kingdom and Australia of a number of IG's products. Prospective investors should be aware that taxation legislation in the United Kingdom and elsewhere may change at any time and that the tax treatment of IG's products may change in the future.

IG owns certain trademarks which are used in its business. The Board believes that IG's trademarks are of great strategic importance to its business. Accordingly, the Group strives to protect its trademarks, including, where appropriate, taking action in respect of suspected infringements. IG's trademarks include "IG", the IG logo, the trading names of the Group's operating subsidiaries, "L2" and "binarybet.com".

References in this document to "revenue" or "income" are to turnover, where the context requires. Turnover represents profits and losses on the running of a betting market in commodities, financial futures, traded options, stock indices and individual shares and a wide range of sporting events, and trading in foreign exchange and contracts for differences, together with the net result of hedging client positions, less commissions paid.

References in this document to transactions executed "online" and transaction volumes are to transactions placed by clients using the Group's Internet platform for immediate execution, together with all transactions placed using the Group's mobile dealing and L2™ platforms, which are further described in Part I (Business of IG), unless the context requires otherwise.

All times referred to in this document are, unless otherwise stated, references to the time in London, England.

## **STABILISATION**

In connection with the Global Offer, UBS, as stabilising manager, or any of its agents, may over allot or effect other transactions with a view to supporting the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, the Ordinary Shares or other securities of the Company, in each case at a level higher than that which might otherwise prevail for a limited time after the Offer Price is announced. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. However, there is no obligation on UBS or any of its agents to undertake stabilisation transactions. Such stabilising transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law or regulation, neither UBS nor its agents intend to disclose the extent of any overallotments and/or stabilisation transactions under the Global Offer. The Underwriting Agreement contains certain provisions designed to ensure that the requirements to disclose any such transactions are minimised.

The Institutional Investors have granted to UBS, as stabilising manager, the Overallotment Option pursuant to which UBS may require the Institutional Investors to sell additional Existing Ordinary Shares at the Offer Price to cover overallotments, if any, made in connection with the Global Offer and to cover any short positions resulting from stabilisation transactions. Any such Existing Ordinary Shares will be offered by the Institutional Investors on the same terms and conditions as other Ordinary Shares in the Global Offer. The

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number of Existing Ordinary Shares to be subject to the Overallotment Option is, in aggregate, expected to be equal to approximately 13 per cent of the total number of Ordinary Shares to be issued or sold in the Global Offer (before any exercise of the Overallotment Option), amounting to 23,358,828 Existing Ordinary Shares based on the Assumptions. The Overallotment Option may be exercised, in whole or in part, at any time between determination of the Offer Price and 30 days from Admission.

Further details of the Overallotment Option are set out in Part IX (Global Offer) of this document.

## **UNDERWRITERS' DEALINGS**

In connection with the Global Offer, UBS, Bridgewell Limited and Numis Securities Limited and any of their respective affiliates acting as investors for their own account may subscribe for or purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this document to the Ordinary Shares being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription, purchase or dealing by, UBS, Bridgewell Limited and Numis Securities Limited and any of their respective affiliates acting as investors for their own accounts. UBS, Bridgewell Limited and Numis Securities Limited do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

## **ENFORCEMENT OF CIVIL LIABILITIES**

The Company is a public limited company incorporated under English law. None of the Directors is a resident of the United States and the Company's principal assets and such persons are located outside the United States. As a result, it may be difficult for prospective investors to effect service of process within the United States upon the Company or the Directors or to enforce judgments against them in US courts, including those predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States. Prospective investors may also have difficulties enforcing, in original actions brought in courts in jurisdictions outside the United States, liabilities under US securities laws. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in England.

## **REFERENCES TO DEFINED TERMS**

Certain terms used in this document, including all capitalised terms and certain technical and other items, are defined and explained in "Definitions" and "Glossary".

## **NO SOLICITATION OF CLIENTS**

This document or any part of it should not be construed as an offer, invitation or inducement to become a client of IG or to use any of the Group's products. It should not be relied upon in connection with any contract or commitment entered into by clients or potential clients of the Group, which decision should be made solely on the basis of the client agreement entered into at that time.

## **NO INCORPORATION OF WEBSITES**

The contents of the Group's websites do not form part of this document.

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## Directors, Secretary, Registered Office and Advisers

Directors	Jonathan Davie (Non-Executive Chairman) Nat le Roux (Chief Executive) Tim Howkins (Finance Director) Peter Hetherington (Chief Operating Officer) Andrew MacKay (Legal Director) Sir Alan Budd (Non-Executive Director) Martin Jackson (Non-Executive Director) Robert Lucas (Non-Executive Director)	
Company Secretary	Andrew MacKay	
Registered and Head Office	Friars House 157-168 Blackfriars Road London SE1 8EZ	
The Global Coordinator, Bookrunner and Sponsor to the Company	UBS Limited 1 Finsbury Avenue London EC2M 2PP	
Joint Lead Managers	Bridgewell Limited Old Change House 128 Queen Victoria Street London EC4V 4BJ	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
Joint Financial Advisers to the Company	UBS Limited 1 Finsbury Avenue London EC2M 2PP	Lexicon Partners Limited No. 1 Paternoster Square London EC4M 7DX
Legal Advisers to the Company as to English and US law	Linklaters One Silk Street London EC2Y 8HQ	
Legal Advisers to the Global Coordinator, Bookrunner and Sponsor to the Company as to English and US law	Allen & Overy LLP One New Change London EC4M 9QQ	
Auditors and Reporting Accountants	Ernst & Young LLP 1 More London Place London SE1 2AF	
Principal Bankers	Bank of Scotland Bishopsgate Exchange Level 7, 155 Bishopsgate London EC2M 3YB	



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Registrars

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

Receiving Agent

Capita Registrars  
Corporate Actions  
PO Box 166  
The Registry  
34 Beckenham Road  
Beckenham, Kent  
BR3 4TH

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## Global Offer Statistics<sup>(1)</sup>

Indicative Offer Price Range <sup>(2)</sup>	112p to 139p
Number of New Ordinary Shares being offered in the Global Offer <sup>(3)</sup>	105,079,793
Number of Existing Ordinary Shares being offered in the Global Offer <sup>(3)</sup>	73,885,035
Number of Existing Ordinary Shares subject to Overallotment Arrangements <sup>(4)</sup>	23,358,828
Number of Ordinary Shares in issue immediately following the Global Offer <sup>(3)</sup>	322,805,593
Expected market capitalisation of the Company <sup>(2)(3)</sup>	£405,121,019
Estimated net proceeds of the Global Offer receivable by the Company <sup>(2)(3)(5)</sup>	£124 million

- (1) *The figures set out below are based on the Assumptions set out in paragraph 23 of Part XI (Additional Information) of this document.*
- (2) *The Offer Price may be set within, above or below the Indicative Offer Price Range. Following determination of the Offer Price, a supplementary prospectus will be published setting out, inter alia, the Offer Price and the aggregate number of New Ordinary Shares to be issued by the Company and the Existing Ordinary Shares to be sold by the Selling Shareholders. Applications received in respect of the Public Offer are irrevocable and are based on the amount the applicant wishes to invest and not a number of shares or the Offer Price. Applications in respect of the Public Offer, once received, cannot be withdrawn if there is a change to the Indicative Offer Price Range or if the Offer Price is set above or below the Indicative Offer Price Range. Further details of the Global Offer, including the terms and conditions of application for the Public Offer, are set out in Part IX and Part X of this document.*
- (3) *The Company, with the consent of the Global Coordinator and the CVC Shareholders, shall have the discretion to increase or decrease the number of New Ordinary Shares and Existing Ordinary Shares being offered under the Global Offer. The actual number of New Ordinary Shares to be issued by the Company and the Existing Ordinary Shares to be sold by the Selling Shareholders will depend on the Offer Price finally determined and may vary significantly above or below the figures set out above.*
- (4) *The Overallotment Option will be granted by the Institutional Investors over a number of Existing Ordinary Shares equal to approximately 13 per cent of the aggregate number of Ordinary Shares available in the Global Offer (before any exercise of the Overallotment Option).*
- (5) *The estimated net proceeds of the Global Offer receivable by the Company, which are expected to be approximately £124 million at the Offer Price, are stated after deduction of the estimated underwriting commissions and other fees and expenses of the Global Offer payable by the Company. It should be noted that the estimated net proceeds of the Global Offer receivable by the Company (after such deduction) will remain unchanged, regardless of the Offer Price finally determined.*

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## Expected Timetable of Principal Events<sup>(1)</sup>

Commencement of the Global Offer	13 April 2005
Latest time and date for receipt of applications under the Public Offer <sup>(2)</sup>	5.00 p.m. on 20 April 2005
Latest time and date for receipt of bids under the Institutional Offer <sup>(3)</sup>	5.00 p.m. on 27 April 2005
Announcement of the Offer Price and notification of allocations	28 April 2005
Conditional dealings expected to commence on the London Stock Exchange <sup>(4)</sup>	8.00 a.m. on 28 April 2005
Publication of supplementary prospectus containing the Offer Price	28 April 2005
Admission and unconditional dealings expected to commence on the London Stock Exchange	8.00 a.m. on 4 May 2005
CREST accounts credited	4 May 2005
Despatch of definitive share certificates (where applicable) <sup>(5)</sup>	9 May 2005

- (1) Each of the times and dates in this timetable is subject to change. References to times are to the time in London, England.
- (2) The Global Coordinator, the Company and the CVC Shareholders will determine the allocation between the Institutional Offer and the Public Offer, and among each component of the Public Offer. The Global Coordinator and the Company shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances, as they deem appropriate. When determining whether to accept applications and allocations of Ordinary Shares amongst successful applicants under the Public Offer, the Company may give priority according to the date applications are received so that greater priority may be given the earlier the date on which a valid application is received. However, there is no guarantee that applicants will receive all of the Ordinary Shares for which they apply and it is possible that they may not receive any. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer.
- (3) The Global Coordinator retains the right to impose an earlier deadline for receipt of bids under the Institutional Offer.
- (4) All dealings in the Ordinary Shares before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.
- (5) Or as soon thereafter as is practicable.

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## Key Information

*Prospective investors should read the whole document and not rely on key or summarised information and should consider carefully the Risk Factors set out in Part III and the Operating and Financial Review set out in Part V of this document, in addition to all other information presented. The financial information set out in this Key Information section has been extracted without material adjustment from the Accountants' Report on the Group set out in Part VI of this document or has been extracted without material adjustment from the accounting records which form the underlying basis of the financial statements on which the Accountants' Report is based. The financial information has been prepared in accordance with UK GAAP. References in this document to revenue are to turnover, where the context requires. References in this document to EBITDA are to earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and include interest receivable by the Group on clients' money net of interest payable to clients.*

*This Key Information section includes forward-looking statements that involve risks and uncertainties. IG's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors, including those set out under "Risk Factors" in Part III and elsewhere in this document.*

*This document or any part of it should not be construed as an offer, invitation or inducement to become a client of IG or to use any of the Group's products. It should not be relied upon in connection with any contract or commitment entered into by clients or potential clients of the Group, which decision should be made solely on the basis of the client agreement entered into at that time.*

*Various references are made in this document to the current tax treatment in the United Kingdom and Australia of a number of IG's products. Prospective investors should be aware that taxation legislation in the United Kingdom and elsewhere may change at any time and that the tax treatment of IG's products may change in the future.*

### **BUSINESS OVERVIEW**

IG is a fast growing, profitable and cash generative provider of speculative investment and leisure products. The Group's core business is spread betting, both on financial markets, where the Directors believe that IG is the UK market leader (based on turnover), and on sporting, entertainment and political events. The Group's other principal products and services are contracts for differences ("CFDs"), binary bets and foreign exchange trading. These products are provided to retail clients and market professionals. More than 85 per cent of the Group's client transactions are executed online.

IG was founded in the United Kingdom in 1974 and commenced trading in Australia in 2002. The Group's business has grown rapidly since the late 1990s, with turnover having increased by 41.7 per cent compound to £49.8 million during the period between financial years 1998 and 2004. EBITDA has increased by 63.8 per cent compound to £25.1 million during the same period.

This strong growth has been achieved during a period in which equity market volatility has fallen at times and is partly attributable to the increased diversity of IG's product range. The Directors believe that reduced volatility of revenue is a significant additional benefit of this increased product diversification and that, coupled with IG's approach to hedging, the Group's earnings stream has become more stable.

### **KEY STRENGTHS OF THE GROUP**

The Directors believe that the following are the key business strengths of IG:

#### **Market leadership and brand value**

The Directors believe that IG is a leading brand in financial markets speculation and the leading brand in UK financial spread betting, a position achieved by the strength of IG's performance in the markets in which it has

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operated over the Group's thirty year history. This leading position is also attributable to the Group's focus on excellent client service, speed and quality of execution, breadth of product offering and technological and product innovation. In addition, the Group's scale and its ability to handle large numbers of simultaneous client transactions are considered to be important factors which attract clients to deal with IG. The Directors believe that IG's leading brand strength creates a significant competitive advantage from which the Group will continue to benefit.

### Client offering

Central to IG's business is its ability to attract and retain large numbers of clients, open accounts for them and then provide them with attractive dealing opportunities. Online account opening — often involving an immediate online identity check for regulatory purposes — was introduced by the Group in June 2003 and has, for the great majority of UK-resident clients, made it significantly quicker to open accounts. In February 2005, online account opening represented 84 per cent of total account openings.

IG's extensive range of products, which includes offering speculative opportunities on financial markets and sporting, political and entertainment events, appeals to a diverse range of retail clients and market professionals. The Group is committed to providing clients with fast, simple and secure access to an exciting and expanding product range.

### Technological innovation

IG launched a new Internet platform in January 2003 offering live streaming prices and rapid one click dealing. Online dealing enjoyed a rapid take-up, with monthly transaction volumes increasing from less than 30,000 in December 2002 to a level of approximately 220,000 in February 2005 (inclusive of transactions executed using IG's mobile and L2™ platforms). The sophistication of the Group's technology enables it to offer innovative products such as binary bets and provides the basis for future growth.

The functionality of the Group's online offering enables clients to open and fund accounts, place and move orders and request statements online. The Group's core technology uses software products designed for their functionality and scalability.

L2™ is one of only a limited number of CFD trading platforms which allow clients to execute directly into the exchange order book, automatically creating a CFD position. IG's software executes two transactions simultaneously — a CFD with the client and a hedge on behalf of the Group in the stock market. The result of these two transactions taking place simultaneously is to avoid market and execution risk to IG.

IG's mobile platform enables clients to view live prices and deal using a number of higher-end mobile phones. The mobile platform went live in March 2004 and, more recently, IG has enhanced the mobile platform technology so that it is compatible with a wider range of mobile phones.

The Group's scalable architecture allows it to access a wider group of end users either through white labelling, where some or all of the Group's products on IG's own platforms are branded and distributed in the name of third parties, or through market making on betting and financial exchanges.

### Product innovation and breadth of offering

The Group has a strong track record for innovative product offering and development. The most significant recent example of this has been the introduction of the binary bet concept. Other products that the Group has launched include a wide range of options which expire daily and an expanded range of sports spread bets. Some examples of the Group's products and how they work are set out in paragraph 24 of Part XI (Additional Information) of this document.

Binary betting has enjoyed rapid growth, particularly following the launch of binarybet.com™ in October 2003. During the six months ended 30 November 2004, binary betting contributed approximately 10 per cent of the Group's turnover with more than 98 per cent of binary bets placed over the Internet or using IG's mobile platform.

Unlike the Group's other products, binary bets are not subject to regulation by the FSA. As a result, the product has a much simpler account opening process, making it considerably easier to offer this product to an

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international audience. The Group's online account opening capability, coupled with a significant expansion in the number of payment mechanisms now available to clients, provides the Group with access to a wider geographical audience.

IG was the first UK bookmaker to offer binary betting and, as with financial spread betting, maintains a leading position in the UK market.

The Group's ongoing development of new products supports its rate of new client acquisition and existing client retention. The Directors are confident in the Group's ability to continue this track record of successful product innovation.

### **Proven risk management**

IG does not take proprietary positions based on an expectation of market movements. The Directors believe that the Group's current hedging policy and exposure limits have demonstrably improved the consistency of the Group's earnings. This has also been facilitated through the broadening of the Group's product range which has increased the proportion of the Group's business that is less sensitive to equity market volatility.

### **Experienced senior management team**

IG's senior management team, which has delivered the recent growth record, has extensive experience in the markets in which IG operates. Both this record and the key business strengths outlined above demonstrate the success generated by the Group's senior management. The Directors believe that the Group has a broad team of senior management who have the capability to achieve further growth.

## **BUSINESS STRATEGY**

The Directors believe that the Group has a strong foundation in place from which it is well positioned to generate future growth. IG's strategy is focused on four key objectives.

### **Maintaining a leading position in the Group's core UK financial spread betting market**

The Directors intend to maintain the strength of IG's brands generated over its thirty year history by continuing to position the Group at the forefront of the market in terms of client service, product and technological innovation, breadth of product offering and quality and speed of execution.

### **Expanding the Group's international reach**

The Directors intend to achieve enhanced growth through the further expansion of IG's Australian operations and by increasing the Group's client base in other jurisdictions. IG's advanced technology platforms and its well-developed execution expertise will continue to be significant factors in the broadening geographical spread of the Group's client base. In addition, the Directors intend to continue to invest in the further development of IG's online technology, including multi-lingual capabilities.

### **Continuing to broaden the client base**

IG'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 and more market professionals. Further developing the business of market making on betting and financial exchanges, as well as white-labelling opportunities, will extend the reach of the Group's products.

### **Continuing to deliver product and technological innovation**

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

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### SELECTED FINANCIAL DATA

*Prospective investors should read this document as a whole and not rely solely on selected or summarised information. The selected financial data set out below for financial years 2002, 2003 and 2004 and for the six months ended 30 November 2003 and 2004 has been extracted or derived without material adjustment from the Accountants' Report on the Group set out in Part VI. Prospective investors should read the whole document and not rely on key or summarised information. In particular, prospective investors should read this information in conjunction with the financial and other information on the Group in Part VI (Accountants' Report on the Group) and Management's discussion and analysis of financial condition and operating results included in Part V (Operating and Financial Review).*

	Year ended 31 May			Six months ended 30 November	
	2002 (£'000s)	2003 (£'000s)	2004 (£'000s)	2003 (£'000s)	2004 (£'000s)
Financial	26,288	34,118	40,895	18,573	23,113
Financial binaries	—	—	2,153	897	2,541
Sports	7,285	6,878	6,791	3,618	3,847
Total turnover	33,573	40,996	49,839	23,088	29,501
Cost of sales	(1,050)	(1,958)	(1,879)	(793)	(1,366)
Gross profit	32,523	39,038	47,960	22,295	28,135
Interest on clients' money	1,471	1,358	2,244	950	1,584
Administrative expenses	(19,366)	(23,208)	(25,076)	(11,739)	(13,609)
EBITDA <sup>(1)</sup>	14,628	17,188	25,128	11,506	16,110
Depreciation	(1,556)	(2,475)	(3,305)	(1,597)	(1,899)
EBITA	13,072	14,713	21,823	9,909	14,211
Amortisation	(220)	(220)	(4,241)	(1,392)	(2,840)
EBIT	12,852	14,493	17,582	8,517	11,371
EBITDA margin <sup>(2)</sup>	43.6%	41.9%	50.4%	49.8%	54.6%

(1) EBITDA represents earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and includes interest receivable by the Group on clients' money net of interest payable to clients.

(2) EBITDA margin is calculated by dividing EBITDA by total turnover.

For financial year 2004, turnover increased from £41.0 million to £49.8 million, an increase of 21.5 per cent. For the six months ended 30 November 2004, the Group generated turnover of £29.5 million compared to £23.1 million for the comparable period in 2003, an increase of 27.7 per cent.

During a period of sustained turnover growth IG has maintained a tight control on expenses with costs increasing 8.0 per cent over financial year 2004. This increase in administrative expenses is predominantly as a result of bonuses payable resulting from strong financial performance in financial year 2004 while the underlying cost base remained broadly flat.

The increase in turnover coupled with the ability to manage the cost base has delivered notable EBITDA margin improvement from 41.9 per cent for financial year 2003 to 50.4 per cent for financial year 2004. This margin improved further to 54.6 per cent for the six months ended 30 November 2004.

For financial year 2004, EBITDA increased from £17.2 million to £25.1 million, an increase of 45.9 per cent. For the six months ended 30 November 2004, the Group generated EBITDA of £16.1 million compared to £11.5 million for the comparable period in the previous year, an increase of 40.0 per cent.

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### CURRENT TRADING AND FUTURE PROSPECTS

During the period since 30 November 2004, the Group has performed ahead of the Directors' expectations and has continued to achieve strong growth. Transaction volumes, the rate of client acquisition and, consequently, growth in turnover and earnings continue to be strong.

The Directors believe that the Group's online trading platforms continue to be key contributors to the Group's continuing growth. For the six months ended 30 November 2004, the average number of monthly transactions increased to 163,017. Online transaction numbers have continued to grow strongly and, in February 2005, approximately 220,000 transactions were completed by clients online. The proportion of the Group's client transactions conducted online has continued to grow and exceeded 85 per cent in February 2005.

For the six months ended 30 November 2004, the Group generated turnover of £29.5 million compared to £23.1 million for the corresponding period in the previous financial year, an increase of 27.7 per cent.

The Group continues to deliver turnover growth and, for the three months ended 28 February 2005, achieved growth in unaudited turnover of 34.9 per cent compared with the corresponding period in the previous financial year.<sup>(1)</sup> The Group continues to benefit from high operational gearing and, as a result, the Group's EBITDA margin has continued to expand and operating profits have increased.

Based on the Group's current financial performance, the Directors are confident about IG's prospects for the current financial year and that the Group will be well placed as it enters the next financial year.

(1) *Extracted without material adjustment from the Group's management accounts.*

### RISK FACTORS

Prior to investing in the Ordinary Shares, prospective investors should consider, together with the other information contained in this document, the risk factors set out in Part III.

### DIVIDEND POLICY

The Directors intend to adopt a progressive dividend policy, which will reflect the long-term earnings and cash flow potential of the Group, whilst targeting a cash earnings dividend cover of approximately two times, where cash earnings represent earnings after tax but before amortisation. It is envisaged that interim dividends will be paid in February and final dividends in October of each year. If the Group accumulates surplus capital, the Directors will give due consideration to returning it to shareholders.

The Company will not be paying a final dividend in respect of financial year 2005. It is intended that the first dividend to be paid following Admission will be an interim dividend paid in February 2006 in respect of the financial year ending 31 May 2006.

The Company may revise its dividend policy from time to time. For more information regarding restrictions on the payment of dividends by the Company and its operating subsidiaries, see Part III (Risk Factors) and Part IV (Regulatory Environment) of this document.

### SUMMARY OF THE GLOBAL OFFER

By way of the Global Offer, which is fully underwritten by the Underwriters subject to certain conditions, including the determination of the Offer Price and the entering into of a purchase memorandum in accordance with the terms of the Underwriting Agreement (further details of which are set out in Part XI (Additional Information) of this document), the Company intends to raise a total of approximately £124 million, net of commissions, fees and expenses of the Global Offer and therefore the aggregate number of New Ordinary Shares available under the Global Offer will vary depending on the Offer Price. Based upon an Offer Price at



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the mid-point of the Indicative Offer Price Range, it is currently expected that 105,079,793 New Ordinary Shares will be issued by the Company and 73,885,035 Existing Ordinary Shares will be offered by the Selling Shareholders and will be available under the Global Offer. The actual number of Existing Ordinary Shares to be offered under the Global Offer will only be decided by the Selling Shareholders, together with the Global Coordinator and the Company, at the same time as determination of the Offer Price and may vary significantly above or below the expected figure.

UBS is the Global Coordinator of the Global Offer. The Global Offer comprises the Institutional Offer and the Public Offer.

The Institutional Offer is being made by way of an offering outside the United States in reliance on Regulation S and within the United States to people reasonably believed to be QIBs in reliance on Rule 144A or another exemption from registration under the Securities Act.

The Public Offer comprises:

- (i) the Client Offer, being an offer of Ordinary Shares to Qualifying Clients; and
- (ii) the Employee Offer, being an offer of Ordinary Shares to Qualifying Employees.

Certain restrictions that apply to the distribution of this document and the offer, sale and transfers of Ordinary Shares in jurisdictions outside the United Kingdom are described in paragraphs 15 and 16 of Part XI (Additional Information) of this document.

In connection with the Global Offer, the Institutional Investors are expected to grant the Global Coordinator, on behalf of the Underwriters, the Overallotment Option. There will be no obligation on the Global Coordinator to exercise the Overallotment Option.

Under the Global Offer, all Ordinary Shares will be issued at the Offer Price, which will be determined by the Global Coordinator, the Company and the CVC Shareholders. It is currently expected that the Offer Price will be within the Indicative Offer Price Range, although it may be set above or below this range. No fixed number of Ordinary Shares is being specifically reserved for any part of the Global Offer.

The Global Coordinator, the Company and the CVC Shareholders will determine the allocation between the Institutional Offer and the Public Offer, and among each component of the Public Offer. The Global Coordinator and the Company shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances as they deem appropriate. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer. Applicants in the Public Offer are encouraged to complete their Application Forms and return them with a Sterling cheque or bankers' draft drawn on a UK bank account to the Receiving Agent as soon as possible and, in any event, by 5.00 pm on 20 April 2005. Separate payment arrangements will be notified to employees of IG Australia who apply for Ordinary Shares under the Employee Offer but such employees will otherwise be subject to the same terms and conditions of the Employee Offer as are applicable to UK employees of the Group. **When determining whether to accept applications and allocations of Ordinary Shares amongst successful applicants, the Company may give priority according to the date applications are received so that greater priority may be given the earlier the date on which a valid application is received. However, there is no guarantee that applicants will receive all of the Ordinary Shares for which they apply and it is possible that they may not receive any.**

The Offer Price will not be known until after the last date for the receipt of bids from institutional investors and may be set at a price which is lower or higher than the Indicative Offer Price Range set out at the front of this document. Following determination of the Offer Price, a supplementary prospectus will be published setting out, *inter alia*, the Offer Price and the aggregate number of New Ordinary Shares to be issued by the Company. **Applications received in respect of the Public Offer are irrevocable and are based on the amount the applicant wishes to invest and not a number of shares or the Offer Price. Applications, once received, cannot be withdrawn if there is a change to the Indicative Offer Price Range or if the Offer Price is set above or below this range. Further details of the Global Offer, including details of its conditionality, and the terms**

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and conditions applicable to the Public Offer, are set out in Part IX (The Global Offer) and Part X (Terms and Conditions of Application for the Public Offer) of this document. An announcement of the Offer Price and allocation policies is expected to take place on 28 April 2005 when a supplementary prospectus will be published. No fractions of Ordinary Shares will be allocated under the Global Offer or any part thereof and the moneys referable to any such fractional entitlements will be aggregated and the proceeds donated to a charity nominated by the Company. There can be no assurance that a regular trading market for Ordinary Shares will be sustained. The prices at which Ordinary Shares will be bought and sold on the public market after the Global Offer may be lower than the Offer Price.

Admission is expected to take place and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 4 May 2005. Prior to that time, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 28 April 2005 and that the earliest date for settlement of such dealings will be 4 May 2005. These times and dates may be changed. **All dealings in the Ordinary Shares before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.**

### LOCK-UP ARRANGEMENTS

Each of the Institutional Investors, the Company, the Trustee, each Director and each employee of the Group that will hold Ordinary Shares immediately following Admission (other than Ordinary Shares acquired pursuant to the Global Offer) are subject to certain lock-up arrangements. No further sales of such Ordinary Shares following Admission are permitted by Institutional Investors or employees of the Group until a minimum of six months following Admission. The Executive Directors can make no further sales of Ordinary Shares before the announcement of the Group's preliminary results for the year ending 31 May 2006 (expected to be July 2006) and have phased restrictions over selling such Ordinary Shares which expire in their entirety upon the preliminary announcement of the Group's results for financial year ending 31 May 2007 (expected to be July 2007).

Further details of the terms of the lock-up arrangements are set out in Part IX (The Global Offer) and in paragraphs 10 and 11 of Part XI (Additional Information) of this document.

### RATIONALE FOR THE GLOBAL OFFER AND USE OF PROCEEDS

The net proceeds of the Global Offer receivable by the Company (after deduction of the estimated underwriting commissions, fees and expenses) will be approximately £124 million and will remain unchanged, regardless of the Offer Price finally determined.

The Directors intend to use the net proceeds receivable by the Company from the Global Offer, together with existing surplus cash, to pay down the debt obligations put in place at the time of the management buy-out and redeem the Company's preference shares, together with accrued interest and dividends.

The Directors believe that the admission of the Ordinary Shares to the Official List will offer IG a number of benefits including raising the profile of the business and greater financial flexibility.

In addition, the Directors believe that the refinancing of the instruments put in place at the time of the management buy-out will provide IG with a capital structure which will increase the attractiveness of the Group as a counterparty and consequently enhance the ability of the Group to trade with other financial institutions. It may also facilitate participation in future consolidation opportunities in the markets in which IG operates.

### ADDITIONAL INFORMATION

Your attention is drawn to Part IV (Regulatory Environment), Part V (Operating and Financial Review), Part VI (Accountants' Report on the Group) and Part XI (Additional Information) of this document which provide additional information on the Group.

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## Part I Business of IG

*Prospective investors should read the whole document and not rely on key or summarised information and should consider carefully the Risk Factors set out in Part III and the Operating and Financial Review set out in Part V of this document, in addition to all other information presented. The financial information set out in this Part I has been extracted without material adjustment from the Accountants' Report on the Group set out in Part VI or has been extracted without material adjustment from the accounting records which form the underlying basis of the financial statements on which the Accountants' Report is based. The financial information has been prepared in accordance with UK GAAP. References in this document to revenue are to turnover, where the context requires. References in this document to EBITDA are to earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and include interest receivable by the Group on clients' money net of interest payable to clients.*

*This Part I includes forward-looking statements that involve risks and uncertainties. IG's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors, including those set out under "Risk Factors" in Part III and elsewhere in this document.*

*This document or any part of it should not be construed as an offer, invitation or inducement to become a client of IG or to use any of the Group's products. It should not be relied upon in connection with any contract or commitment entered into by clients or potential clients of the Group, which decision should be made solely on the basis of the client agreement entered into at that time.*

*Various references are made in this document to the current tax treatment in the United Kingdom and Australia of a number of IG's products. Prospective investors should be aware that taxation legislation in the United Kingdom and elsewhere may change at any time and that the tax treatment of IG's products may change in the future.*

### **INTRODUCTION**

IG is a fast growing, profitable and cash generative provider of speculative investment and leisure products. The Group's core business is spread betting, both on financial markets, where the Directors believe that IG is the UK market leader (based on turnover), and on sporting, entertainment and political events. The Group's other principal products and services are contracts for differences, binary bets and foreign exchange trading. These products are provided to retail clients and market professionals. More than 85 per cent of the Group's client transactions are executed online.

IG was founded in the United Kingdom in 1974 and commenced trading in Australia in 2002. The Group's business has grown rapidly since the late 1990s, with turnover having increased by 41.7 per cent compound to £49.8 million during the period between financial years 1998 and 2004. EBITDA has increased by 63.8 per cent compound to £25.1 million during the same period.

This strong growth has been achieved during a period in which equity market volatility has fallen at times and is partly attributable to the increased diversity of IG's product range. The Directors believe that reduced volatility of revenue is a significant additional benefit of this increased product diversification and that, coupled with IG's approach to hedging, the Group's earnings stream has become more stable.

*Financial spread betting:* the Group's financial spread betting business offers clients the opportunity to speculate on a wide range of financial instruments, including stock indices, individual equities, market sectors, precious and non-precious metals, soft commodities, interest and exchange rates and options. Financial spread betting has a number of potential attractions compared to conventional trading in the world's financial markets, in particular gearing (clients can trade on margin in individual shares without having to deposit the

full value of the underlying equity), as well as the opportunity to take short positions and no current requirement to pay UK capital gains tax.

*Contracts for differences (CFDs):* CFDs are offered on a similar range of underlying markets to financial spread betting but the majority of business is on individual shares. CFDs provide retail investors with the benefits of share trading without having to buy or own the underlying stock, as the CFD mirrors the price movement of a particular stock. CFDs also offer clients certain advantages over traditional forms of trading in the world's financial markets, in particular gearing, as well as the opportunity to take a short position and the benefits of share trading without currently having to pay UK stamp duty.

*Sports spread betting:* in addition to spread betting on financial markets, the Group provides clients with the opportunity to spread bet on many sporting, entertainment and political events. One of the attractions of sports spread betting over traditional fixed odds betting is that it can ensure clients' interest is sustained in an event where there is a high degree of certainty over the result, as often the more "right" or "wrong" a client is, the more he can continue to win or lose until the conclusion of an event or until the client closes his bet.

*Binary betting:* binary betting is an innovative new product offered on both financial markets and sports events which is a hybrid of spread betting and fixed odds betting, offering some of the features of both. A binary bet is a bet about whether or not a specific event will occur. For example, will FTSE close down on the day? If the answer is yes, the bet settles at 100; if the answer is no, the bet settles at 0. IG quotes a continuous two-way price between 0 and 100 until just before the market closes and the client can close his bet at any time.

*Foreign exchange trading:* the Group launched a foreign exchange desk in 1996 to provide cost effective access to the world's foreign exchange markets for the smaller currency speculator. IG also offers its clients the opportunity to spread bet and trade CFDs on a range of currency pairs.

The Group's client base is dominated by retail clients, particularly in its spread betting businesses and in binary betting. IG's client base for CFDs and trading on foreign exchange also includes market professionals and some corporate entities. During the six months ended 30 November 2004, 18,015 clients traded with the Group, a 22 per cent increase compared to 14,767 in the corresponding period in the previous financial year.

Two of the Group's principal operating subsidiaries, IG Index (which offers spread betting and binary bets to its clients) and IG Markets (which offers CFDs and foreign exchange trading to its clients) are regulated by the Financial Services Authority in the United Kingdom and by the Australian Securities and Investments Commission in Australia. IG Index and Binarybet (which offers binary bets to its clients) both hold UK bookmakers' permits.

The Group has offices in London, England and Melbourne, Australia and employs approximately 270 people, over 250 of whom are based in London.

Due to restrictions imposed under US federal law and state laws, the Group's current policy is not to accept bets from individuals resident in the US. IG has implemented a number of robust procedures to enforce this policy.

## **DEVELOPMENT OF THE BUSINESS**

### **Historical Overview**

Since its establishment in 1974 as a financial spread betting firm, the Group's product range has expanded over the years and now includes a broad range of products that provide its clients with opportunities to speculate on most major worldwide financial markets as well as sporting, entertainment and political events.

The Directors believe that product and technological innovation have been important elements of the Group's successful development. Examples of this innovation have included IG being the first company in the UK to offer bets on the FT30 in 1982, the first company in the UK to offer spread bets on individual publicly traded

## **Part I**

### **Business of IG**

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shares in 1995 and the first company in the UK to launch an online dealing platform for financial spread betting products in 1998.

The Group's business has grown rapidly since the late 1990s, with turnover having increased eightfold between financial years 1998 and 2004.

The Directors believe that this growth in turnover has arisen through the business developments discussed below and has been influenced by a number of external factors that have contributed to a significant increase in the Group's client base and subsequently in the volume of transactions executed by the Group's client base. These include the emergence of the Internet during the latter part of the 1990s and the public's increasing awareness of, and familiarity with, online financial services and investment products (including online share dealing).

In July 2000, shares in IG Group plc (the former holding company of the Group) were admitted to the Official List and to trading on the London Stock Exchange. Stuart Wheeler, the original founder of IG Index, who was Chairman and Chief Executive of IG Group at the time of the flotation, retained a significant shareholding in the business. In January 2003, Stuart Wheeler announced that he wished to sell his entire shareholding in IG Group for personal reasons and that, together with certain other long-standing shareholders who also wished to sell their shares, the total number of shares to be sold represented substantially more than 30 per cent of IG Group's issued share capital. These events subsequently led to IG Group being acquired by the Company in September 2003 in a management buy-out that was supported by the CVC Shareholders. IG Group plc's listing on the London Stock Exchange was subsequently cancelled on 7 November 2003.

#### **Recent Business Developments**

A number of important commercial and strategic initiatives have been implemented by the Group's senior management team in recent years that have improved significantly the operating and financial performance of the business and which have laid the foundations for future growth. These initiatives have included:

##### **Internet platform**

IG's current Internet platform was first launched in January 2003 for UK financial spread betting and has subsequently been rolled out over many of the Group's other business lines. This technology enabled the Group to offer live streaming prices and rapid one click dealing and has been progressively introduced across IG's other business lines. More than 85 per cent of client transactions are now executed online (inclusive of transactions executed using IG's mobile and L2™ platforms) and the great majority of these transactions are completed within seconds without any intervention by IG's staff.

##### **Innovation**

IG has a strong track record for innovative product and technology development. Binary betting, which is a hybrid of spread betting and fixed odds betting, was launched in May 2003 and has enjoyed rapid growth since the launch of binarybet.com™ in October 2003. Binary betting contributed 10 per cent of the Group's turnover in the six months ended 30 November 2004 compared to 4.2 per cent for the same period in 2003, representing an increase of 207 per cent. In addition to binary betting, other offerings which the Group has recently launched include:

- ▶ L2™, one of only a limited number of CFD trading platforms which allow clients to execute directly into the exchange order book, automatically creating a CFD position
- ▶ a wide range of options which expire daily
- ▶ an expanding range of sport spread bets
- ▶ a mobile platform which enables clients to trade and view live prices and their open positions using higher end mobile phones

#### **Online account opening**

Online account opening — often involving an immediate online identity check for regulatory purposes — was introduced by IG in June 2003 and has, for the great majority of UK-resident clients, made it significantly quicker to open accounts. The number of accounts opened has increased significantly since 2003. In financial year 2004, 15,992 new accounts were opened, compared to 7,736 in financial year 2003. In February 2005, online account openings represented 84 per cent of total account openings.

#### **Overseas development**

In July 2002, IG commenced trading in Australia following a change in the country's financial services legislation which made it possible to offer CFDs and spread bets to Australian residents. The operation has experienced rapid growth over the last 18 months, generating turnover of £1.8 million for the six months ended 30 November 2004, compared to £0.5 million for the comparable period in 2003, representing an increase of 260 per cent. The majority of this turnover is derived from CFDs.

As binary betting is a form of fixed odds betting and, accordingly, not regulated by the FSA, the product has a much simpler account opening process, making it considerably easier to offer to an international audience. Consequently, binarybet.com's™ online account opening capability coupled with a significant expansion in the number of payment mechanisms now available to clients provide the Group with access to a wider geographical audience.

For regulatory reasons, IG's current policy is not to accept bets from individuals resident in the US. IG has implemented a number of robust procedures to enforce this policy. Further information on the overseas regulation of the markets in which the Group operates is set out in Part III (Risk Factors) and Part IV (Regulatory Environment) of this document.

#### **A broadening client base**

In recent years, IG has been successful in broadening the appeal of its products. The introduction of binary bets and shorter term spread betting markets has attracted retail clients who are seeking the excitement of fast-moving markets and events with quicker outcomes. The development of L2™ has provided market professionals and other sophisticated investors with “level 2” access to financial markets, enabling them to execute directly into the exchange order book, and automatically creating a CFD position. IG's software executes two transactions simultaneously — a CFD with the client and a hedge on behalf of the Group via the stock market.

The Directors believe that the implementation of the commercial and strategic initiatives listed above, particularly the introduction of the new Internet platform at the beginning of 2003, has contributed to the significant increase in the number of active clients and the volume of transactions executed by IG in recent years as illustrated by the Group's performance during the six months ended 30 November 2004, where:

- ▶ the number of active clients increased by 45 per cent to 18,015, compared to 12,451 in the six months ended 30 November 2002
- ▶ the number of transactions executed increased by 93 per cent to 1,274,205, compared to 661,735 in the six months ended 30 November 2002
- ▶ online transaction volumes increased by 445 per cent to 978,102, compared to 179,561 in the six months ended 30 November 2002
- ▶ online transactions accounted for over 76 per cent of the total number of transactions executed, compared to only 27 per cent in the six months ended 30 November 2002.

IG's strong growth has been achieved despite a period of falling equity market volatility, partly due to the increased diversity of IG's product range. The Directors believe that reduced volatility of revenue is a significant additional benefit of this increased product diversification and that, coupled with IG's approach to hedging, the Group's earnings stream has become more stable.

## **BUSINESS STRENGTHS**

The Directors believe that the following are the key business strengths of IG:

### **Market leadership and brand value**

The Directors believe that IG is a leading brand in financial markets speculation and the leading brand in UK financial spread betting, a position achieved by the strength of IG's performance in the markets in which it has operated over the Group's thirty year history. This leading position is also attributable to the Group's focus on excellent client service, speed and quality of execution, breadth of product offering and technological and product innovation. In addition, the Group's scale and its ability to handle large numbers of simultaneous client transactions are considered to be important factors which attract clients to deal with IG. The Directors believe that IG's leading brand strength creates a significant competitive advantage from which the Group will continue to benefit.

### **Client offering**

Central to IG's business is its ability to attract and retain large numbers of clients, open accounts for them and then provide them with attractive dealing opportunities. Online account opening — often involving an immediate online identity check for regulatory purposes — was introduced by the Group in June 2003 and has, for the great majority of UK resident clients, made it significantly quicker to open accounts. In February 2005, online account opening represented 84 per cent of total account openings.

IG's extensive range of products, which includes offering speculative opportunities on financial markets and sporting, political and various entertainment events, appeals to a diverse range of retail clients and market professionals. The Group is committed to providing clients with fast, simple and secure access to an exciting and expanding product range.

### **Technological innovation**

IG launched a new Internet platform in January 2003 offering live streaming prices and rapid one click dealing. Online dealing enjoyed a rapid take-up, with monthly transaction volumes increasing from less than 30,000 in December 2002 to a level of approximately 220,000 in February 2005 (inclusive of transactions executed using IG's mobile and L2™ platforms). The sophistication of the Group's technology enables it to offer innovative products such as binary bets and provides the basis for future growth.

The functionality of the Group's online offering enables clients to open and fund accounts, place and move orders and request statements online. The Group's core technology uses software products designed for their functionality and scalability.

L2™ is one of only a limited number of CFD trading platforms which allow clients to execute directly into the exchange order book, automatically creating a CFD position. IG's software executes two transactions simultaneously — a CFD with the client and a hedge on behalf of the Group via the stock market. The result of these two transactions taking place simultaneously is to avoid market and execution risk to IG.

IG's mobile platform enables clients to view live prices and deal using a number of higher-end mobile phones. The mobile platform went live in March 2004 and, more recently, IG has enhanced the mobile platform technology so that it is compatible with a wider range of mobile phones.

The Group's scalable architecture allows it to access a wider group of end users either through white labelling, where some or all of the Group's products on IG's own platforms are branded and distributed in the name of third parties, or through market making on betting and financial exchanges.

### **Product innovation and breadth of offering**

The Group has a strong track record for innovative product offering and development. The most significant recent example of this has been the introduction of the binary bet concept. Other products that the Group has launched include a wide range of options which expire daily and an expanded range of sports spread bets. Some examples of the Group's products and how they work are set out in paragraph 24 of Part XI (Additional Information) of this document.

## **Part I**

### **Business of IG**

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Binary betting has enjoyed rapid growth, particularly following the launch of binarybet.com<sup>TM</sup> in October 2003. During the six months ended 30 November 2004, binary betting contributed approximately 10 per cent of the Group's turnover with more than 98 per cent of binary bets placed over the Internet or using IG's mobile platform.

Unlike the Group's other products, binary bets are not subject to regulation by the FSA. As a result, the product has a much simpler account opening process, making it considerably easier to offer this product to an international audience. The Group's online account opening capability coupled with a significant expansion in the number of payment mechanisms now available to clients provide the Group with access to a wider geographical audience.

IG was the first UK bookmaker to offer binary betting and, as with financial spread betting, IG maintains a leading position in the UK market.

The Group's ongoing development of new products supports its rate of new client acquisition and existing client retention. The Directors are confident in the Group's ability to continue this track record of successful product innovation.

#### **Proven risk management**

IG does not take proprietary positions based on an expectation of market movements. The Directors believe that the Group's current hedging policy and exposure limits have demonstrably improved the consistency of the Group's earnings. This has also been facilitated through the broadening of the Group's product range which has increased the proportion of the Group's business that is less sensitive to equity market volatility.

#### **Experienced senior management team**

IG's senior management team, which has delivered the recent growth record, has extensive experience in the markets in which IG operates. Both this record and the key business strengths outlined above demonstrate the success generated by the Group's senior management. The Directors believe that the Group has a broad team of senior management who have the capability to achieve further growth.

## **BUSINESS STRATEGY**

The Directors believe that the Group has a strong foundation in place from which it is well positioned to generate future growth. IG's strategy is focused on four key objectives.

#### **Maintaining a leading position in the Group's core UK financial spread betting market**

The Directors intend to maintain the strength of IG's brands generated over its thirty year history by continuing to position the Group at the forefront of the market in terms of client service, product and technological innovation, breadth of product offering and quality and speed of execution.

#### **Expanding the Group's international reach**

The Directors intend to achieve enhanced growth through the further expansion of IG's Australian operations and by increasing the Group's client base in other jurisdictions. IG's advanced technology platforms and its well-developed execution expertise will continue to be significant factors in the broadening geographical spread of the Group's client base. In addition, the Directors intend to continue to invest in the further development of IG's online technology, including multi-lingual capabilities.

#### **Continuing to broaden the client base**

IG'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 and more market professionals. Further developing the business of market making on betting and financial exchanges, as well as white-labelling opportunities, will extend the reach of the Group's products.



**Part I**  
**Business of IG**

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**Continuing to deliver product and technological innovation**

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

**REVENUE MODEL AND MARKET RISK MANAGEMENT**

IG's ability to generate growth in turnover depends *inter alia*, on its ability to grow its client base through effective marketing, the development of innovative new products, the introduction of new distribution channels and the expansion of the business overseas.

**Client base**

The Group's turnover is determined to a significant extent by the number of clients dealing. This in turn is significantly influenced by the number of new client accounts opened and the number of those clients that commence dealing. The table below shows the number of clients dealing in each period and the number of accounts opened.

**Client acquisition and retention**

	Year ended 31 May			Six months ended 30 November	
	2002	2003	2004	2003	2004
Number of clients dealing in the period	15,678	16,700	21,263	14,767	18,015
Number of accounts opened	<u>6,644</u>	<u>7,736</u>	<u>15,992</u>	<u>6,952</u>	<u>8,371</u>

IG devotes significant resources to attracting new clients to open accounts and deal. The Group advertises extensively on the Internet and using print media. The majority of new accounts are opened online which, in many cases, includes an immediate online identity check for regulatory purposes. Once an account is open, the Group aims to speak with the majority of its financial spread betting clients within a short time. This conversation is intended to ensure that the client understands the Group's spread betting products and is happy with the type of account opened.

The Directors believe that the acquisition and retention of clients are significantly aided by the strength of IG's brands, the quality of its systems and staff and by innovation in its technology and products. In addition, the Group's scale and its ability to handle large numbers of simultaneous client transactions are considered to be important factors which attract clients to deal with IG. The recruitment of new clients is offset, to a certain extent, by those clients who cease trading. The Directors believe, however, that no individual client of the Group contributes more than 1.5 per cent of IG's revenue.

The Group uses its Internet sites to keep clients informed of new developments as well as selective use of telephone calls, e-mail, newsletters and client seminars.

Once clients have been attracted to IG, the Directors aim to maximise the quantum and predictability of the Group's revenue stream. The manner by which this is achieved is set out below.

**Revenue model**

IG'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.

**Turnover from liquid financial markets**

The vast majority of the Group's turnover from financial spread betting, CFDs and foreign exchange trading relates to liquid financial markets in which it is normally relatively easy and cost effective for the Group to

## Part I Business of IG

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hedge. The Group aims to derive its turnover either from the spread that a client incurs or, in the case of most CFDs, from an explicit commission. Prices can normally be set by reference to market prices, adjusted as considered appropriate by the Group, for example, to reflect the impact of IG offering a broader range of settlement dates than that available in the underlying market.

### Example: spread betting on FTSE<sup>(1)</sup>

It is April. IG is quoting a price of 5002 – 5010 for “June FTSE”. This is a bet which settles according to the level of the FTSE index which is used to settle LIFFE’s June FTSE future. Two clients bet simultaneously.

Client A	Client B
Thinks FTSE will go up	Thinks FTSE will go down
Places an “up bet” or “buys” at 5010 for £15 per point	Places a “down bet” or “sells” at 5002 for £15 per point.
A few days later the FTSE has risen. IG is quoting 5150 – 5158 for the June FTSE. Both clients decide simultaneously to close their bets.	
Client A	Client B
“Sells” at 5150	“Buys” at 5158
Makes a profit of $(5150 - 5010) \times 15$ = £2,100	Makes a loss of $(5158 - 5002) \times 15$ = £2,340
IG’s turnover from these transactions is $£2,340 - £2,100 = £240$	

(1) *The prices set out in this example are for illustrative purposes only.*

The turnover of £240 that IG would make from these transactions is equal to the total spread that the two clients have incurred; two transactions of £15 per point on an 8 point spread.

In practice, there is unlikely ever to be a perfect balance between clients buying and clients selling and this could give rise to fluctuations in IG’s turnover according to the level of client winnings. Consequently, in the example above, if only client B had bet, IG would have made a profit of £2,340. If only client A had bet, IG would have made a loss of £2,100. The Group, therefore, hedges by dealing in the underlying financial markets, with the aim of reducing this potential volatility of revenue.

By hedging, the Group incurs costs, including market spread and transaction costs such as commission, settlement and clearing charges. A significant increase in the number of hedging transactions could also require additional staff. If the Group were to attempt to hedge every client transaction, the Directors believe that the cost of hedging would be unacceptably high. They have, therefore, adopted a hedging policy which they believe provides an appropriate balance between variability of revenue and the cost of hedging. The Directors believe that their current policy has contributed to a significant reduction in earnings volatility.

### Hedging policy

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.

In the case of equity markets, the exposure limits form a hierarchy. The Group's exposure to the price of the shares of a particular company will be monitored against a limit for that share, but will also form part of the exposure to a market sector (for example, banks), to a country's equity markets and to the global equity market.

The limit which IG sets to its aggregate exposure to all global stocks and stock markets is £12.5 million. Historically, this global limit has been as high as £20 million but has been reduced to £12.5 million, a limit which has now been in place for more than two years. In the event of a rapid 10 per cent movement in global equity markets, the Directors consider it unlikely that the Group would suffer a trading loss exceeding £1.25 million. This figure is significantly less than the Group's average monthly turnover, which in the six months ended 30 November 2004 was £4.9 million. The Directors consider this to be an acceptable level of market risk. Certain other limits have also been reduced progressively over the last two years. For example, the maximum exposure the Group will run on the shares of the largest UK companies has been reduced from £2.5 million to £1 million.

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

The Directors believe that the Group's hedging policy has been a significant factor in the consistency of the improved financial performance of the business. During the course of a six month financial reporting period, this hedging policy has the effect of smoothing out the impact of clients' trading performance on the Group's results, with turnover being proportional to the spread and commission which clients incur. For financial year 2004, turnover from equities, indices, commodities and interest rates was approximately 90 per cent of spread and commission incurred by clients on these products.

#### **Turnover from other markets**

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. On Financial binaries the Group will offer several hundred betting opportunities based on a range of underlying markets (including equity indices, currencies, gold and oil). For example, in respect of the underlying FTSE index, the Group will offer bets that include FTSE to close up, FTSE to close between 15 and 30 points down, FTSE to remain in the range -10 to +10, FTSE to hit 5000 and FTSE to have a high for the day which is between 60 and 70 points up on the previous close. Certain of these betting markets are offered with a range of different settlement times in the day, so that in total there are at least 20 settlement times throughout any one business day.

The Directors believe that this diversity of the underlying market, outcome type and settlement time is the main factor which limits the volatility of the Group's revenue from day to day and that this volatility of revenue will be further substantially reduced over a six month financial reporting period. As a result, the Directors believe that, over time, revenue from markets which are not hedged is broadly proportional to the volume of client business transacted.

Prices for these markets are set using IG's pricing models. For Financial binaries, these models include option pricing models which refer to the underlying market on which the binary is based, as well as assumptions on market volatility. For Sports, opening prices are often set using statistical models as well as an assessment of other available betting prices and a view of likely client sentiment.

Where Sports prices are being made "in running" (i.e. while a match or game is being played), these prices are calculated using IG's pricing model, which takes into account factors such as elapsed time and the current position of the game. The aim in setting prices is either to attract business from clients betting in both directions or to ensure that if there is a weight of business in one direction, then that business has a higher probability of profit to IG.

## **CREDIT RISK MANAGEMENT**

Clients are normally required to deposit funds with IG before they can deal. Clients can have one of a number of alternative account types. The majority of clients' accounts require all of their positions to be covered by a guaranteed stop or otherwise to have a quantifiable maximum loss. The client is required to have funds on the account at least equal to that maximum loss. These accounts, therefore, carry no credit risk, except in the event of error or fraud.

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.

Accounts opened online can only be of the two lowest credit risk types. Since the introduction of online account opening, there has been a progressive reduction in the proportion of active clients who have the account types which expose the Group to significant credit risk and the Directors believe that this progressive reduction will continue.

As a result of the implementation of these strict credit policies and the change in mix of the account types, the Directors believe that the incidence of bad debts has been satisfactorily reduced.

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.

## **FINANCIAL OVERVIEW**

*The selected financial data set out below for financial years 2002, 2003 and 2004 and for the six months ended 30 November 2003 and 2004 has been extracted or derived without material adjustment from the Accountants' Report on the Group set out in Part VI. Prospective investors should read the whole document and not rely on key or summarised information. In particular, prospective investors should read this information in conjunction with the financial and other information on the Group in Part VI (Accountants' Report on the Group) and management's discussion and analysis of financial condition and operating results included in Part V (Operating and Financial Review).*

	Year ended			Six months ended	
	2002	31 May	2004	30 November	2004
	(£'000s)	2003	(£'000s)	2003	(£'000s)
Financial	26,288	34,118	40,895	18,573	23,113
Financial binaries	—	—	2,153	897	2,541
Sports	7,285	6,878	6,791	3,618	3,847
Total turnover	33,573	40,996	49,839	23,088	29,501
Cost of sales	(1,050)	(1,958)	(1,879)	(793)	(1,366)
Gross profit	32,523	39,038	47,960	22,295	28,135
Interest on clients' money	1,471	1,358	2,244	950	1,584
Administrative expenses	(19,366)	(23,208)	(25,076)	(11,739)	(13,609)
EBITDA <sup>(1)</sup>	14,628	17,188	25,128	11,506	16,110
Depreciation	(1,556)	(2,475)	(3,305)	(1,597)	(1,899)
EBITA	13,072	14,713	21,823	9,909	14,211
Amortisation	(220)	(220)	(4,241)	(1,392)	(2,840)
EBIT	12,852	14,493	17,582	8,517	11,371
EBITDA margin <sup>(2)</sup>	43.6%	41.9%	50.4%	49.8%	54.6%

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### **Business of IG**

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- (1) *EBITDA represents earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and includes interest receivable by the Group on clients' money net of interest payable to clients.*
- (2) *EBITDA margin is calculated by dividing EBITDA by total turnover.*

For financial year 2004, turnover increased from £41.0 million to £49.8 million, an increase of 21.5 per cent. For the six months ended 30 November 2004, the Group generated turnover of £29.5 million compared to £23.1 million for the comparable period in 2003, an increase of 27.7 per cent.

During a period of sustained turnover growth the Group has maintained a tight control on expenses with costs increasing 8.0 per cent over financial year 2003. This increase in administrative expenses is predominantly as a result of bonuses payable resulting from strong financial performance in financial year 2004 while the underlying cost base remained broadly flat.

The increase in turnover coupled with the ability to manage the cost base has delivered notable EBITDA margin improvement from 41.9 per cent for financial year 2003 to 50.4 per cent for financial year 2004. This margin improved further to 54.6 per cent for the six months ended 30 November 2004.

For financial year 2004, EBITDA increased from £17.2 million to £25.1 million, an increase of 45.9 per cent. For the six months ended 30 November 2004, the Group generated EBITDA of £16.1 million compared to £11.5 million for the comparable period in the previous year, an increase of 40.0 per cent.

### **CURRENT TRADING AND FUTURE PROSPECTS**

During the period since 30 November 2004, the Group has performed ahead of the Directors' expectations and has continued to achieve strong growth. Transaction volumes, the rate of client acquisition and, consequently, growth in turnover and earnings continue to be strong.

The Directors believe that the Group's online trading platforms continue to be key contributors to the Group's continuing growth. For the six months ended 30 November 2004, the average number of monthly transactions increased to 163,017. Online transaction numbers have continued to grow strongly and, in February 2005, approximately 220,000 transactions were completed by clients online. The proportion of the Group's client transactions conducted online has continued to grow and exceeded 85 per cent in February 2005.

For the six months ended 30 November 2004, the Group generated turnover of £29.5 million compared to £23.1 million for the corresponding period in the previous financial year, an increase of 27.7 per cent.

The Group continues to deliver turnover growth and, for the three months ended 28 February 2005, achieved growth in unaudited turnover of 34.9 per cent compared with the corresponding period in the previous financial year.<sup>(1)</sup> The Group continues to benefit from high operational gearing and, as a result, the Group's EBITDA margin has continued to expand and operating profits have increased.

Based on the Group's current financial performance, the Directors are confident about IG's prospects for the current financial year and that the Group will be well placed as it enters the next financial year.

(1) *Extracted without material adjustment from the Group's management accounts.*

### **DIVIDEND POLICY**

The Directors intend to adopt a progressive dividend policy, which will reflect the long-term earnings and cash flow potential of the Group, whilst targeting a cash earnings dividend cover of approximately two times, where cash earnings represent earnings after tax but before amortisation. It is envisaged that interim dividends will be paid in February and final dividends in October of each year. If the Group accumulates surplus capital, the Directors will give due consideration to returning it to shareholders.

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**Business of IG**

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The Company will not be paying a final dividend in respect of financial year 2005. It is intended that the first dividend to be paid following Admission will be an interim dividend paid in February 2006 in respect of the financial year ending 31 May 2006.

The Company may revise its dividend policy from time to time. For more information regarding restrictions on the payment of dividends by the Company and its operating subsidiaries, see Part III (Risk Factors) and Part IV (Regulatory Environment) of this document.

**RATIONALE FOR THE GLOBAL OFFER AND USE OF PROCEEDS**

The net proceeds of the Global Offer receivable by the Company (after deduction of the estimated underwriting commissions, fees and expenses) will be approximately £124 million and will remain unchanged, regardless of the Offer Price finally determined.

The Directors intend to use the net proceeds receivable by the Company from the Global Offer, together with existing surplus cash, to pay down the debt obligations put in place at the time of the management buy-out and redeem the Company's preference shares, together with accrued interest and dividends.

The Directors believe that the admission of the Ordinary Shares to the Official List will offer IG a number of benefits including raising the profile of the business and greater financial flexibility.

In addition, the Directors believe that the refinancing of the instruments put in place at the time of the management buy-out will provide IG with a capital structure which will increase the attractiveness of the Group as a counterparty and consequently enhance the ability of the Group to trade with other financial institutions. It may also facilitate participation in future consolidation opportunities in the markets in which IG operates.

**ADDITIONAL INFORMATION**

Your attention is drawn to Part III (Risk Factors) which contains a summary of the risk factors relating to any investment in the Ordinary Shares and to Part IV (Regulatory Environment), Part V (Operating and Financial Review), Part VI (Accountants' Report on the Group) and Part XI (Additional Information) of this document which provide additional information on the Group.

## Part II

# Directors, Management and Employees

### DIRECTORS AND EMPLOYEES

IG's senior management team has been instrumental in implementing the commercial and strategic initiatives undertaken by the Group in recent years which have been important drivers of the Group's growth.

The majority of IG's senior management has worked together as a team for approximately six years and has extensive experience in the markets in which IG operates, with the Executive Directors having all worked at the Company since at least 1999.

At the time of the management buy-out, a number of senior managers acquired shares in the Company. The Share Plans, which will become effective on Admission, will enable IG to continue its strategy of encouraging equity participation for its employees. Further details of the Share Plans are set out in paragraph 5 of Part XI (Additional Information) of this document.

IG's Directors and employees have a beneficial interest in approximately 25.7 per cent<sup>(1)</sup> of the issued share capital of the Company prior to the Global Offer (including Ordinary Shares held by the ESOT). After the Global Offer, the Directors and employees will, in aggregate, have a beneficial interest in 42,423,451 Ordinary Shares. The Directors believe that this high level of ownership motivates the Group's Directors and employees as well as helping to align the interests of the Group's Directors and employees with its other shareholders.

The interests and expected interests of the Directors, senior management team (including persons connected with them) and other employees in the issued share capital of the Company before and after the Global Offer are set out below.

	Before the Global Offer		After the Global Offer	
	Number of Ordinary Shares beneficially owned	Percentage of Ordinary Shares issued <sup>(1)</sup>	Number of Ordinary Shares beneficially owned <sup>(2)</sup>	Percentage of Ordinary Shares issued <sup>(2)</sup>
<b>Directors</b>				
Jonathan Davie	1,790,800	0.8	1,790,800	0.6
Nat le Roux	20,162,800	9.3	15,122,100	4.7
Tim Howkins	7,642,400	3.5	5,731,800	1.8
Peter Hetherington	7,613,200	3.5	5,709,900	1.8
Andrew MacKay	3,936,600	1.8	2,952,450	0.9
Sir Alan Budd	—	—	—	—
Martin Jackson	—	—	—	—
Robert Lucas	218,200	0.1	136,714	—
Senior management	11,908,200	5.5	9,540,300	3.0
ESOT	3,789,600	1.7	2,564,187	0.8
All Directors and senior management together with other employees as a group	<u>55,937,000</u>	<u>25.7</u>	<u>42,423,451</u>	<u>13.1%</u>

(1) Following the exercise of the Warrants over 17,725,800 of the Ordinary Shares, which will occur on Admission. For more information see paragraph 12(b) of Part XI (Additional Information) of this document.

(2) Based on the Assumptions

## **DIRECTORS**

*Jonathan Davie (Non-Executive Chairman, 58 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, 47 years old)*

Nat read Law at St Catherine'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 became Chief Executive in March 2002.

*Tim Howkins (Finance Director, 42 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.

*Peter Hetherington (Chief Operating Officer, 36 years old)*

Peter read Economics at Nottingham University and has a Masters in Finance from the London Business School. Peter was an officer in the Royal Navy before joining IG Index, 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. To date, this role has focused on driving forward a number of significant strategic projects including the recent and highly successful launch of the new online financial dealing system.

*Andrew MacKay (Legal Director, 39 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 the IG Group as Legal Counsel in March 1999.

*Sir Alan Budd (Non-Executive Director, 67 years old)*

Sir Alan was appointed a Non-Executive Director and the senior independent Director of IG in April 2005. He was Chief Economic Adviser 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 Adviser 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, 56 years old)*

Martin was appointed a Non-Executive Director of IG and chairman of the audit committee of the Company 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.



## **Part II**

### **Directors, Management and Employees**

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#### *Robert Lucas (Non-Executive Director, 42 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 of the Group in 2003.

### **SENIOR MANAGEMENT**

#### *John Austin (Financial Dealing Director, 31 years old)*

John has an undergraduate degree in Experimental Psychology and a postgraduate diploma in Computer Science, both from Cambridge University. He joined IG in 1997 as a graduate trainee and has held the positions of Head of Futures and Head of Foreign Exchange. He was appointed Director, New Products in February 2003 and in this role was instrumental in the development, launch and subsequent expansion of binary bets. He was appointed Financial Dealing Director in January 2005. John obtained a Masters in Finance with distinction from the London Business School in 2002.

#### *Paul Austin (Managing Director, Sport, 45 years old)*

Paul has worked in the betting industry since graduating from the London School of Economics in 1980. After sixteen years with Ladbrokes in a variety of operational roles, he moved to City Index to run both their sports department and their marketing function. In March 1998, he joined IG as Deputy Head of Sport. He also spent three years as PR director before his appointment as Managing Director of the Sports division in December 2002.

#### *Andrew Haisley (Chief Technology Officer, 38 years old)*

Andrew has a first class degree in Software Engineering from Imperial College London. He joined IG in April 2005 and was previously head of technology at KBC Financial Products in New York. He has been recruited by IG to manage the future development and maintenance of IG's technology platforms and infrastructure.

#### *Julian Quance (Marketing Director, 34 years old)*

Julian has a degree in Philosophy from Southampton University. He joined IG in August 1999 to oversee writing and production of the Group's literature and became Marketing Manager for financial products in 2002, with responsibility extended since then to cover all the Group's businesses. He has responsibility for the planning and creation of advertising, as well as design and content of websites and client documentation.

#### *Matthew Tooth (Risk Director, 32 years old)*

Matthew graduated from Birmingham University with a degree in Economics and Politics. After qualifying as a chartered accountant with KPMG, he spent two and a half years at Credit Suisse First Boston as Product Controller, Investment Banking. He joined IG in January 2000 to establish an independent risk management function and was promoted to Risk Director in June 2002. Matthew is heavily involved in operational matters including the development and rollout of L2™ as well as acting as Deputy Finance Director.

#### *Giles Wilkes (Financial Sales Director, 32 years old)*

Giles graduated from Oxford University with a degree in Politics, Philosophy and Economics. After joining IG as a graduate trainee in 1996, he became Chief Dealer in 1999 and Head of Financial Dealing in 2002, adding Head of Financial Retail Sales in 2004. Giles was appointed Financial Sales Director in January 2005. In 2003, he obtained an MBA with distinction from the London Business School.

#### *Matthew Wilson (Managing Director, Australia, 44 years old)*

Matthew Wilson is the Managing Director of IG Australia where he launched the first ever spread betting and CFD business in Australia during 2002. Matthew has 18 years' experience in financial markets including nine years as Director, Futures for ANZ Securities and five years at Deutsche Bank as Head of Structured Equity Products. While at Deutsche Bank, Matthew was instrumental in establishing the Australian warrants market.

## **CORPORATE GOVERNANCE**

The Board is responsible for the proper management of IG and meets at least six times each year.

The Board has overall responsibility for controlling the Group, making decisions relating to the Group's strategic direction and measuring progress towards these goals. In order to ensure it has effective control over the Group's activities, the Board will establish an Audit Committee, a Remuneration Committee and a Nomination Committee, as sub-committees of the Board with formally delegated duties and responsibilities under written terms of reference.

### **Audit Committee**

The Audit Committee will meet at least twice a year, will be chaired by Martin Jackson and will comprise Sir Alan Budd and Martin Jackson. The Finance Director, head of internal audit and external auditors will also attend these meetings by invitation as required by the Committee. The Audit Committee will assist the Board in discharging its responsibilities for financial reporting, risk reporting and corporate control and will provide a forum for reporting by the external auditors.

### **Remuneration Committee**

The Remuneration Committee will meet at least once a year, will be chaired by Jonathan Davie and will also comprise Sir Alan Budd, Robert Lucas and Martin Jackson. The Remuneration Committee will ensure that the members of the Board are fairly rewarded and that their remuneration is set with due regard to the interests of the shareholders and the financial and commercial health of IG.

### **Nomination Committee**

The Nomination Committee will be chaired by Jonathan Davie and will also comprise Sir Alan Budd, Martin Jackson and Robert Lucas. The Nomination Committee will consider appointments to the Board. The Nomination Committee is responsible for nominating candidates to fill Board vacancies and for making recommendations on Board composition and balance.

Upon completion of the Global Offer, the Board will consist of the non-executive Chairman, two independent non-executive Directors, one non-executive Director representing a significant shareholder and four executive Directors. Sir Alan Budd has been nominated as the senior independent Director.

The Directors support high standards of corporate governance. On Admission, they will comply with the Combined Code with the following exceptions. The Combined Code states that: "Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the Board to be independent." Two of the Group's eight Directors (excluding the Chairman) are considered by the Board to be independent. The Directors intend in due course to take steps to ensure that independent Non-Executive Directors comprise at least half the Board, excluding the Chairman.

In addition, the Combined Code recommends that the Audit, Remuneration and Nomination Committees comprise either exclusively or a majority of independent Non-Executive Directors. Given the intended composition of the Company's Audit, Remuneration and Nomination Committees, on Admission the Company will not comply with this recommendation of the Combined Code. The Directors intend in due course to appoint additional independent Non-Executive Directors to the Board and to each of these committees to ensure compliance with the Combined Code.

So far as is permitted by and consistent with the Act, every Director and officer of the Company shall be indemnified by the Company out of its own funds against any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him to any person other than the Company or any member of the Group (other than liabilities excluded by the Act) and any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties. Such indemnity shall not however extend to any liability incurred by or attaching to a Director or officer as a result of his own fraud or wilful default.

## Part II

### Directors, Management and Employees

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The Executive Directors and senior management meet regularly to address topics relating to the management of the business.

The Directors of IG, whose names appear at the beginning of this document, can be contacted at IG's registered address at Friars House, 157-168 Blackfriars Road, London SE1 8EZ.

### MANAGEMENT INCENTIVE

#### Long term incentive plan

The Group has recently created a long term incentive plan (the "LTIP") and will make one-off awards under this plan prior to, and conditional upon, Admission, (the "IPO LTIP awards") as well as future awards on an annual basis for subsequent financial periods (the "Post-IPO LTIP awards"). The Directors believe that this incentive plan strongly aligns the interests of Executive Directors and other managers with those of shareholders and incentivises the Executive Directors and other managers to achieve high levels of growth in normalised earnings per share. For the purposes of the LTIP, references to normalised earnings per share or EPS are to earnings per share calculated on a fully diluted basis and excluding exceptional items.

#### IPO LTIP awards

There are three components to the IPO LTIP awards. The table below summarises the participants in these components, the level of award and the performance conditions which must be satisfied for the awards to vest.

<u>Component</u>	<u>Participants</u>	<u>Award at maximum vesting</u>	<u>Performance conditions<sup>(1)</sup></u>
Senior Management IPO High Growth Incentive Award	Executive Directors and other managers	300% of basic annual salary for Executive Directors. Between 150% and 240% of basic annual salary for other managers	Nil vesting below 20% annual growth in EPS, full vesting at 50% annual growth
Senior Management IPO Basic Award	Executive Directors and other managers	100% of basic annual salary	Nil vesting below 15% annual growth in EPS, full vesting at 25% annual growth
Management IPO Award	Other managers (excluding Executive Directors)	Between 20% and 80% of basic annual salary	50% of maximum award vesting at 10% annual growth in EPS. Full vesting at 15% annual growth in EPS

(1) *Pro-rata vesting between upper and lower growth levels*

Each award comprises a number of Ordinary Shares with a value at the Offer Price equal to the maximum award. These awards vest after the publication of the results for financial year 2008, subject to the satisfaction of the performance conditions shown above. These performance conditions are measured by reference to compound annual growth in normalised earnings per share between financial year 2005 and financial year 2008. Where a performance condition is stated as resulting in nil vesting below a minimum percentage growth and full vesting at a maximum percentage growth the award vests pro-rata between these levels. Therefore, for example, half of the award vests under the Senior Management IPO High Growth Incentive Award in the event of growth in normalised earnings per share of 35 per cent compound over the three years to 31 May 2008.

## **Part II**

### **Directors, Management and Employees**

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#### **Post-IPO LTIP awards**

The Remuneration Committee will make future awards under the LTIP taking into account the guidelines set by the Association of British Insurers. Performance conditions attaching to any Post-IPO LTIP award may differ from those set out in the IPO LTIP award.

#### **Share Incentive Plan**

The Company has established a share incentive plan (“SIP”) under Inland Revenue rules and has applied to the Inland Revenue for approval of the SIP. Subject to receipt of Inland Revenue approval, awards of £3,000 worth of Ordinary Shares at the Offer Price (subject to Inland Revenue approval) will be made to staff with a basic salary of £60,000 or less. These Ordinary Shares will vest in part immediately and in part on the third anniversary of the award and are not subject to any performance conditions. Staff with a salary exceeding £60,000 will be awarded one Ordinary Share at the Offer Price (subject to Inland Revenue approval) which will vest immediately since the Inland Revenue requires all members of staff to participate in the SIP.

#### **General Terms and Conditions**

The rules of the LTIP provide that no more than 10 per cent of the issued ordinary share capital of the Company, adjusted for scrip and bonus issues and rights issues, should be issued under all share incentive schemes operated by the Company in any rolling ten year period. Shares purchased “on market” into treasury and SIP shares issued to employees upon payment of market value for those shares are excluded from this 10 per cent limit.

The Trustee currently holds 1,089,600 Ordinary Shares which are available to satisfy a proportion of the awards made under the LTIP and the SIP.

The vesting of all awards under both the LTIP and the SIP is conditional upon the relevant employee being in employment with the Group at the time of vesting.

Further detail on these long term incentive plans is set out at paragraph 5 of Part XI (Additional Information) of this document.

#### **Management buy out incentive**

The Company has issued a total of 65,000 B Shares to employees of the Group, both at the time of the management buy-out of IG Group in 2003 and subsequently. B Shares are currently held by 33 members of staff. Under the current articles of association of the Company, the value of the B Shares at the time of a listing of the Company is determined by a formula linked to the total return received by certain of the Institutional Investors.

Based on the Assumptions, 100 B Shares will have a value at the time of Admission of 15,546, which is equivalent to the value of 12,387 Ordinary Shares (rounded down to the nearest whole number). Immediately following Admission, certain of the Institutional Investors will transfer 6,036,103 Ordinary Shares and will pay £2,453,576 in cash to the Trustee. The Trustee will pay the cash sum to those B shareholders who transfer certain of their B Shares to the Trustee.

The B shareholders will continue to hold their remaining B shares and will be able to sell these shares to the Trustees at any time subsequent to Admission for a consideration equal to the amount realised by the sale by the Trustees of 12,387 Ordinary Shares for every 100 B Shares. In the event that the Trustee is unable for any reason to sell such Ordinary Shares, the consideration payable to the B shareholders will be deferred, in part or in whole, until such sale is achieved. No interest will be payable on such deferred consideration.

Other than in respect of Ordinary Shares available for satisfaction of awards under the LTIP and the SIP or sold pursuant to the Global Offer, the Trustee has undertaken not to sell any Ordinary Shares held by it as nominee for current members of staff and certain of the Ordinary Shares transferred to it by certain of the Institutional Investors for a period ending on the date of the announcement by the Company of its interim financial results for the six months ending 30 November 2005 and, in respect of all other relevant Ordinary Shares, on the date of the announcement by the Company of its preliminary financial results for the financial year ending 31 May 2006.

## **RELATIONSHIP AGREEMENT**

Following Admission the CVC Shareholders will, collectively, be the beneficial owners of 80,449,408 Ordinary Shares (which will reduce to 64,200,000 if the maximum number of Overallotment Shares is acquired pursuant to the Over-allotment Option), representing approximately 24.9 per cent of the issued share capital of the Company (19.9 per cent if the maximum number of Overallotment Shares is acquired pursuant to the Overallotment Option).

The Company and the CVC Shareholders have entered into a Relationship Agreement pursuant to which the CVC Shareholders have agreed that, for so long as they together hold 15 per cent or more of the Ordinary Shares, they will not cast their votes at shareholder meetings so as to prevent the Company from being capable of carrying on its business independently of the CVC Shareholders. The CVC Shareholders have further agreed that all transactions and relationships between them and the Company will be at arm's length and on a normal commercial basis. In addition, the CVC Shareholders have agreed that they will not have the right to appoint more than one Director to the Board. The Director appointed by the CVC Shareholders will not have the right to vote on any material agreement (or any material amendment to any such agreements) between, or on any other matter giving rise to a conflict of interest between, a member of the Group and any of the CVC Shareholders. For these reasons the Company is satisfied that, as required by the Listing Rules, from Admission it will be capable at all times of carrying out its business independently of the CVC Shareholders (or any of their associates) and that all transactions and relationships between the Company and the CVC Shareholders (or any of their associates) are, and will be, at arm's length and on a normal commercial basis.

Under the Relationship Agreement, the Company has agreed, amongst other things, to grant the CVC Shareholders the right to nominate a Non-Executive Director for so long as they, in aggregate, hold 15 per cent or more of the Ordinary Shares of the Company, to be represented on Board committees (or to be able to consult with such committees) and to be provided with papers in respect of all Board Committees and certain tax related information. In the event that the CVC Shareholders cease to hold, in aggregate, 15 per cent or more of the Ordinary Shares of the Company, the CVC Shareholders will cease to have all such rights and the Relationship Agreement will terminate automatically.

Further details of the Relationship Agreement are given in paragraph 12(12) of Part XI (Additional Information).

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## Part III

### Risk Factors

*Prospective investors in Ordinary Shares should carefully consider the risks described below and other information in this document before acquiring any Ordinary Shares. Any of the risks described below could have a material adverse impact on the Group's business, financial condition and operating results and could therefore have a negative effect on the trading price of the Ordinary Shares and an investment in the Ordinary Shares. Some of the following factors relate principally to the Group's business and the sectors in which it operates. Other factors relate principally to an investment in the Ordinary Shares. The risks and uncertainties described below are not intended to be exhaustive and should be read in conjunction with the rest of this document. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have a material adverse effect on the Group's business, financial condition and operating results and could therefore have a negative effect on the trading price of the Ordinary Shares and affect your investment.*

#### **RISKS RELATING TO IG AND ITS BUSINESS**

##### **Changes in UK or Australian regulation may affect IG's ability to conduct its business and may reduce profitability**

###### **United Kingdom**

IG's spread betting, contracts for differences ("CFD") and foreign exchange businesses are subject to regulation by the UK Financial Services Authority (the "FSA"). Withdrawal or amendment of regulatory approval in respect of all or part of the businesses carried on by the regulated companies within the Group or in respect of the fitness of one or more individuals to perform their current roles (including any of the Directors) might oblige the Group to cease conducting a particular type of business or modify the way in which it is conducted, or allocate responsibility for that business to different individuals. It is also possible that any non-compliance with applicable regulations could subject IG to criminal penalties and civil lawsuits.

The UK financial services regime faces substantial revision in the near future to comply with the current and proposed Directives which constitute the EU Financial Services Action Plan. In particular, Directive 2004/39/EC on Markets in Financial Instruments (known as "MiFID") will have wide ranging implications for firms carrying on regulated activities in the United Kingdom, including IG. MiFID introduces a requirement for firms which deal in complex financial instruments with private clients to obtain certain information from those clients regarding their knowledge and experience, so as to enable the firm to assess the appropriateness of the products traded, and inform the client if any product which the client wishes to trade is considered inappropriate. This obligation will apply even where no advice is requested by or given to the client. It is currently expected that implementation of MiFID into UK law will be delayed from the current scheduled date of April 2006 to April 2007. The manner in which this requirement will be implemented into national law is subject to consultation by the CESR. Under CESR's current proposals, all derivatives, which includes certain products offered by IG, including financial spread betting and CFDs, would be subject to these requirements. Depending on the final drafting of the relevant legislation, it may require the introduction of changes which could significantly impact on the provision of derivatives dealing services to private clients, including those services provided by IG and the wider spread betting and derivatives industries. Any such changes could have a material adverse effect on IG's future operations and consequently on its business, financial condition and operating results.

In addition, there can be no guarantee that the FSA will not introduce changes requiring regulated firms to assess the suitability of products for clients and advise clients as to the suitability for them of products in which they wish to trade. Any such changes could have a material adverse effect on IG's future operations and consequently on its business, financial condition and operating results.

The FSA Rules currently permit IG to offer spread betting products to private clients. There can be no assurance that the FSA will not change the FSA Rules to limit the clients to whom spread betting may be

### **Part III**

#### **Risk Factors**

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offered to people with investment experience and expertise. Any such change to the FSA Rules would require the Group to check the knowledge and experience of each client and could lead to a reduction in the number of IG's spread betting clients which, in turn, could have a material adverse effect on the Group's business, financial condition and operating results.

The FSA conduct of business rules prohibit a regulated firm from issuing a direct offer financial promotion relating to a derivative (including, for example, a spread bet or CFD) to a private client unless the firm has first assessed the suitability of that derivative for that client. The FSA has indicated that websites can be designed in such a way that they do not constitute direct offer promotions, while still allowing online account opening. However, it has also indicated that some changes may be required to the online account opening procedures currently employed by IG and other firms. Any changes to IG's online account opening process that make it significantly more difficult for clients to open accounts online could have a material adverse effect on IG's future operations and consequently on its business, financial condition and operating results.

As both IG Index and IG Markets are regulated by the FSA, they are each required to meet capital adequacy tests, which include a requirement that IG Index and IG Markets each has sufficient capital in order not to put it at significant risk from market moves and client default. In addition, the Group is subject to consolidated supervision by the FSA and is required to maintain adequate capital on a consolidated basis. The FSA is expected to complete a review of the Group's model for option risk aggregation in May 2005 and there is, therefore, a risk that this could lead the FSA to amend the requirements it imposes on the Group. In addition, the regulatory capital requirements in the United Kingdom could be subject to change in the future, in particular as a result of EU directives giving effect to the second Basel Accord published by the Basel Committee on Banking Supervision. Any changes to the Group's regulatory capital requirements could have a material adverse effect on the Group.

IG's betting businesses are regulated under the Betting, Gaming and Lotteries Act 1963. IG Index and Binarybet have obtained bookmakers' permits in respect of such operations. Revocation of or failure to renew these permits would oblige IG to cease conducting betting and could have a material adverse effect on IG's future operations and consequently on its business, financial condition and operating results.

Regulation of certain of IG's activities in the United Kingdom will be affected by the coming into force of the new Gambling Act (which gained Royal Assent on 7 April 2005). A new gambling regulatory authority, the Gambling Commission, will be created under the new Gambling Act which will have responsibility for the licensing of UK gambling operators. IG will be required to apply to the Gambling Commission for an operating licence for its betting activities. IG Index's spread betting business will, however, continue to be regulated by the FSA. If IG's betting businesses failed to obtain an operating licence from the Gambling Commission, they would be obliged to cease accepting bets which could have a material adverse effect on IG's future operations and consequently on its business, financial condition and operating results.

There can be no assurance that the application of existing or potential future laws and regulations in the United Kingdom (whether as a result of amendments to existing laws or regulations or the passing of new laws and regulations) will not have a material adverse effect on IG's operations in the future and consequently on its business, financial condition and operating results.

#### **Australia**

The Australian regulatory environment is described in Part IV (Regulatory Environment) of this document. If the members of the Group holding Australian financial services licences or their representatives were to breach or be found to have breached the Corporations Act or relevant Australian regulations or fail to comply with the licensed conditions, it could result in penalties, material adverse changes to licensed conditions or termination of the licences. In addition, there is always the possibility that the Australian government may make amendments to the Corporations Act or relevant Australian regulations or pass other legislation which may materially adversely affect the conduct of the Group's Australian business.

**Servicing clients outside the United Kingdom involves a number of legal and regulatory challenges that IG may not be able to meet**

IG currently has clients in a number of jurisdictions outside the United Kingdom with whom it transacts business, including over the Internet.

Historically, the regulation of the gambling industry has been arranged at a national or state level and there is no international gambling regulatory regime. Many countries have enacted specific legislation prohibiting online gambling and similar legislation has been proposed but not yet enacted in certain other jurisdictions. While the Group is satisfied that it complies with the laws and regulations in the jurisdictions from which it operates, whether, or to what extent, existing domestic legislation in other countries applies to the Group's international betting activities is uncertain.

Due to the global nature of the Internet, it is possible that, although the servers and infrastructure used to provide IG's online services are based in the United Kingdom, the governments of other countries, in particular those countries where the Group currently has, or may in the future have, clients, may attempt to regulate IG's products or services or prosecute it for violations of their laws. Because the Group's content is available over the Internet around the world, such jurisdictions may claim that the Group is required to qualify to do business in each such country or that it is required to notify governmental authorities of its activities, for example, in relation to the collection and processing of data. Any such legislation or regulation, and/or the application of laws and regulations from jurisdictions other than the United Kingdom, could make it difficult for the Group to operate its business in its current form.

Courts in the United States have sought to apply US federal and state anti-gambling law to foreign online gambling companies. Judicial interpretation of the definition of "online gambling" in relevant United States Federal Statutes, including the Federal Wire Act, and state law is uncertain and the United States Congress has to date been unsuccessful in passing new federal legislation to clarify the scope of the Internet gambling prohibition. As a result, online gambling companies are potentially subject to civil and criminal liability in every US jurisdiction where their services are available online. There can be no assurance that changes to the content and interpretation of US law will not materially adversely affect the business, financial condition and operating results of the Group.

In response to the legal concerns in the United States, IG has implemented measures designed to ensure that its online betting sites are not available to persons located in the United States. There can, however, be no assurance that the Group will in every instance be successful at filtering out client applications received from persons located in the United States, or that properly registered existing clients will not access the site while in the United States, in which case the Group may become subject to US federal or state online gambling regulation and potentially civil and criminal liability.

IG has not incurred the cost of investigating the compliance requirements of all other jurisdictions outside the United Kingdom where clients of the Group are nationals or residents, with the result that IG could be failing to comply with, and be in breach of, the laws and regulatory requirements of some of those jurisdictions. This could result in IG becoming liable to penalties and liabilities, in addition to which it may be unable to enforce claims against clients who are nationals or residents of those jurisdictions, and such persons may be able to claim compensation from the Group for their losses.

There can be no assurance that the application of existing or potential future laws and regulations in jurisdictions outside the United Kingdom, or the payment of licence fees or levies in any such jurisdictions of which clients of the Group are residents or nationals, will not prohibit, restrict or otherwise impair the activities carried on, or which may in the future be carried on, by IG, and any such prohibition, restriction or impairment could materially delay or restrict or otherwise have a material adverse effect on the development or operation of IG's international activities and consequently on its business, financial condition and operating results.

**Changes in tax law could adversely affect the Group's profitability**

Client betting winnings are not currently subject to UK income or capital gains tax and clients pay no UK stamp duty. Any reform or amendment to tax legislation or to the manner in which tax laws are



### **Part III**

#### **Risk Factors**

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interpreted or enforced that might negatively impact the current tax treatment applicable to the Group's UK-based clients could have a material adverse effect on the Group's business and operating results.

Currently, spread betting and CFDs are not subject to UK stamp duty or stamp duty reserve tax ("SDRT") and the Group is exempt from stamp duty and SDRT on its hedging transactions. There can be no assurance that the UK stamp duty regime (including the scope of or the rate of duty) will remain unchanged or that any changes would not have a material adverse effect on the Group's operating results.

The Group pays general betting duty at different rates on financial spread betting, other spread betting and binary betting. A change to the rates or basis of calculation of general betting duty could have a material adverse effect on the Group's business and operating results.

As part of the management buy-out of IG, certain debt funding was put in place with IG's shareholders. The Inland Revenue has recently begun generally to investigate the deductibility for corporation tax of interest paid on certain types of debt funding in highly leveraged buy-outs and has addressed some preliminary enquiries to the Group. There can be no assurance that the Inland Revenue will not seek to challenge the debt arrangements IG has in place or indeed any other aspect of IG's business or operations. Were the Inland Revenue to be successful in any such challenge, this could have a material adverse effect on the business, financial condition and operating results of the Group.

Historically the Group has benefited from inter-company transactions which have had the effect of reducing the amount provided by the Group in its financial statements for corporation tax by £0.5 million in financial year 2004 and by approximately £2 million in the six months ended 30 November 2004. The Finance Bill ordered by the House of Commons to be printed on 22 March 2005 (the "Finance Bill") contained draft legislation which, if enacted in its current form, could adversely impact the Group's financial condition. The impact of the draft legislation on the Group's inter-company arrangements is not yet clear. However, based on a provisional interpretation of the Finance Bill, the Directors have been advised that the Group's inter-company arrangements may not confer any tax benefit on the Group for periods beyond 28 February 2005. Furthermore, the draft legislation, if enacted in its current form, may give rise to additional tax liabilities, penalties and interest which could have a material adverse effect on the financial condition and operating results of the Group.

IG has obtained legal advice that profits and losses arising from financial spread betting activities undertaken by its Australian clients are not subject to Australian income or capital gains tax in the hands of those clients. The Australian Taxation Office ("ATO") announced in September 2002 that it would review the tax issues relating to spread betting. Following discussions between IG Australia and the ATO, the ATO indicated that its preliminary view was that profits and losses arising from financial spread betting were subject to tax, although the ATO conceded that the contrary view was arguable. As a result, the ATO is in the process of formulating a final position on the issue. IG Australia has reached agreement with the ATO that the way forward is to identify suitable test cases to be brought by clients of IG Australia and seek judicial determination of the issue. There can be no assurance that the courts in Australia will agree with IG Australia's assertions regarding the taxation of winnings in the hands of clients and any decision to impose such taxation, were it to occur, could materially adversely affect the Group's business.

One of IG's key objectives is to deliver future growth through extending its client base in other jurisdictions. There can be no assurance that the tax authorities in other overseas jurisdictions in which the Group currently has clients, or may in the future have clients, will not impose taxation which could negatively impact IG's existing business or business opportunities. Were this to occur, it could have a material adverse effect on the Group's business.

#### **Systems failures or delays could harm IG's business**

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 IG 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 a system testing

## **Part III**

### **Risk Factors**

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programme is ongoing in order to verify that these procedures and policies are effective. However, there can be no assurance that the Group's disaster recovery planning and testing programme can account for and protect against all eventualities or that it will be effective in preventing any interruption to the operations and systems of the Group. Any malfunctioning of the Group's technology and systems, even for a short period of time, could result in a lack of confidence in IG's services and a possible loss of existing clients to its competitors, with a consequential material adverse effect on the Group's operations and results.

In addition, the Group internally supports and maintains many of its computer systems and networks. Failure to monitor or maintain these systems and networks or, if necessary, to find a replacement for this technology in a timely and cost-effective manner, would have a material adverse effect on the Group's ability to conduct its operations.

#### **IG is dependent on information providers and any failures by them or difficulties in IG's relationships with them could harm the Group's business**

The Group is dependent upon data providers and stock exchanges to provide real time market prices and other information necessary for the operation of its business. There is no guarantee that any of these providers will be able adequately to expand these services to meet IG's needs or to continue to provide these services in an efficient, cost-effective manner, or at all. Any interruption in or cessation of service by any third party information provider could have a material adverse effect on the Group's business.

The Group pays fees to certain providers of information in connection with its business. Whilst the Group has entered into licence agreements with several providers of information for the display of market data, there is no guarantee that current licence fees are any indication of the future fees that may be levied. Some providers of information may seek to claim database rights and/or further proprietary rights in market data used to create prices which are used by the Group or displayed on the Group's websites. Any material increase in current licence fees or the imposition of new licence fees by these providers of information or the refusal to grant a licence or any restrictions imposed by these providers of information in the manner in which IG may use such information could have a material adverse effect on the Group.

In addition, any consolidation of these industries could lead to an increase in the negotiating strength of the third party content providers with regard to their relationship with the Group. This, in turn, could lead to increased licence fees being imposed on the Group, which could have a material adverse effect on the Group's business.

#### **IG depends on its senior management team, and if it is unable to retain its current personnel and hire additional personnel, its ability to implement its growth strategy and compete in its industry could be harmed**

The Group's future success depends, in part, upon the leadership and performance of its highly experienced management team, many of whom have significant experience with the Group and would be difficult to replace. IG's continued growth is highly dependent upon having a management team with the appropriate expertise. The loss of senior personnel or the inability to recruit sufficient, qualified personnel, could have a material adverse effect on the Group's ability to run its business and, accordingly, on its financial condition and operating results. As the Group continues to grow, it will continue to hire, appoint or otherwise change senior managers and other key executives. There can be no assurance that the Group will be able to retain its executive officers and key personnel or attract additional qualified members to its management team in the future.

#### **IG's revenue is subject to market volatility and other factors**

The Group acts as principal in transactions with its clients. Where transactions relate to liquid financial markets, hedging may be undertaken in order to mitigate market risk. The Group has a formal hedging policy, which aims to balance volatility of revenue against the cost of hedging. However, a consequence of the policy is that not all client positions are hedged, for example because the hedging would not be cost-effective or, as with certain sports and binary bets, hedging is not possible. As a result, the Group's revenue may fluctuate and be materially adversely affected as a result of client profits and losses or movements in market levels or market volatility.

### **Part III**

#### **Risk Factors**

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#### **Risk management policies, procedures and practices may not be effective and may leave IG exposed to unidentified or unexpected risks**

The Group's policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. The Group's risk management methods rely on a combination of internally developed technical controls, industry standard practices, observation of historical market behaviour and human supervision. These methods may not adequately prevent future losses, particularly to the extent they relate to extreme market movements, which may be significantly greater than the historical measures indicate.

The Group's risk management procedures and practices are also subject to human error, technological failure and fraud. There can be no assurance that the Group will continue to set risk management parameters accurately, that its testing and quality control practices will be effective in preventing technical software or hardware failure or that its employees will accurately and appropriately apply the Group's risk management procedures. Any failures in this regard could materially adversely affect the Group's financial performance and operations.

In addition, IG is exposed to potential losses due to fraud and other misconduct by employees and clients. For example, employees may bind the Group to transactions that present unacceptable risks, hide from the Group unauthorised or unsuccessful activities or improperly use confidential information and clients or people impersonating clients may engage in fraudulent activities, including improper use of legitimate client accounts and the use of a false identity to open an account. Such activities may be difficult to prevent or detect and the provisions of IG's employment contracts, client agreements or other contractual arrangements that are intended to protect IG against such risks and losses may fail to be effective. IG may not be able to recover the losses caused by such activities or events and any such losses could have a material adverse effect on the Group's business, financial condition and operating results.

#### **IG has significant credit exposure to financial institutions**

The Group has significant deposits with its bankers. The Group also enters into CFDs and other hedging transactions with financial institutions and places significant funds with them as margin to support these transactions. The Group also has an increasing number of financial institutions as clients. The business of the Group could be materially adversely affected if a bank or other financial institution with which it contracts defaults.

#### **IG's exposure to possible litigation could adversely affect its business**

Because of the extent and complexity of the regulatory environment in which IG operates and the products and services the Group offers, many aspects of the Group's business involve substantial risks of liability. In recent years, there has been an increasing incidence of litigation involving the financial services industry, particularly relating to advisory and discretionary management services. IG Markets offers a CFD advisory service and a discretionary management service to a number of its intermediate clients and any litigation brought in the future involving these services could have a material adverse effect on IG's business.

The Group also faces potential liability for claims of negligence, violation of securities laws and claims based upon the content that IG distributes online. For example, computer failures may result in the Group publishing and distributing incorrect data.

IG's insurance may not necessarily cover any of the claims that clients or others may bring against the Group or may not be adequate to protect it against all liability that may be imposed. Any such litigation brought in the future could have a material adverse effect on the Group's business, financial condition and operating results.

#### **Liquidity problems could adversely affect the business**

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

**IG must keep up with rapid technological changes in order to compete effectively**

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. The markets in which IG operates are characterised by rapid technological change, changes in use and client requirements and preferences, frequent product and service introductions employing new technologies and the emergence of new industry standards and practices that could render the Group's existing technology and systems obsolete. Development by IG's competitors of new products that gain acceptance in the market could give them a competitive advantage over IG.

There can be no assurance that IG will be able to anticipate and respond to the demand for new services, products and technologies in a timely and cost-effective manner, to adapt to technological advancements and changing standards or to retain its clients. The Group's failure to do any of these could have a material adverse effect on its financial condition and operating results.

**Regulation of the Internet and e-commerce is rapidly evolving and changes could adversely affect IG's business**

Regulation of the Internet and e-commerce is rapidly evolving and there are an increasing number of directly applicable laws and regulations. It is possible that additional laws and regulations may be enacted with respect to the Internet, covering issues such as user privacy, law enforcement, pricing, taxation, content liability, copyright protection, and quality of products and services. The adoption of such laws and regulations could materially adversely affect, directly and indirectly, the Group's online business.

**Data Privacy**

IG's operations in the United Kingdom are subject to a number of laws relating to data privacy, including the Data Protection Act 1998 and the Privacy and Electronic Communications (EC Directive) Regulations 2003. The requirements of this legislation may affect the Group's ability to collect and use personal data in a way that is of commercial use to the Group, if IG does not continue to ensure its adherence to appropriate compliance procedures. Furthermore, the legislation may make it hard for IG to market its business, particularly by e-mail. Breach of data privacy legislation could result in the Group being subjected to claims from its users that it has infringed their privacy rights, and it could face administrative proceedings initiated against it by the UK data protection regulator, the Office of the Information Commissioner ("OIC"). In addition, any enquiries made, or proceedings initiated by individuals or the OIC may lead to negative publicity for the Group, which could materially adversely affect its business.

**Data Security**

The secure transmission of confidential information over the Internet and the security of IG's systems, in general, is essential in maintaining client confidence and ensuring compliance with data privacy legislation. If the Group or any of the third party suppliers on which it relies fails to transmit client information and payment details online in a secure manner, or if they otherwise fail to protect client privacy in online transactions, there is a risk that the Group's current clients would stop accessing its online sites or that potential clients would be deterred from using the Group's online sites. In addition, there can be no assurance that IG's systems will not be subject to disruption by "hackers" or other security breaches. These types of events could expose the Group to potential liability and could materially adversely affect its financial condition or operating results.

**Competition could negatively impact IG's market share and profitability**

The market for the Group's online services is young and rapidly evolving. The Group faces direct competition from a number of firms in each of its business lines. There is no guarantee that such competitors entering the Group's market will not increase their market share through acquisitions of other competitors or organic growth or through increasing their level of marketing or introducing more competitive pricing policies or new products. The general financial success of companies within the markets in which IG operates may attract new competitors to the industry, such as banks, software development companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than the Group does and IG may not be able to compete effectively with its current or future competitors. Any of these factors could have a material adverse effect on the Group's profits and/or operating results.

## **Part III**

### **Risk Factors**

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#### **If IG fails to attract new clients, its growth may be impaired**

IG's profitability and growth depends on increasing its active client base in a cost-effective manner. Although the Group has spent significant financial resources on advertising and related expenses and plans to continue to do so, there are no assurances that these efforts will be cost-effective in attracting new clients. Filter software programmes that negatively impact Internet advertising may limit or prevent IG's advertisements or other communications from being delivered to its current and potential clients' computers. If the Group does not achieve its advertising objectives, its profitability and growth may be materially impaired.

#### **IG may suffer losses if its reputation is harmed**

The Group's ability to attract and retain clients and employees may be materially adversely affected to the extent its reputation is damaged. Issues that may give rise to reputational risk include, but are not limited to, failure to deal appropriately with legal and regulatory requirements, money-laundering, fraud prevention, privacy, record-keeping, sales and trading practices, and the credit, liquidity, and market risks inherent in the Group's business. If the Group fails, or appears to fail, to deal with various issues that may give rise to reputational risk or if it fails to retain clients for any other reason, it could materially harm its business prospects.

#### **Economic, political and market factors beyond IG's control could harm the Group's business and profitability**

The financial markets in which the Group offers its services are directly affected by many national and international factors that are beyond IG's control. Any one of the following factors, among others, may cause a substantial decline in the financial markets in which IG offers its services, resulting in reduced trading volume. These factors include:

- ▶ legislative and regulatory changes
- ▶ economic and political conditions in the United Kingdom, United States, continental Europe and elsewhere in the world
- ▶ concerns about terrorism and war
- ▶ the level and volatility of equity and commodity markets
- ▶ the level and volatility of interest rates and foreign currency exchange rates
- ▶ concerns over inflation and changes in institutional and consumer confidence levels
- ▶ the disposable income of the Group's clients for spending on IG's product offerings.

In recent years, the financial markets have been adversely affected by acts of war, terrorism and other armed hostilities. These or similar acts have in the past increased or prolonged, and may in the future increase or prolong, negative economic conditions which could have a material adverse effect on IG's business and profitability.

#### **A reduction in the availability of credit cards as a payment alternative for clients of gambling operations could damage IG's business**

The Group currently accepts credit and debit card payments from clients. In the fourth quarter of 2001, certain US-based card issuing institutions decided to require online gambling merchants to affix codes to bank card transactions involving payments related to online gambling. The codes permit the issuing banks to refuse to authorise or otherwise block transactions related to online gambling, and certain banks have blocked such transactions. It is possible that in future the major card schemes may restrict the use of credit and debit cards issued under their schemes for betting. A further reduction in the availability of credit cards as a payment alternative for the Group's clients could have a material adverse effect on the Group's business and operating results.

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IG's expansion overseas could be significantly restricted due to a lack of payment methods available to existing or potential clients in certain jurisdictions outside the United Kingdom. A failure by IG to expand overseas could significantly impair IG's profitability and growth which, in turn, could have a material adverse effect on the business and operating results of the Group.

#### **A fall in interest rates could adversely affect the income IG earns on its cash balances**

The Group holds substantial cash balances including segregated client moneys which are not included in the balance sheet. A fall in interest rates could result in lower interest income which, in turn, could have a material adverse effect on the Group's financial condition and operating results.

#### **Failure by third party suppliers to deliver high quality products and services could damage IG's reputation**

IG relies on third party licences for the software underlying some of its technology and on third party maintenance of its hardware and software. Any interruption in its ability to obtain the products or services of these third party suppliers, or a deterioration in their performance, could impair the quality of the Group's own services. If the Group's third party suppliers fail to deliver high quality products and services, IG's own services will not meet the expectations of its clients and its reputation and brands may be materially damaged.

#### **IG's inability to protect its intellectual property rights could adversely affect its business**

IG's success and ability to compete in the markets in which it operates depends in part upon its proprietary intellectual property, which includes internally developed software, registered trade marks and domain names. Historically, IG has not been required to prosecute claims relating to its intellectual property. However, there can be no assurance that the Group will be able to continue to avoid the misappropriation of its intellectual property, which could have a material adverse effect on the Group's business, operating results and the value of its brands. For example, third parties may attempt to reverse engineer or otherwise obtain, use and/or duplicate IG's intellectual property without its permission and without its knowledge. Policing unauthorised use of proprietary information, particularly on the Internet, is difficult and expensive. Should the Group become aware of any such misappropriation, lawsuits claiming infringement or misappropriation are complex and expensive and of unpredictable outcome. Any misappropriation of IG's intellectual property by competitors or others could have a material adverse effect on the business and operating results of the Group.

#### **IG's infringement of the intellectual property rights of others could adversely affect its business**

IG may from time to time make use of the intellectual property rights held or claimed by others. There is no guarantee that IG's use of such intellectual property will not lead to a claim of infringement by third parties of their intellectual property rights. If it were to be found, by a court or otherwise, that IG infringes the intellectual property rights of third parties, IG may be required to stop developing or marketing the relevant products or services, to stop using the relevant intellectual property, to obtain licences to develop and market the services or to use the intellectual property in such a way as to avoid infringing those rights. Any such requirement could have a material adverse impact on the business and operating results of the Group. In addition, any adverse ruling arising out of any intellectual property dispute could also subject IG to significant liability for damages.

#### **The requirement to maintain regulatory capital may affect IG's ability to distribute profits**

As both IG Index and IG Markets are regulated by the FSA, they are each required to meet capital adequacy tests, which include a requirement that IG Index and IG Markets each has sufficient capital in order not to put it at significant risk from market moves and client default. In addition, the Group is subject to consolidated supervision by the FSA and is required to maintain adequate capital on a consolidated basis. The requirement that IG Index and IG Markets must each maintain sufficient capital to meet regulatory requirements, and that the Group is required to maintain capital on a consolidated basis, may affect the Group's ability to distribute profits which it would otherwise be permitted to distribute under the Act.

#### **IG may be constrained in its ability to make acquisitions by its regulatory capital position**

Goodwill reduces the amount of the Group's regulatory capital surplus for the purposes of consolidated supervision. This may restrict the Group's ability to make future acquisitions or require the Group to seek to issue additional Ordinary Shares.

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#### **Bad debts could adversely affect IG's business**

The Group may from time to time grant credit to certain of its clients or permit clients to deal in circumstances where their potential losses may exceed their deposit with IG. There is a possibility of bad debts occurring and IG may be materially adversely affected by an inability to recover such bad debts.

#### **IG's continuing significant growth places significant demands on management and resources**

IG has experienced significant growth in its business activities over the last several years, which has placed, and is expected to continue to place, a significant strain on management and resources. Continued growth will require continued investment in personnel, facilities, information technology infrastructure and financial and management systems and controls.

Failure to make necessary expansions and upgrades to the Group's systems and infrastructure and maintain its client service levels could lead to failures and delays, which could cause a loss of clients or a reduction in the growth of the Group's clients base, increased operating expenses, financial losses, additional litigation or client claims, and regulatory sanctions or additional regulatory burdens causing operating margins and profitability to be materially adversely affected.

#### **Non-availability of future funding may curtail IG's ability to grow**

In the opinion of the Company, the working capital available to IG, taking into account the net proceeds of the Global Offer, is sufficient for IG's present requirements for at least the next 12 months from the date of the publication of this document. This assumes that the proceeds raised by the Company in the Global Offer are based on the price of 112 pence per Ordinary Share, the bottom end of the Indicative Offer Price Range. After that time, IG's long-term working capital requirements will depend on many factors including, but not limited to, turnover from operations and expenses incurred. To the extent that available capital resources in the future are insufficient to fund activities in the long term, or if the Group's actual turnover or operating profit is lower than estimated, IG may need to raise additional funds through public or private financings. No assurance can be given that additional financing will be available or that, if available, the terms of such financing will be favourable to IG or to its shareholders. If adequate funds are not available to satisfy its requirements, IG may be required to curtail its operations significantly, refinance its outstanding obligations or forgo market and acquisition opportunities, all of which could have a material effect on the Group.

#### **Conversion to IFRS may impact IG's financial results**

IG prepares its financial statements in accordance with UK GAAP. English companies listed on the London Stock Exchange will have to comply with IFRS for each financial year beginning on or after 1 January 2005. Therefore, IG will have to comply with IFRS for the financial year beginning 1 June 2005. Part VII (Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation) of this document sets out the Company's current understanding of the impact its compliance with IFRS may have on the Group's financial results but there can be no assurance that such reporting standards will not change in the future or that any such changes will not have a material adverse effect on the Group's reported financial performance and on operating results.

#### **IG may make acquisitions which it may be unable to successfully integrate with its business**

If appropriate opportunities present themselves, the Group may acquire businesses, products or technologies that it believes are strategically beneficial. The process of integrating an acquisition into its business may produce unforeseen operating difficulties and expenditures and may absorb significant attention of IG's management that would otherwise be available for the ongoing development of its business, which may materially harm the Group's business, financial condition or operating results.

### **RISKS RELATING TO THE GLOBAL OFFER**

#### **If an active trading market for the Ordinary Shares does not develop, the price of the Ordinary Shares may suffer and may decline below the Offer Price**

Prior to the Global Offer, there has been no public trading market for the Ordinary Shares. Although IG has applied to have the Ordinary Shares admitted to the Official List and to trading on the London Stock Exchange and it is expected that these applications will be approved, IG cannot give any assurance that an

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active trading market will develop for the Ordinary Shares or predict how the Ordinary Shares will trade in the future.

The share prices of publicly traded companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and, some which may affect the markets in which IG operates or quoted companies generally. These factors could include IG's financial performance, development programmes, large purchases or sales of shares, legislative or regulatory changes affecting the operations of the Group and general economic conditions.

The CVC Shareholders will own approximately 24.9 per cent of the Ordinary Shares immediately after the Global Offer (which will reduce to approximately 19.9 per cent if the maximum number of Overallotment Shares is acquired pursuant to the Overallotment Option). For as long as the CVC Shareholders hold 15 per cent or more of the Ordinary Shares, they will be entitled to nominate one Director to the Board. The provisions of the Articles and the Relationship Agreement prevent Directors nominated by the CVC Shareholders from voting on actual or proposed transactions with the CVC Shareholders. Although the Relationship Agreement between the CVC Shareholders and IG provides that IG's independence will be maintained, nonetheless, the CVC Shareholders, together as a substantial shareholder, are in a position to exercise significant influence over IG's operations, business strategy and all matters requiring approval by its shareholders, including the approval of mergers or other business combinations. Further details of the Relationship Agreement are contained in paragraph 12(12) of Part XI (Additional Information) of this document. The trading price of IG's Ordinary Shares could be materially adversely affected if potential new investors are disinclined to invest in IG if they perceive disadvantages to a large shareholding being concentrated in a group of connected shareholders.

#### **IG may choose not to pay dividends and it cannot assure investors that it will make dividend payments in the future**

The Directors may choose not to pay any dividends. Future dividends will depend on, among other things, the Group's future profit, financial position, regulatory capital requirements, distributable reserves, working capital requirements, general economic conditions and other factors that the Directors deem significant from time to time.

#### **Future sales of Ordinary Shares could depress the market price of the Ordinary Shares**

IG is unable to predict whether substantial amounts of Ordinary Shares, in addition to those available in the Global Offer, will be sold in the open market following the termination of the lock-up restrictions put in place in connection with the Global Offer. Such restrictions include the "lock-up" arrangements for the CVC Shareholders, who, immediately at the end of the lock-up period, will hold approximately 24.9 per cent of the Ordinary Shares in issue (which will reduce to approximately 19.9 per cent if the maximum number of Overallotment Shares is acquired pursuant to the Overallotment Option). Further details of the lock-up restrictions are contained in paragraph 10 of Part XI (Additional Information) of this document. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares.

#### **Applicable laws may make it difficult to effect a change of control of the Company**

In the United Kingdom, the prior approval of the FSA under Part XII of the Financial Services and Markets Act 2000 ("FSMA") is required of any person proposing to acquire control of a UK FSA regulated company. For these purposes, a person acquires control over a UK authorised person if such person holds, or is entitled to exercise or control the exercise of, ten per cent or more of the voting power at any general meeting of the UK authorised person or of the parent undertaking of the UK authorised person. A person is also regarded as acquiring control over the UK authorised person if that person exercises significant influence over the management of the UK authorised person or its parent. Accordingly, any person who proposes to acquire ten per cent or more of the Ordinary Shares would become a controller of IG Markets and IG Index and prior approval of the FSA would be required. An acquisition of the beneficial ownership of ten per cent or more of the Ordinary Shares would therefore need to be notified to the FSA and its approval obtained, even though there may have been no change in the legal ownership of the Ordinary Shares. Similarly, if a person who is already a controller of a UK authorised person proposes to increase its control in excess of certain thresholds



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set out in Section 180(1) of the FSMA, such person will also require the prior approval of the FSA. The FSA has a period of three months from the date of notification of the proposed change of control to approve or refuse such proposed change of control. Becoming a controller of a FSA regulated entity without the prior approval of the FSA is a criminal offence. These regulatory approvals may discourage certain investors from acquiring shares in the Company and consequently, may lead to a fall in the Company's share price.

**The rights of holders of Ordinary Shares are governed by English law and US Shareholders may be unable to exercise preemptive rights**

IG's constitutional documents provide for pre-emptive rights to be granted to its existing shareholders. To the extent that pre-emptive rights are granted, US holders may not be entitled to exercise these rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of such act is available. IG is unlikely to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable US holders to exercise such pre-emptive rights or, if available, that IG will utilise any such exemption.

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## Part IV

# Regulatory Environment

### **REGULATORY FRAMEWORK WITHIN THE UNITED KINGDOM**

In the United Kingdom, the provision of financial services is subject to a considerable degree of regulation, under the supervision of the FSA, by the Financial Services and Markets Act 2000 (“FSMA”).

Under FSMA, persons carrying out “regulated activities” in the United Kingdom require authorisation by the FSA. It is a criminal offence to breach this requirement. Agreements made in the course of the carrying on of regulated activities by unauthorised persons are unenforceable.

Some of the business undertaken by IG Index and IG Markets involves them carrying on regulated activities. Both IG Index and IG Markets are regulated by the FSA to carry on regulated activities. On 17 August 1988 IG Index became regulated by the Securities and Futures Authority (which had responsibility for regulating this type of business prior to the FSA), and then the FSA from 1 December 2001 (the date upon which the FSA first had responsibility for regulating these activities). IG Markets was regulated by the Securities and Futures Authority from 30 March 2001, and the FSA from 1 December 2001.

As well as carrying on regulated activities in the United Kingdom, IG also undertakes business which does not amount to the carrying on of regulated activities. In summary, the types of contract which IG offers to its clients in connection with its spread betting business do constitute the carrying on of regulated activities, whereas IG’s binary betting business does not, although the businesses are regulated by the Betting, Gaming and Lotteries Act 1963, under which IG is required to hold a bookmaker’s permit. IG Index and Binarybet currently hold a bookmakers’ permit allowing them to carry on the business of receiving and/or negotiating bets.

IG’s betting businesses will be governed by the provisions of the new Gambling Act which gained Royal Assent on 7 April 2005. Under the provisions of the Gambling Act, a new gambling regulatory authority, the Gambling Commission, is to be established which will have responsibility for the licensing of UK gambling operators. IG’s betting businesses will require an operating licence in much the same way as they require a bookmakers’ permit under the terms of the Betting, Gaming and Lotteries Act 1963. It is currently anticipated that IG’s spread betting business will continue to be regulated by the FSA and not the Gambling Commission. The Gambling Act does, however, contemplate the possibility that the regulation of spread betting may come within the ambit of the Gambling Commission’s control if it ceases to be a regulated activity under FSMA.

#### **Regulation by the FSA**

The FSA issues rules with which the firms that it regulates must comply. The FSA Rules seek to ensure that regulated entities have adequate financial resources, are managed and controlled by fit and proper persons, have appropriate safeguards in place to protect their clients’ funds and assets and comply with certain minimum conduct of business standards.

Members of the management of an FSA regulated firm (including all of its directors), the firm’s finance director and compliance officer and certain members of staff are required to be individually registered with and approved by the FSA as “approved persons”.

In common with other FSA regulated firms who conduct spread betting business, each of IG Index and IG Markets has been granted waivers by the FSA from compliance with certain of the FSA’s conduct of business rules. Some of these waivers impose additional requirements (for example, that prohibit IG Index from providing investment advice to its spread betting clients).

If a breach of the FSA Rules occurs, the FSA has the power to take a wide range of disciplinary actions against the two regulated firms and any FSA approved persons, including the imposition of fines, the suspension or

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### **Regulatory Environment**

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termination of the firm's authorisation or the removal of "approved persons" status from individual members of staff.

In addition to the FSA Rules, firms which are authorised under FSMA are subject to certain core principles issued by the FSA. The principles are intended to establish broad rules to ensure fairness and integrity in the provision of financial services in the United Kingdom. A breach of the principles gives rise to a right for the FSA to take direct action against the relevant authorised person (which includes the power to terminate the firm's authorisation).

Of the other types of financial services which are regulated in the United Kingdom pursuant to legislation other than FSMA, only the Consumer Credit Act 1974 is of potential relevance to the Group's business. IG has obtained legal advice that its spread betting activities do not fall within the ambit of the Consumer Credit Act 1974 and has taken steps to ensure that its foreign exchange trading business will, to the extent that it falls within the scope of the legislation, comply with it.

The FSA Rules require each of IG Markets and IG Index to maintain adequate regulatory capital at all times. The Group is also subject to consolidated supervision by the FSA and is required to maintain sufficient regulatory capital for the Group as a whole. At an individual company level, the main constituents of the regulatory capital requirement are position risk requirement and counterparty risk requirement. These are amounts of capital required under FSA Rules and are calculated by reference to the company's market risk and credit risk respectively. At a consolidated level, the Group has an additional requirement for regulatory capital equal to its goodwill. The Group's Ordinary Shares, Preference Shares, reserves and subordinated loans all constitute regulatory capital. The Preference Shares and loans will be redeemed and repaid, respectively, on Admission out of the net proceeds of the Global Offer payable to the Company plus existing surplus cash.

### **INTERNET REGULATION**

There is no specific regulator for technology or the Internet in the United Kingdom or Europe. However, there are many applicable laws relating to technology, the provision of Internet services and use of the Internet and Internet-related applications which affect the business of the Group as set out below.

#### **Data protection**

Because the Group collects data about its clients and other individuals, it is subject to rules and regulations concerning the treatment of this information.

The European Union adopted a directive on the protection of individuals with regard to the processing of personal data and the free movement of such data on 24 October 1995 (the "Data Protection Directive"). The Data Protection Directive applies to companies established in the European Economic Area ("EEA") or using equipment in the EEA to process personal data. The Data Protection Directive has now been implemented in all European jurisdictions in which the Group has clients. In the United Kingdom, the Data Protection Directive has been implemented into law by the Data Protection Act 1998 (the "DPA"), which came into force on 1 March 2000. Both the Data Protection Directive and the DPA impose restrictions on the collection, use and processing of personal data and guarantee rights to individuals who are the subject of personal data ("Data Subjects") with regards to their personal data. These rights include the right of access to personal data, the right to know where the data originated, the right to have inaccurate data rectified, the right to recourse in the event of unlawful processing and the right to withhold permission to use data for direct marketing.

The Data Protection Directive and the DPA also restrict the ability of companies falling within their application to send data outside of the EEA unless the country to which such data is sent has "adequate" data protection measures in place. A small number of countries outside the EEA have been found by the European Commission to provide an adequate degree of protection, but the European Commission has not at this time reached a favourable conclusion about the majority of countries outside of the EEA in which the Group may have clients and to which it may wish to send data.

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There is also another European Directive which governs privacy and the processing of personal data specifically in the electronic communications sector (the “Privacy and Electronic Communications Directive”). The Privacy and Electronic Communications Directive was adopted by the European Union on 12 July 2002 and covers the processing of personal data on all public electronic communication systems, not just computers and the Internet, although service providers operating over the public Internet are most significantly affected. It specifically addresses the issues of direct marketing by e-mail and therefore affects the way the Group may use the personal data it collects from its clients and other individuals in order to market its business. The Privacy and Electronic Communications Directive was implemented into law in the United Kingdom by the Privacy and Electronic Communications (EC Directive) Regulations 2003 (the “PECR”), which came into force on 11 December 2003.

The PECR restricts the use of automated calling systems, facsimile machines, e-mail and SMS for direct marketing purposes. In particular, companies may not send unsolicited e-mail communications for the purposes of direct marketing unless the recipient has given his/her prior consent. A limited exception applies in relation to the direct marketing of similar products and services to a company’s existing clients, provided that the client is, on each occasion, given the opportunity to refuse the use of his/her contact details for such purposes.

The Company, IG Index, IG Markets, Binarybet and IG Group are currently registered under the DPA in the United Kingdom.

### **REGULATORY FRAMEWORK WITHIN THE EUROPEAN ECONOMIC AREA**

In addition to the UK regime described above, there is a pan-European regime established by the Investment Services Directive (“ISD”) which regulates the provision of “investment services” throughout the European Economic Area (the member states of the EU plus Norway, Iceland and Liechtenstein – the “EEA”). The ISD requires all EEA incorporated entities which are “investment firms” (i.e. which “provide investment services to third parties on a professional basis”) to be authorised in their state of incorporation (their “home state”). IG Index and IG Markets are investment firms.

In contemplation of the principles of freedom of provision of services and freedom of establishment within the common market, the ISD gives investment firms the right to be able to provide investment services on a cross-border basis to clients located in other member states of the EEA (“host states”) without the need for separate authorisation by the competent authorities in those host states. The ISD also grants investment firms a right to establish a branch in those host states without the need for any separate authorisation. These rights to provide services and to establish branches are commonly referred to as the European investment services “passport”.

IG Markets has made the required notifications to allow it to provide investment services on a cross-border basis into all other member states of the EEA.

It should be noted that the scope of the “passport” is limited. For example, it does not cover all financial instruments. The “passport” does not cover contracts related to commodities including cash settled commodity derivatives, nor spread bets priced by reference to the outcome of sporting or political events. If these types of services are licensable in another EEA member state then an FSA regulated firm wishing to provide such services to clients located in that state may still need to obtain a separate authorisation.

The ISD provides that the provision of investment services into a host state may be subject to the “conduct of business rules” of that host state. These may differ from UK conduct of business rules. This is, however, mitigated by the E-Commerce Directive 2002 which enables firms to conduct business electronically with clients in other EU countries in compliance with the conduct of business rules of their home country. Therefore, although IG Markets has taken advantage of the “passport”, this will still be subject to local regulatory conduct of business rules when it provides services into the host state pursuant to the “passport” to the extent that the principles in the E-commerce directive are not fully effective to disapply conduct rules in those states.

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The ISD is due to be replaced by a new directive, the Markets in Financial Instruments Directive (“MiFID”). MiFID is due to come into force on 30 April 2006, but EU member states and the European Commission are currently discussing delaying this implementation and it is currently expected that it will not come into force in the United Kingdom until April 2007. MiFID will make important changes to the way in which cross-border business is conducted. These include an extension to the scope of the “passport” to include contracts related to commodity derivatives and the revision of conduct of business rules (for more details, see Part III (Risk Factors)).

#### **REGULATORY FRAMEWORK WITHIN AUSTRALIA**

Financial spread betting and contracts for differences are financial products which are the subject of regulation in Australia under the Australian Corporations Act. The Group carries on business in Australia pursuant to Australian financial services licences issued pursuant to the Australian Corporations Act. The licensed entities and their representatives are regulated by the Australian Securities and Investments Commission (“ASIC”). ASIC is the statutory body which is charged with enforcing the Australian Corporations Act and monitoring the conduct of licensees and their representatives. The Australian Corporations Act and regulations issued by ASIC govern the activities of the Group in a manner broadly similar to the regulatory environment created under the FSA.

#### **US RISK MANAGEMENT PROCEDURES**

Due to restrictions imposed under US federal and state laws, including the US Federal Wire Act, IG does not permit persons located in the United States to open or hold accounts with IG Index or Binarybet and only in limited circumstances with IG Markets. IG has implemented a number of robust procedures to enforce this policy. IG has established restrictions relating to persons located in the United States which are prominently displayed on IG’s websites and during the account opening procedure, including a compulsory declaration by all betting applicants that they are not a US resident. Other than for binary betting, IG’s account opening procedures also involve internal or third-party verification of certain account information, including address, prior to account activation. Furthermore, IG does not permit payment using a credit card which has been issued by a US financial institution. IG also engages in a periodic review of its existing accounts to ensure that any accounts (other than approved IG Markets’ accounts) which have a US address are suspended (for more details, see Part III (Risk Factors)) of this document.

#### **RESTRICTIONS ON CHANGES OF CONTROL**

As IG Index and IG Markets are both FSA regulated entities, they are subject to certain FSA regulatory restrictions regarding persons who may act as a “controller”. Broadly, a “controller” for the purposes of the FSA Rules means a person who either alone or with associates holds 10 per cent or more of the shares or voting rights in a regulated firm or its parent company. Any person who alone, or with associates, holds 10 per cent or more of the Ordinary Shares or voting rights in the Company will therefore become a “controller” of both IG Index and IG Markets.

Under FSMA, a person who acquires control over IG Index and IG Markets, or who increases their control to 20 per cent or more, 33 per cent or more, or 50 per cent or more must first notify the FSA and the FSA has up to three months to approve this change of control. The FSA is permitted to serve a notice of objection to the increase in control and, if it does serve such a notice, is required to specify in the notice its reasons for the objections. Breach of the notification requirements is a criminal offence.

A person who ceases to be a 10 per cent controller or who reduces an existing shareholding below the 50 per cent, 33 per cent or 20 per cent levels is not permitted to do so without first serving on the FSA prior written notice, although FSA approval is not required. Again, it is a criminal offence to contravene this requirement.

## Part V

# Operating and Financial Review

The following review should be read in conjunction with the Accountants' Report and other financial information set out in Part VI and the rest of this document. Prospective investors should read the whole document and not just rely on key or summarised information set out in this Part V. The financial information in this Part V has been extracted without material adjustment from the Accountants' Report set out in Part VI or has been extracted without material adjustment from the accounting records which formed the underlying basis of the financial statements on which the Accountants' Report is based. The financial information has been prepared in accordance with UK GAAP. References in this document to EBITDA represent earnings before exceptional items, depreciation, amortisation, taxation, interest receivable on corporate cash balances and include interest receivable by the Group on clients' money net of interest payable to clients.

Various references are made in this document to the current tax treatment in the United Kingdom and Australia of a number of IG's products. Prospective investors should be aware that taxation legislation in the United Kingdom and elsewhere may change at any time and that the tax treatment of IG's products may change in the future.

This Part V includes forward-looking statements that involve risks and uncertainties. IG's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors, including those set out under "Risk Factors" in Part III and elsewhere in this document.

### SELECTED FINANCIAL INFORMATION

The selected financial data for IG set out below for financial years 2002, 2003 and 2004 and for the six months ended 30 November 2003 and 2004 has been extracted without material adjustment from the Accountants' Report set out in Part VI.

	Years ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Turnover	33,573	40,996	49,839	23,088	29,501
Cost of sales	(1,050)	(1,958)	(1,879)	(793)	(1,366)
Gross profit	32,523	39,038	47,960	22,295	28,135
Interest on clients' money	1,471	1,358	2,244	950	1,584
Administrative expenses	(19,366)	(23,208)	(25,076)	(11,739)	(13,609)
EBITDA <sup>(1)</sup>	14,628	17,188	25,128	11,506	16,110
Depreciation	(1,556)	(2,475)	(3,305)	(1,597)	(1,899)
EBITA	13,072	14,713	21,823	9,909	14,211
Amortisation of goodwill	(220)	(220)	(4,241)	(1,392)	(2,840)
EBIT	12,852	14,493	17,582	8,517	11,371
Exceptional items	—	(180)	(267)	—	—
Interest receivable	714	1,183	1,387	497	855
Interest payable	(191)	(215)	(10,782)	(4,622)	(6,892)
Profit before tax	13,375	15,281	7,920	4,392	5,334

(1) EBITDA represents earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and includes interest receivable by the Group on clients' money net of interest payable to clients.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS**

### **Overview**

The Group is a fast growing, profitable and cash generative provider of speculative investment and leisure products to a predominantly retail client base. These products and services include spread bets and binary bets on financial and sports markets, contracts for differences ("CFDs"), primarily on individual equities, and foreign exchange trading. The Group has three main operating subsidiaries: IG Index, which offers spread betting and binary betting, IG Markets, which offers CFDs and foreign exchange trading, and Binarybet, which offers binary bets through its binarybet.com™ website. IG has a number of electronic dealing platforms of which the most significant is its Internet dealing platform. The proportion of IG's transactions undertaken using the Internet has grown substantially since the launch of its new Internet platform in 2003.

### **Factors affecting operating results**

The Group's results depend to a significant extent on, *inter alia*,:

- ▶ the number of clients dealing (as discussed below under the heading "Operating Results")
- ▶ the size and frequency of client transactions (as discussed below under the heading "Operating Results")
- ▶ the ability to calculate prices at which clients' business is profitable for the Group (as explained further in "Revenue Model and Market Risk Management" in Part I (Business of IG) of this document)
- ▶ the ability of the Group to reduce variability of its revenue arising from variations in clients' profitability or from changes in market levels and volatilities, whether by hedging or by diversification of business lines (as explained further in "Revenue Model and Market Risk Management" in Part I (Business of IG) of this document)
- ▶ the management of overheads (as discussed below under the heading "Operating Results").

### **Critical accounting policies and estimates**

The preparation of financial statements in conformity with UK GAAP requires the Group to make estimates and assumptions that affect amounts reported in the Group's financial statements. As additional information becomes available, these estimates and assumptions are subject to change and, therefore, impact on amounts reported in the future. The following are considered to be the Group's critical accounting policies and estimates, due to the judgements and uncertainties affecting the application of these policies and estimates and/or the likelihood that materially different amounts would be reported under different conditions or using different assumptions. If actual events differ significantly from the underlying assumptions or estimates applied for any or all of the accounting policies (either individually or in aggregate), this could have a material adverse effect on the Group's operating results, financial condition and liquidity.

### **Revenue recognition**

Derivative financial instruments are carried at fair market value and the resultant profits and losses are included in turnover. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients and brokers, reduced by the effect of other assets or liabilities with a counterparty where a qualifying netting agreement is in place.

The determination of fair market value requires the exercise of judgement. In the case of the instruments which IG makes available to its clients, fair market value is normally taken to be the mid-point of IG's quote. In the case of hedging instruments, fair market value is normally taken to be the mid-point of the appropriate market quote. IG's quote in respect of instruments which relate to liquid underlying financial markets is normally set by reference to prices for the most appropriate underlying market, making adjustments where necessary to adjust for differences in expiry date and adjusting for any other factors which IG's dealing staff consider appropriate. In the case of instruments where there is no underlying market, or where the market is insufficiently liquid, IG's price is set using IG's own proprietary pricing models, including option pricing

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models. These models require the exercise of skill and judgement in determining appropriate pricing assumptions.

In the case of long term instruments where there is no underlying market, consideration is given to the impact of post year-end settlement prices and the fair value at the balance sheet date is adjusted if it is considered prudent to do so.

#### **Bad and doubtful debts**

The Group establishes a provision for bad and doubtful debts. Provision is made for 50 per cent of any debt which has been outstanding for more than 30 days and for the full debt once it has been outstanding for 60 days, unless there are reasonable grounds for believing that the debt is recoverable in part or in whole, in which case the provision is limited to the amount considered irrecoverable. In addition, any debts which are identified prior to this as having doubtful recoverability are provided for to the extent that they are believed irrecoverable. The determination of the recoverability or otherwise of debts requires the exercise of judgement by the Group's credit control staff and the Directors. Consideration is given to the previous payment history and conduct of the client concerned, the client's financial standing, the magnitude of the debt and any discussion or correspondence that have taken place between the Group or its solicitors and the client. The amount of bad and doubtful debts during the period under review has not been material.

#### **Corporation tax**

The provision for corporation tax requires the Directors to assess whether transactions that Group companies have undertaken will give rise to a liability to corporation tax and whether expenditure that Group companies have incurred will reduce this liability. In making this assessment the Directors take professional advice as they consider appropriate.

Historically the Group has benefited from inter-company transactions which have had the effect of reducing the amount provided by the Group in its financial statements for corporation tax by £0.5 million in financial year 2004 and by approximately £2 million in the six months ended 30 November 2004. The Finance Bill ordered by the House of Commons to be printed on 22 March 2005 (the "Finance Bill") contained draft legislation which, if enacted in its current form, could adversely impact the Group's financial condition. The impact of the draft legislation on the Group's inter-company arrangements is not yet clear. However, based on a provisional interpretation of the Finance Bill, the Directors have been advised that the Group's inter-company arrangements may not confer any tax benefit on the Group for periods beyond 28 February 2005. Furthermore, the draft legislation, if enacted in its current form, may give rise to additional tax liabilities, penalties and interest.

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date 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. 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 at 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.

A deferred tax asset has arisen in respect of the losses which have arisen in the Group's wholly owned subsidiary IG Australia. In recognising this asset the Directors have assumed that these losses will be utilised by reducing future tax payments on future profits from this company.

#### **Depreciation**

Fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life. In particular, computer equipment is depreciated over either two or three years depending on an assessment of the likely duration of the asset.



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Desktop PCs are generally depreciated over two years, while servers and other infrastructure are generally depreciated over three years.

#### Goodwill amortisation

Goodwill is amortised over its estimated useful life. This requires the Directors to make an estimate of that useful life. The Directors have estimated the useful life of the £1.1 million of goodwill which arose on the acquisition of the goodwill and client list of William Hill Index in May 2001 to be five years. The Directors have estimated the useful life of the goodwill of £109.1 million which arose on the acquisition by the Company of IG Group in September 2003 as 20 years. Goodwill is reviewed by the Directors for impairment at the end of the first full financial year after it arises and then in each subsequent year and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### International Financial Reporting Standards

In June 2002, the Council of Ministers of the European Union approved a regulation (the “IFRS Regulation”) requiring all companies, which includes IG, that are governed by the laws of a member state of the European Union and whose securities are admitted to trading on a regulated market of any member state to prepare their consolidated financial statements in accordance with IFRS as adopted by the European Union. The IFRS Regulation is to be effective for each financial year starting on or after 1 January 2005. The Company will prepare its consolidated financial statements for financial year 2006 and its interim results for the six months ending 30 November 2005 in accordance with this regulation. The financial statements for financial year 2005 will be prepared using UK GAAP.

The International Accounting Standards Board (“IASB”) issued International Financial Reporting Standard 1 (“IFRS1”) on the first time adoption of International Accounting Standards on 19 June 2003. A narrative summary of IFRS Reconciliation is set out in Part VII of this document.

## RESULTS OF OPERATIONS

#### Number of clients

The Group’s turnover is determined to a significant extent by the number of clients dealing. This in turn is significantly influenced by the number of new client accounts opened and the number of those clients that commence dealing. The recruitment of new clients is offset, to a certain extent, by clients who cease trading. The Directors believe, however, that no individual client of the Group contributes more than 1.5 per cent of IG’s revenue. The table below shows the number of clients dealing in each period, the number of accounts opened and the number of clients dealing for the first time.

	Years ended		Six months ended		
	2002	31 May 2003	2004	30 November 2003	2004
Number of clients dealing for the first time					
Australia	—	361	652	273	587
binarybet.com™	—	—	1,136	321	936
Other	5,005	4,879	7,588	3,626	3,321
Total number of clients dealing for the first time	5,005	5,240	9,376	4,220	4,844
Number of accounts opened	6,644	7,736	15,992	6,952	8,371
Number of clients dealing	15,678	16,700	21,263	14,767	18,015

The introduction of online account opening in June 2003 — often involving an immediate online identity check for regulatory purposes — has, for the great majority of UK-resident clients made it significantly quicker to open accounts, as they are no longer required to send in documentary evidence of their identity.

The development of IG’s office in Australia, which commenced trading in July 2002, and the development of the binarybet.com™ web site, which commenced trading in October 2003, have also been significant factors in the rise in number of new clients trading. The table above analyses the number of clients dealing for the first time for these areas of the business and for the rest of the Group’s businesses.

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Client activity levels	Year ended 31 May			Six months ended 30 November	
	2002	2003	2004	2003	2004
Transactions opened <sup>(1)</sup>	960,112	1,082,704	1,517,735	643,217	894,297
Number of clients dealing	15,678	16,700	21,263	14,767	18,015
Average number of opening transactions per client	61	65	71	44	50
Average turnover per opening transaction	£35	£38	£33	£36	£33

(1) Refers to client transactions only.

The average number of opening transactions per client increased by 10 per cent between financial years 2003 and 2004 and by 14 per cent between the six months ended 30 November 2003 and 30 November 2004. The Directors believe that this represents, in part, a tendency for clients to deal more frequently when trading online, as well as an increase in the proportion of the client base which is leisure rather than investment oriented. The Directors believe that this shift in client mix accounts for the reduction in turnover per opening client transaction between financial years 2003 and 2004.

**Turnover**

Turnover represents profits and losses on transactions with clients, including commissions received and net of rebates paid to introducers, together with the net result of hedging client positions, commissions paid, settlement and clearing costs. Turnover includes unrealised profits and losses arising from marking open positions to fair market value.

Turnover is a metric used by the Directors to measure the overall size of the business. The table below presents the Group's aggregate turnover for the periods indicated. This analysis is by main business segment and reflects the main subdivision of turnover which the Directors utilise in assessing the overall progress of the business.

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Financials	26,288	34,118	40,895	18,573	23,113
Financial binaries	—	—	2,153	897	2,541
Sport	7,285	6,878	6,791	3,618	3,847
Total turnover	<u>33,573</u>	<u>40,996</u>	<u>49,839</u>	<u>23,088</u>	<u>29,501</u>

Further analysis for each of these main business segments is given below.

**Financials**

Financials is the largest of the Group's business segments and has demonstrated considerable growth with total turnover from Financials increasing by 30 per cent between financial year 2002 and financial year 2003. Further growth of 20 per cent was achieved in the subsequent financial year. The six months ended 30 November 2004 produced 24 per cent growth on the corresponding period in the prior year.

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The Directors utilise the following analysis of turnover to further evaluate the relative contribution to Financials turnover from products which relate to different underlying market types.

	Year ended			Six months ended	
	2002	31 May 2003	2004	30 November 2003	2004
	£'000	£'000	£'000	£'000	£'000
Equity indices	13,570	20,110	15,869	8,526	7,695
Equities	8,940	8,396	15,607	6,733	9,061
Currencies	3,413	4,078	9,177	3,026	4,532
Other	365	1,534	242	288	1,825
Total Financials turnover	<u>26,288</u>	<u>34,118</u>	<u>40,895</u>	<u>18,573</u>	<u>23,113</u>

Turnover from products related to equity indices represented 40 per cent of total Group turnover in financial year 2002, 49 per cent in financial year 2003 and 32 per cent in financial year 2004. This proportion fell further, to 26 per cent in the six months ended 30 November 2004. The Directors believe that the reduction in the proportion of total Group turnover which relates to equity indices is significant as they believe that this is the only element of the Group's turnover where client transaction volumes depend to any significant extent on the level of equity market volatility. The Directors believe, therefore, that the turnover of the Group is less dependent on equity market volatility than it was prior to financial year 2003. Turnover from equity indices increased by £6.5 million (48 per cent) from financial year 2002 to financial year 2003, decreased by £4.2 million (21 per cent) from financial year 2003 to financial year 2004 and decreased by £0.8 million (10 per cent) from the six months ended 30 November 2003 to the six months ended 30 November 2004. These changes reflect changing client sentiment possibly caused by decreasing market volatility and more clients speculating in currencies, gold and oil over recent months.

Turnover from products relating to individual equities has grown significantly since financial year 2003 with turnover increasing by 86 per cent between financial years 2003 and 2004. The Directors believe that the growth of the Group's CFD business has been a significant contributor to this growth. In particular, the Directors believe that strong growth in the Group's Australian CFD business and an increasing proportion of CFD turnover from market professionals such as stock brokers and other smaller financial institutions have been major factors in the growth of this aspect of the Group's business.

Turnover from currencies has grown significantly since financial year 2003 with turnover increasing by 125 per cent between financial year 2003 and financial year 2004 following a decision by IG to narrow its spreads on currency betting in April 2003. Turnover from currencies in financial year 2003 increased by 19 per cent from financial year 2002. The Directors consider the growth of spread betting on currencies to be the major contributor to this growth.

'Other' includes products relating to commodities, interest rates, house prices, metals and various other markets. Turnover from 'Other' in financial year 2003 increased by 320 per cent from financial year 2002 and decreased by 84 per cent in financial year 2004 from financial year 2003. The Directors believe that fluctuations in the turnover derived from products relating to house prices and fluctuations in the turnover from products relating to oil and other petrochemical markets have been the main contributors to the fluctuation in the turnover from 'Other'.

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**Binaries**

The Group introduced binary bets into its product range in May 2003, initially with just Financial binaries. Sports binaries, which are included within turnover from Sports, were introduced in September 2003. The turnover from binaries is summarised below:

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Financial	—	—	2,153	897	2,541
Sports	—	—	133	78	458
Total turnover from binaries	—	—	2,286	975	2,999

Turnover from binaries comprised 10 per cent of the Group's total turnover in the six months ended 30 November 2004 compared to 4 per cent in the corresponding period in the previous financial year and 5 per cent in financial year 2004. The Directors believe that the ongoing development of new binary products, together with the sophistication of the Group's pricing technology, have been significant factors in the continuing growth of binary bets since the product's introduction. The launch of a dedicated brand and website, binarybet.com™, in October 2003 has, in the opinion of the Directors, further contributed to the growth of binary betting.

**Sports**

The Group's Sports department offers both spread betting and binary betting using shared pricing tools and a common trading platform. Sports turnover is analysed below. This analysis includes turnover from Sports binary bets which are also included in the analysis of total turnover from binary betting shown above.

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Spread bets	7,285	6,878	6,658	3,540	3,389
Binary bets	—	—	133	78	458
Total Sports turnover	7,285	6,878	6,791	3,618	3,847

The Directors consider that additional turnover derived from spread betting on the football World Cup was a significant factor in the turnover for financial year 2002 being higher than that for the subsequent year.

**Turnover by office**

Turnover by office is used by the Directors to assess the relative performance of the Group's two offices and, in particular, the development of IG's Australian office.

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
London	33,573	40,527	48,412	22,596	27,660
Australia	—	469	1,427	492	1,841
Total Group turnover	33,573	40,996	49,839	23,088	29,501

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Turnover from the Group's London office grew by 21 per cent between financial years 2002 and 2003 and by 19 per cent between financial years 2003 and 2004. Turnover for the London office was 22 per cent higher in the six months ended 30 November 2004 than in the corresponding period of the previous year.

The Group's Australian office commenced trading in July 2002 and achieved turnover of £0.5 million in the period from commencement of trade to 31 May 2003. Turnover for the Australian office increased by 204 per cent in the subsequent full financial year. Turnover in the six months ended 30 November 2004 was 274 per cent higher than in the corresponding period of the previous year. The Directors believe that after an initial period of steady growth, the Australian operation has seen more rapid growth over the 18 months to 30 November 2004 as the Group's products have gained more widespread acceptance in Australia.

**Variability of revenue**

The Directors use the "coefficient of variability" of the Group's daily revenue as a measure of its variability. The coefficient of variability is calculated by the Group as the 60 day standard deviation of the daily trading revenue divided by the 60 day mean daily trading revenue. The value of the coefficient of variability at the end of each period was:

	As at 31 May			As at 30 November	
	2002	2003	2004	2003	2004
60 day coefficient of variability at end of period	1.46	0.88	0.75	0.67	0.49

The reduction in coefficient of variability is considered by the Directors to be attributable partly to a reduction of certain limits which the Group places on its net position in liquid financial markets and partly due to a change in product mix. In particular, the proportion of the Group's revenue which arises from transactions relating to equity indices has decreased significantly and there has been an increase in the proportion of the business from currencies, shares and certain commodities. The introduction of binary bets in May 2003 has also further diversified the Group's product range. The coefficient of variability may also be influenced to some extent by changes in levels of market volatility, although the Directors believe that the reduction in the proportion of the business relating to equity indices has reduced the impact of changes in equity market volatility.

**Cost of sales**

Cost of sales comprises UK general betting duty. The amounts payable were:

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Cost of sales	1,050	1,958	1,879	793	1,366

With effect from 6 October 2001, the basis of calculation of UK general betting duty was changed. This change applied to bets opened on or after that date, but did not apply to bets which were opened prior to that date. Prior to this change, general betting duty was calculated as 6.75 per cent of the unit stake. Subsequent to this change, general betting duty is calculated on aggregate client losses at rates of 3 per cent on financial spread betting, 10 per cent on all other spread betting and 15 per cent on fixed odds betting, which includes binary betting. This change of regime is the main contributory factor to the 86 per cent increase in cost of sales between financial years 2002 and 2003. The method of calculating general betting duty on aggregate client losses, with no allowance for the cost of hedging, means that the level of duty paid is significantly affected by the level of client profitability, whereas the Group's turnover from Financials is largely unaffected by the level of client profitability. Accordingly, the Directors believe that there is only a weak correlation between the level of the Group's turnover on Financials and the level of duty that it pays and that this explains the fall in duty in financial year 2004, despite a significant increase in turnover.

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**Overheads**

The Group's overheads are as follows:

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Salaries	9,504	11,181	11,538	5,713	6,196
Bonuses	1,917	2,698	5,081	2,129	2,307
Amortisation of goodwill	220	220	4,241	1,392	2,840
Depreciation of owned assets	1,556	2,475	3,305	1,597	1,899
Other overheads	7,945	9,329	8,457	3,897	5,106
Total administrative costs excluding exceptional items	21,142	25,903	32,622	14,728	18,348
Exceptional items	—	180	267	—	—
Total administrative costs	21,142	26,083	32,889	14,728	18,348
Staff costs as a percentage of total administrative costs excluding exceptional items	54%	54%	51%	53%	46%
Staff costs as a percentage of turnover	34%	34%	33%	34%	29%
Total administrative costs excluding exceptional items and goodwill amortisation as a percentage of turnover	62%	63%	57%	58%	53%

Salaries increased by 18 per cent between financial years 2002 and 2003. The main contributor to this increase was an increase in IT staff. Salaries increased by only 3 per cent in financial year 2004, reflecting a small increase in headcount between these years, together with some changes in staff and an improvement in pay.

Bonuses are linked to levels of profitability and, in certain cases, to rates of profit growth. The changes in levels of bonus between the years reflect the varying levels of profitability and profit growth. In particular, bonuses in financial year 2004 were significantly higher than in the previous year because the Group achieved 46 per cent growth in EBITDA, compared to 18 per cent growth in financial year 2003.

Amortisation of goodwill of £220,000 per annum relates to the acquisition of the goodwill and client list of William Hill Index in May 2001. This goodwill is being amortised over five years. The remaining goodwill relates to the acquisition by the Company of IG Group in September 2003. This goodwill is being amortised over 20 years.

Depreciation increased by 59 per cent between financial year 2002 and financial year 2003 and by 34 per cent in financial year 2004. These increases reflect the significant expenditure incurred by the Group on its IT systems.

The most significant constituents of other overheads are the cost of market price data and the cost of advertising.

The exceptional item charged in financial year 2003 relates to the professional fees incurred by the Group as a result of a group of shareholders, holding in aggregate substantially more than 30 per cent of the issued share capital, seeking a buyer for their shares.

The exceptional item charged in financial year 2004 relates to the professional fees incurred as a result of a restructuring of the Group and fees associated with Directors' employment and service contracts.

The Directors consider the business to be scaleable, particularly since the introduction of the current Internet platform in 2003. Excluding bonuses, which are linked to profitability, amortisation and exceptional items, overheads increased by 21 per cent between financial years 2002 and 2003, largely as a result of increased expenditure relating to IT. This increase was slightly below the increase in turnover of 22 per cent. Between

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financial years 2003 and 2004 overheads excluding bonuses, amortisation and exceptional items increased by only 1 per cent compared to an increase in turnover of 22 per cent. After the impact of bonuses, administrative costs excluding exceptional items and goodwill amortisation fell from 63 per cent of turnover in financial year 2003 to 57 per cent in financial year 2004, with a further reduction to 53 per cent in the six months ended 30 November 2004.

#### EBITDA

EBITDA represents earnings before exceptional items, depreciation, amortisation, taxation, interest payable on the Group's indebtedness and interest receivable on corporate cash balances and includes interest receivable by the Group on clients' money net of interest payable to clients. The following is a reconciliation of the Group's operating profit to EBITDA for the financial period:

	Year ended 31 May			Six months ended 30 November	
	2002 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000
Operating profit	11,381	12,955	15,071	7,567	9,787
Depreciation	1,556	2,475	3,305	1,597	1,899
Amortisation	220	220	4,241	1,392	2,840
Interest on clients' money	1,471	1,358	2,244	950	1,584
Exceptional items	—	180	267	—	—
EBITDA <sup>(1)</sup>	<u>14,628</u>	<u>17,188</u>	<u>25,128</u>	<u>11,506</u>	<u>16,110</u>
EBITDA margin <sup>(2)</sup>	<u>44%</u>	<u>42%</u>	<u>50%</u>	<u>50%</u>	<u>55%</u>

(1) Because not all companies calculate EBITDA identically, this presentation of EBITDA may not be comparable to other similarly titled measures of other companies.

(2) EBITDA margin is calculated by dividing EBITDA by total turnover.

EBITDA is the main metric used by the Directors to assess the profitability of the business. EBITDA is stated after interest on clients' money, which is the net of interest received on funds held in respect of client balances and interest paid to clients. The Directors consider interest on clients' money to be an important constituent of the operating profits of the business as it has historically grown as turnover has grown. EBITDA is before all other interest received and paid and before exceptional items, depreciation and amortisation of goodwill. Interest paid and goodwill amortisation both increased substantially following the acquisition in September 2003 of IG Group by the Company.

EBITDA increased by 18 per cent between financial years 2002 and 2003 and then by 46 per cent in financial year 2004. Further strong growth in EBITDA was achieved in the six months ended 30 November 2004, with an increase of 40 per cent over the corresponding period in the prior year.

EBITDA margin is EBITDA expressed as a percentage of turnover. The Directors believe that the fall in EBITDA margin between financial years 2002 and 2003 is largely attributable to the increase in the Group's overheads, particularly in relation to the increase in salaries, data costs and marketing which occurred between those two years, together with a reduction in interest on clients' money due to falling interest rates. Subsequent to this, overheads have grown at a slower rate than turnover and the Directors consider this to be the most significant factor which lead to the increase in EBITDA in financial year 2004 and the subsequent further increase in the six months ended 30 November 2004.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Liquidity

The Directors consider the Group to be strongly cash generative. It had net cash inflow from operating activities of £14.0 million in financial year 2002, £20.6 million in financial year 2003 and £21.4 million in financial year 2004. This is after the impact of movements in working capital which gave rise to net cash inflows of £0.9 million in financial year 2002 and £4.8 million in financial year 2003 and a net cash outflow

## **Part V**

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of £5.0 million in financial year 2004. The principal components of working capital are broker debtors and client creditors. Broker debtors represent amounts paid to market counterparties with which the Group hedges certain of its exposures in respect of liquid financial markets. Client creditors represent amounts held for clients whose accounts are not required to be segregated in accordance with the FSA Rules. This principally includes the majority of the Group's CFD clients. At 30 November 2004, the Group had broker debtors of £41.1 million and client creditors of £26.7 million.

In financial year 2004, £20.9 million of the Group's net cashflow from operating activities were applied to the purchase of IG Group and the payment of associated debt issue costs. The remainder of the purchase costs and associated costs of £151.2 million in aggregate were met by the issue of ordinary and preference shares and by the drawing of loans. Further detail of these loans is set out under capital resources below and in "Material Contracts" in Part XI (Additional Information) of this document.

The Group had interest receivable of £2.2 million in financial year 2002, £2.5 million in financial year 2003 and £3.6 million in financial year 2004. This is principally the interest on segregated clients' money. Segregated clients' money held and the corresponding liability to clients are not included in the balance sheet. At 30 November 2004, the Group had segregated clients' money of £93.5 million. The Group is not able to utilise segregated clients' money for its own purposes.

The Group paid interest of £0.2 million in both financial years ended 2002 and 2003. Interest paid increased substantially to £10.8 million in financial year 2004. This increase reflects the loans which the Company drew at the time of the acquisition of IG Group.

The Group purchased tangible fixed assets of £5.2 million in financial year 2002, £3.5 million in financial year 2003 and £2.6 million in financial year 2004. This expenditure primarily relates to the initial development and subsequent enhancements to the Group's online trading platforms, as well as expenditure intended by the Directors to enhance resilience and the ability of the Group to continue to trade in the event of being excluded from, or the destruction of, its main office building.

Cash from operating activities was used to pay corporation tax of £5.3 million in financial year 2002, £4.6 million in financial year 2003 and £4.1 million in financial year 2004.

Cash from operating activities was used to pay dividends of £2.2 million in financial year 2002 and £3.1 million in financial year 2003. No further dividends have been paid subsequently.

In the opinion of the Company, taking account of the net proceeds receivable by the Company of the Global Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of publication of this document.

This statement of sufficiency of working capital is made on the assumption that the net proceeds raised by the Company in the Global Offer will be approximately £124 million based on the price of 112p per Ordinary Share, the bottom end of the Indicative Offer Price Range. To the extent that the net proceeds raised by the Company in the Global Offer are less than approximately £124 million, a revised unqualified working capital statement will be provided in a supplementary prospectus if the Global Offer is to proceed.

#### **Capital resources**

At 30 November 2004, the Group had cash at bank of £28.7 million. The Group has an overdraft facility of £12 million which is intended primarily to provide liquidity in the event of a significant fall in global equity markets. In addition, the Group has two CREST settlement facilities totalling £13 million in aggregate which are required to facilitate the settlement of UK equities. These facilities terminate automatically on Admission. The Group has arranged for a £12 million revolving credit facility with overdraft option and access to payment systems, together with CREST settlement facilities of £13 million, with the Bank of Scotland which will be available with effect from the repayment of the Group's existing facilities (as described in paragraph 12 of Part XI (Additional Information) of this document).



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At 30 November 2004, the Group had loans as follows:

	<b>30 November 2004 £'000</b>
Amounts falling due:	
— in less than one year (subordinated)	4,400
— in more than one year but not more than two years (subordinated)	4,400
— in more than two years but not more than five years (subordinated)	16,600
— in more than five years (subordinated)	75,294
— in more than five years (secured)	1,000
	<hr/>
	101,694
Amounts held in the ESOT	(5)
Accrued interest	2,962
	<hr/>
	104,651
Less: Issue costs	(1,014)
	<hr/>
Total loans	<u>103,637</u>

These loans were drawn principally at the time of the acquisition of IG Group by the Company. The Directors intend to utilise certain of the net proceeds of the Global Offer raised by the Company, together with existing surplus cash, to repay these loans in full at the time of Admission.

At 30 November 2004, the Company had an issued share capital of £10,000 of A ordinary shares, £35,700,000 of Preference Shares and 65p of B ordinary shares. The Directors intend to utilise certain of the net proceeds of the Global Offer, together with existing surplus cash, to redeem the Preference Shares.

Two of the Group's subsidiaries, IG Index and IG Markets are regulated by the FSA. The rules of the FSA require each of these companies to maintain adequate regulatory capital at all times. The Group is also subject to consolidated supervision by the FSA and is required to maintain sufficient regulatory capital for the Group as a whole. At an individual company level, the main constituents of the regulatory capital requirement are position risk requirement and counterparty risk requirement which are measures of market risk and credit risk respectively. At a consolidated level, the Group has an additional requirement for regulatory capital equal to its goodwill. The Group's Ordinary Shares, Preference Shares, reserves and subordinated loans all constitute regulatory capital.

**Off balance sheet arrangements**

As noted above, segregated clients' money and the corresponding liability to clients are not included in the balance sheet. The Group has no other off balance sheet arrangements.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market risk**

The Group's Financials business largely relates to offering clients opportunities to speculate in products which relate to a liquid underlying market. The Group has a formal written hedging policy which sets limits to the net exposure that the Group will have to any liquid market and also to groups of products or markets which the Directors believe may be correlated. The Group has IT systems which enable it to monitor its exposure to markets and groups of markets in real time. When the Group exceeds an exposure limit, the policy requires that sufficient hedging is undertaken by trading in an appropriate underlying market in order to bring the Group back within the limit. Not all client transactions are hedged and as a result the Group may have a net position in any of the markets on which it offers products.

The most significant markets in which the Group trades relate to equities and currencies. In the case of equities, the Group sets limits for each individual equity, for certain industrial sectors, for countries or economic regions and an overall limit to global stock market exposure. The limit which IG sets to its aggregate exposure to all global stocks and stock markets is £12.5 million. Historically, this global limit has

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been as high as £20 million but has been reduced to £12.5 million, a limit which has now been in place for more than two years. Certain other limits have also been reduced progressively over the last two years. For example, the maximum exposure the Group will run on the shares of the largest UK companies has been reduced from £2.5 million to £1 million. In the case of currencies, the Group sets a limit to its exposure to each currency. In the case of major currencies, these limits are currently US\$20 million. All of the Group's currency risk, other than that arising from its loans, is included in this risk management process.

In the case of products which relate to an illiquid underlying market or where there is no equivalent underlying market it may be difficult or impossible to hedge. In these markets the Group does not set an absolute limit to the level of risk that it will run. However, the Group may be able to restrict the size of its position by moving its price, or if considered necessary, by restricting the size of client transactions or by preventing clients from opening further positions.

The Group monitors the variability of its revenue by calculating the coefficient of variability, described in more detail above.

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

#### **Credit risk**

The Group has potential credit risk arising from its exposure to clients, market counterparties with which it hedges and banks.

The Group offers its clients a range of alternative types of account. The majority of clients have an account type for which the Group takes no credit risk. On these accounts, all transactions must have a guaranteed stop or otherwise be of strictly limited risk so that the maximum loss which the client can suffer is known, and the client must have sufficient funds on the account to cover this potential loss. A smaller number of clients are offered one of a number of account types where the Group accepts some level of credit risk. The Group has a written credit policy and the account type and various limits which restrict the maximum credit exposure to the client are determined in accordance with that policy.

Accounts opened online can only be of the two lowest credit risk types. Since the introduction of online account opening, there has been a progressive reduction in the proportion of active clients who have the account types which expose the Group to significant credit risk and the Directors believe that this progressive reduction will continue.

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.

#### **Interest rate risk**

The Group has exposure to interest rate risk on its loans and on cash and interest earning broker balances. At 30 November 2004 the Group had total cash of £122.2 million, of which £93.5 million was segregated clients' money. Certain of the Group's clients are paid interest on their balances with the Group. At 30 November 2004, the Group had loans of £80 million which bear interest at variable rates and loans of £21.7 million which bear interest at fixed rates. The Directors consider that the interest rate risks from these assets and liabilities are broadly offsetting and accordingly no hedging of this risk is undertaken. Following Admission, the repayment of the Group's loans will increase the Group's interest rate risk.

#### **Exchange rate risk**

The Group's exchange rate risk in respect of client and trading activity is described above under "Market Risk". In addition, the Group has loans of £25.8 million which are denominated in Euros. The Group has entered into a currency basis swap which eliminates its exchange rate risk in respect of this debt. These loans will be repaid and the currency basis swap terminated simultaneously on Admission.

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**Effects of inflation**

The Directors do not believe that inflation has had a material effect on the Group's operating results.

**Other risks**

For a discussion of regulatory, legal, operational and other risks faced by the Group, please refer to Part III (Risk Factors) and Part IV (Regulatory Environment) of this document.

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## Part VI

# Accountants' Report on the Group



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

13 April 2005

The Directors  
IG Group Holdings plc  
Friars House  
157 – 168 Blackfriars Road  
London SE1 8EZ

UBS Limited  
1 Finsbury Avenue  
London EC2M 2PP

Dear Sirs

### **IG Group Holdings plc**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 13 April 2005 (“the Prospectus”) of IG Group Holdings plc (“the Company”).

The Company was incorporated in England and Wales on 25 February 2003 as a private limited company, DMWSL 404 plc and on 22 July 2003 changed its name to IG Group Holdings Limited. On 5 September 2003, the Company acquired IG Group Limited (formerly IG Group plc).

On 31 March 2005 the Company re-registered as a public limited company and changed its name to IG Group Holdings plc.

IG Group Limited and its subsidiaries, and subsequent to 5 September 2003, the Company and its subsidiaries are referred to as the “Group”, as appropriate.

#### **Basis of preparation**

The financial information set out below is based on the audited consolidated statutory financial statements of IG Group plc for the two years ended 31 May 2002 and 2003, the audited consolidated statutory financial statements of IG Group Holdings Limited for the period ended 31 May 2004 and the audited consolidated non-statutory financial statements of IG Group Holdings Limited for the six months ended 30 November 2004 (including the comparatives for the six months ended 30 November 2003), after making such adjustments as we considered necessary.

The audited consolidated statutory financial statements of IG Group Holdings Limited for the period ended 31 May 2004 reflect the results of the Group from the date of acquisition of IG Group Limited (5 September 2003) until 31 May 2004.

The financial information as included in the Prospectus presents the results of IG Group Holdings plc from the date of acquisition of IG Group Limited (5 September 2003) and the results of IG Group Limited from 1 June 2001 to 4 September 2003.

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**Accountants' Report on the Group**

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**Responsibility**

Such financial information is the responsibility of the Directors of the Company, who approved its issue.

The Directors of the Company are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

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**Accountants' Report on the Group**

**Group profit and loss accounts**

	Notes	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Turnover	2	33,573	40,996	49,839	29,501
Cost of sales		(1,050)	(1,958)	(1,879)	(1,366)
<b>Gross profit</b>		<u>32,523</u>	<u>39,038</u>	<u>47,960</u>	<u>28,135</u>
Administrative expenses excluding exceptional costs		(21,142)	(25,903)	(32,622)	(18,348)
Exceptional items	4	—	(180)	(267)	—
		<u>(21,142)</u>	<u>(26,083)</u>	<u>(32,889)</u>	<u>(18,348)</u>
<b>Operating profit</b>	3	<u>11,381</u>	<u>12,955</u>	<u>15,071</u>	<u>9,787</u>
Interest receivable		2,185	2,541	3,631	2,439
Interest payable	7	(191)	(215)	(10,782)	(6,892)
<b>Profit on ordinary activities before taxation</b>		<u>13,375</u>	<u>15,281</u>	<u>7,920</u>	<u>5,334</u>
Tax charge on profit on ordinary activities	8	(4,305)	(4,996)	(1,992)	(475)
<b>Profit on ordinary activities after taxation</b>		<u>9,070</u>	<u>10,285</u>	<u>5,928</u>	<u>4,859</u>
Minority interests — equity		69	123	30	56
<b>Profit attributable to members of the parent company</b>		<u>9,139</u>	<u>10,408</u>	<u>5,958</u>	<u>4,915</u>
Dividends	9	(2,751)	(3,653)	—	—
<b>Retained profit for the year</b>		<u><u>6,388</u></u>	<u><u>6,755</u></u>	<u><u>5,958</u></u>	<u><u>4,915</u></u>
<b>Earnings per share</b>					
— Basic	10	£9.16	£10.43	£5.97	£4.93
— Diluted	10	£9.16	£10.43	£5.97	£4.93

There were no recognised gains or losses other than the profit for the financial periods.

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**Accountants' Report on the Group**

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**Group reconciliation of shareholders' funds**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Profit for the financial period	9,139	10,408	5,958	4,915
Dividends	(2,751)	(3,653)	—	—
	<u>6,388</u>	<u>6,755</u>	<u>5,958</u>	<u>4,915</u>
Issue of ordinary share capital	252	194	10	—
Issue of preference share capital	—	—	35,700	—
Issue costs of preference share capital	—	—	(792)	—
Amortisation of preference share capital issue costs	—	—	311	305
Purchase of preference share capital by Employee Benefit Trust	—	—	—	(8)
Shareholders' funds at date of acquisition	—	—	(38,971)	—
	<u>6,640</u>	<u>6,949</u>	<u>2,216</u>	<u>5,212</u>
Net addition to shareholders' funds	6,640	6,949	2,216	5,212
Opening shareholders' funds	22,530	29,169	36,118	38,334
	<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>
Closing shareholders' funds	29,170	36,118	38,334	43,546

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**Accountants' Report on the Group**

**Group balance sheets**

	Notes	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Fixed assets</b>					
Intangible assets	11	866	646	105,541	102,588
Tangible assets	12	6,303	7,131	6,347	5,353
Investments	13	7	2	2	—
		<u>7,176</u>	<u>7,779</u>	<u>111,890</u>	<u>107,941</u>
<b>Current assets</b>					
Debtors	14	19,928	18,315	35,618	45,693
Cash at bank and in hand		23,540	35,552	23,076	28,703
		<u>43,468</u>	<u>53,867</u>	<u>58,694</u>	<u>74,396</u>
Creditors: amounts falling due within one year	15	21,500	25,675	31,303	39,777
		<u>21,968</u>	<u>28,192</u>	<u>27,391</u>	<u>34,619</u>
<b>Net current assets</b>		<u>21,968</u>	<u>28,192</u>	<u>27,391</u>	<u>34,619</u>
<b>Total assets less current liabilities</b>		<u>29,144</u>	<u>35,971</u>	<u>139,281</u>	<u>142,560</u>
Creditors: amounts falling due after more than one year	16	—	—	101,113	99,237
Minority interests — equity		26	147	166	223
		<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>
<b>Capital and reserves</b>					
Ordinary share capital	18	5,489	5,592	10	10
Preference share capital	18	—	—	35,220	35,517
Share premium account	19	1,379	1,469	—	—
Merger reserve	19	(4,360)	(4,360)	—	—
Profit and loss account	19	26,662	33,417	3,104	8,019
		<u>29,170</u>	<u>36,118</u>	<u>3,114</u>	<u>8,029</u>
<b>Shareholders' funds:</b>		<u>29,170</u>	<u>36,118</u>	<u>3,114</u>	<u>8,029</u>
Equity		29,170	36,118	3,114	8,029
Non-Equity		—	—	35,220	35,517
		<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>
<b>Total shareholders' funds</b>		<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>



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**Accountants' Report on the Group**

**Group statements of cash flow**

	Notes	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Net cash inflow from operating activities	20(a)	14,036	20,589	21,373	8,930
<b>Returns on investments and servicing of finance</b>					
Interest received		2,185	2,541	3,765	2,373
Interest paid		(191)	(215)	(9,979)	(3,888)
Issue costs of new long term finance		—	—	(6,544)	—
		<u>1,994</u>	<u>2,326</u>	<u>(12,758)</u>	<u>(1,515)</u>
<b>Taxation</b>					
Corporation tax paid		(5,324)	(4,579)	(4,137)	(606)
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets		(5,195)	(3,464)	(2,564)	(943)
Receipts from sales of fixed assets		34	—	3	—
Receipts from redemption of investments		4	5	—	42
		<u>(5,157)</u>	<u>(3,459)</u>	<u>(2,561)</u>	<u>(901)</u>
<b>Equity dividends paid</b>		<u>(2,154)</u>	<u>(3,058)</u>	<u>—</u>	<u>—</u>
<b>Management of liquid resources</b>					
Sale of treasury bills		3,328	—	—	—
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertaking		—	—	(151,229)	—
<b>Financing</b>					
Loans advanced		—	—	116,256	—
Loans repaid		—	—	(15,700)	—
Loan notes issued		—	—	1,138	—
Loan notes repaid		—	—	(568)	(281)
Issue of ordinary shares		252	193	10	—
Issue of preference shares		—	—	35,700	—
		<u>252</u>	<u>193</u>	<u>136,836</u>	<u>(281)</u>
<b>Increase/(decrease) in cash</b>		<u>6,975</u>	<u>12,012</u>	<u>(12,476)</u>	<u>5,627</u>

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**Accountants' Report on the Group**

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**Reconciliations of net cash flow to movement in net debt**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
	<b>Notes</b>			
Increase/(decrease) in cash	6,975	12,012	(12,476)	5,627
Cash inflow from sale of treasury bills	(3,328)	—	—	—
Cash inflow from increase in loans	—	—	(117,394)	—
Repayment of short term loans	—	—	15,700	—
Interest accrued but not paid	—	—	(1,765)	(1,197)
Issue costs of new long term loans	—	—	2,346	(1,327)
Net cash (inflow)/outflow from loan notes	—	—	(570)	281
Movement in net funds/(debt)	3,647	12,012	(114,159)	3,384
Opening net funds/(debt)	19,893	23,540	35,552	(78,607)
Closing net funds/(debt)	20(b) 23,540	35,552	(78,607)	(75,223)

Net funds/(debt) include cash at bank and in hand, treasury bills, bank loans and loan notes.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 ACCOUNTING POLICIES**

#### **Accounting convention**

The financial statements are prepared under the historical cost convention, modified for the revaluation of bets and derivative transactions, and in accordance with applicable UK accounting standards.

#### **Basis of consolidation**

IG Group plc was incorporated on 1 June 2000 and on 9 June 2000 it acquired the entire issued share capital of IG Index plc in exchange for the issue of shares in IG Group plc. This group reconstruction was accounted for using merger accounting.

IG Group Holdings plc was incorporated on 25 February 2003 and between 5 September 2003 and 20 November 2003 acquired the entire issued share capital of IG Group Limited (formerly IG Group plc).

The financial information presents the results of IG Group Holdings plc from the date of acquisition of IG Group Limited (5 September 2003) and the results of IG Group Limited from 1 June 2001 to 4 September 2003.

Investments in IG Australia Pty Limited and ITS Market Solutions Limited have given rise to a minority interest in the profit and loss account and the balance sheet.

#### **Depreciation**

Fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Leasehold improvements	over the lease term
Fixtures and fittings	over 5 years
Motor vehicles	over 4 years
Computer equipment	over 2 or 3 years
Telephone equipment	over 3 years
Uninterruptible power supply and generator	over 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **Goodwill**

The goodwill arising on the purchase of IG Group Limited has been capitalised and is being amortised over the estimated useful life of 20 years.

The goodwill arising on the purchase of the goodwill and trade of William Hill Index has been capitalised and is being amortised over the estimated useful life of 5 years.

Goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **Fixed asset investments**

Fixed asset 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.

## **Part VI**

### **Accountants' Report on the Group**

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#### **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 tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged only where the replacement assets are sold;
- 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 at 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.

#### **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 profit and loss account.

#### **Derivative instruments**

The group uses derivative transactions with brokers in order to hedge exposures resulting from derivative transactions placed by clients. These are explained in note 24.

#### **Bets and derivative financial instruments**

Bets and derivative financial instruments are carried at fair market value and the resultant profits and losses are included in turnover. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients and brokers, reduced by the effect of other assets or liabilities with a counterparty where a qualifying netting agreement is in place. Fair value is determined by reference to third party market values or, in the case of sports bets and other bets where there is no underlying market, to the group's quote 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 year end settlement prices.

#### **Pensions**

The group operates defined contribution schemes. Contributions are charged in the profit and loss account as they become payable and in accordance with the rules of schemes.

#### **Operating leases**

Rentals payable in respect of operating leases are charged in the profit and loss account on a straight line basis over the term of the lease.

#### **Capital instruments**

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the expected term of the instrument at a constant rate on the carrying amount.

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**2 TURNOVER**

Turnover represents profits and losses on the running of a betting market in commodities, financial futures, traded options, stock indices and individual shares and a wide range of sporting events, and trading in foreign exchange and contracts for differences together with the net result of hedging client positions, less commissions paid.

**Business segments**

The group operates in three principal areas of activity: Financial, Financial binaries and Sports.

The types of financial instrument included within each of the above categories are:

**Financial**

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

**Financial binaries**

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

**Sports**

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

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
<b>Turnover</b>				
Financial	26,288	34,118	40,895	23,113
Financial binaries	—	—	2,153	2,541
Sports	7,285	6,878	6,791	3,847
	<u>33,573</u>	<u>40,996</u>	<u>49,839</u>	<u>29,501</u>

Turnover for the Financial and Sports business segments is further analysed as follows:

**Financials**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Equity indices	13,570	20,110	15,869	7,695
Equities	8,940	8,396	15,607	9,061
Currencies	3,413	4,078	9,177	4,532
Other	365	1,534	242	1,825
	<u>26,288</u>	<u>34,118</u>	<u>40,895</u>	<u>23,113</u>

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**Sports**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Spread bets	7,285	6,878	6,658	3,389
Binary bets	—	—	133	458
	<u>7,285</u>	<u>6,878</u>	<u>6,791</u>	<u>3,847</u>

**Profit**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
<i>Segment profit</i>				
Financial	19,525	24,188	31,121	17,457
Financial binaries	—	—	1,419	1,770
Sports	<u>2,109</u>	<u>1,401</u>	<u>1,449</u>	<u>684</u>
	21,634	25,589	33,989	19,911
Common costs	<u>(8,259)</u>	<u>(10,308)</u>	<u>(26,069)</u>	<u>(14,577)</u>
Profit before taxation	<u>13,375</u>	<u>15,281</u>	<u>7,920</u>	<u>5,334</u>

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Net assets</b>				
Financial	803	(335)	11,943	13,450
Financial binaries	—	—	(367)	(643)
Sports	<u>1,256</u>	<u>1,445</u>	<u>372</u>	<u>440</u>
	2,059	1,110	11,948	13,247
Unallocated net assets	<u>27,111</u>	<u>35,008</u>	<u>26,386</u>	<u>30,299</u>
	<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>

Unallocated net assets comprise the following items which do not relate to specific business segments:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Goodwill	—	—	105,114	102,272
Tangible fixed assets	1,671	2,633	1,378	1,298
Fixed asset investments	7	2	2	—
Debtors and prepayments	1,179	1,341	1,761	2,120
Cash	23,540	35,552	22,416	28,087
Creditor balances	(1,803)	(3,497)	(7,402)	(5,058)
Dividends	(1,921)	(2,516)	—	—
Corporation tax	4,414	1,346	4,064	4,994
Minority interests	24	147	166	223
Loans	—	—	(101,113)	(103,637)
	<u>27,111</u>	<u>35,008</u>	<u>26,386</u>	<u>30,299</u>

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**Geographical Segments**

The group has offices in the United Kingdom and in Australia. 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 London office may be situated anywhere in the world other than in Australia. Accordingly the group provides a geographical analysis based on the division of clients between the United Kingdom and Australian offices.

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
<b>Turnover</b>				
United Kingdom	33,573	40,527	48,412	27,660
Australia	—	469	1,427	1,841
	<u>33,573</u>	<u>40,996</u>	<u>49,839</u>	<u>29,501</u>

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
<b>Profit</b>				
<i>Segment profit</i>				
United Kingdom	13,694	15,961	22,240	13,599
Australia	(140)	(680)	249	922
	<u>13,554</u>	<u>15,281</u>	<u>22,489</u>	<u>14,521</u>
Common costs	(179)	—	(14,569)	(9,187)
Profit before taxation	<u>13,375</u>	<u>15,281</u>	<u>7,920</u>	<u>5,334</u>

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Net assets</b>				
United Kingdom	31,016	38,020	33,655	41,363
Australia	75	614	1,178	3,548
	<u>31,091</u>	<u>38,634</u>	<u>34,833</u>	<u>44,911</u>
Unallocated net assets	(1,921)	(2,516)	3,501	(1,365)
	<u>29,170</u>	<u>36,118</u>	<u>38,334</u>	<u>43,546</u>

Unallocated net assets comprise the following items which do not relate to specific geographical segments:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Goodwill	—	—	105,114	102,272
Dividends	(1,921)	(2,516)	—	—
Loans	—	—	(101,613)	(103,637)
	<u>(1,921)</u>	<u>(2,516)</u>	<u>3,501</u>	<u>(1,365)</u>

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**3 OPERATING PROFIT**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
This is stated after charging:				
Amortisation of goodwill	220	220	4,240	2,840
Depreciation of owned assets	1,556	2,475	3,305	1,899
Operating lease rentals for land and buildings	521	679	969	497
Foreign exchange differences	137	(220)	(808)	702
Loss/(profit) on sale of tangible fixed assets	—	161	26	(40)
Auditors' remuneration — audit services	111	102	106	78
— non-audit services	43	36	36	66
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**4 EXCEPTIONAL ITEMS**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Exceptional items	—	180	267	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The exceptional item charged in the year ended 31 May 2003 relates to the professional fees incurred by the group as a result of a group of shareholders, holding in aggregate more than 30% of the issued share capital, seeking a buyer for their shares.

The exceptional item charged in the year ended 31 May 2004 relates to the professional fees incurred as a result of a restructuring of the group and fees associated with directors' employment and service contracts.

Total administrative expenses were for the year ended 31 May 2002 — £21.1 million, year ended 31 May 2003 — £26.1 million, year ended 31 May 2004 — £32.9 million, six months ended 30 November 2004 — £18.3m.

**5 STAFF COSTS**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Wages and salaries	9,702	12,017	14,277	7,213
Social security costs	997	1,283	1,755	868
Other pension costs (note 22)	722	579	587	422
	<u>11,421</u>	<u>13,879</u>	<u>16,619</u>	<u>8,503</u>



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Wages and salaries include the following amounts in respect of performance related bonuses:

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Performance related bonuses	<u>1,917</u>	<u>2,698</u>	<u>5,081</u>	<u>2,307</u>

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

	Year ended 31 May 2002 No.	Year ended 31 May 2003 No.	Year ended 31 May 2004 No.	Six months ended 30 November 2004 No.
Dealing, sales and client support	124	155	158	168
Management and administration	<u>76</u>	<u>88</u>	<u>85</u>	<u>89</u>
	<u>200</u>	<u>243</u>	<u>243</u>	<u>257</u>

**6 DIRECTORS' EMOLUMENTS**

The remuneration of directors who held office was as follows:

**Year ended 31 May 2002**

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contributions £000	Total £000
Executive directors:					
J S Wheeler	—	22	—	170	192
N B le Roux	149	16	39	9	213
T A Howkins	102	1	41	14	158
T J E Brereton	<u>113</u>	<u>—</u>	<u>78</u>	<u>9</u>	<u>200</u>
	364	39	158	202	763
Non executive directors:					
C M J Whittington	22	—	—	—	22
R J Butler	18	—	—	—	18
T P A Norman	<u>18</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18</u>
	<u>422</u>	<u>39</u>	<u>158</u>	<u>202</u>	<u>821</u>

There was no compensation for loss of office paid during the year.

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**Year ended 31 May 2003**

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contributions £000	Total £000
Executive directors:					
N B le Roux	171	2	132	15	320
T A Howkins	125	1	100	19	245
P G Hetherington	112	—	90	13	215
	<u>408</u>	<u>3</u>	<u>322</u>	<u>47</u>	<u>780</u>
Non executive directors:					
J S Wheeler	—	2	—	38	40
T J E Brereton	92	1	72	7	172
C M J Whittington	28	—	5	—	33
R J Butler	20	—	—	—	20
T P A Norman	20	—	—	—	20
	<u>568</u>	<u>6</u>	<u>399</u>	<u>92</u>	<u>1,065</u>

There was no compensation for loss of office paid during the year.

**Year ended 31 May 2004**

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contributions £000	Total £000
Executive directors:					
N B le Roux	180	2	376	15	573
T A Howkins	135	1	282	18	436
P G Hetherington	135	1	282	20	438
A R MacKay	100	1	208	10	319
	<u>550</u>	<u>5</u>	<u>1,148</u>	<u>63</u>	<u>1,766</u>
Non executive directors:					
J R Davie	21	—	—	—	21
	<u>571</u>	<u>5</u>	<u>1,148</u>	<u>63</u>	<u>1,787</u>

In addition to the above, CVC Capital Partners Limited charged the group £36,860 for directors' fees relating to R R Lucas and J R Kaye.

There was no compensation for loss of office paid during the year.

**Six months ended 30 November 2004**

	Basic salary and fees £000	Benefits £000	Performance related bonuses £000	Pension contributions £000	Total £000
Executive directors:					
N B le Roux	93	1	115	10	219
T A Howkins	67	1	86	11	165
P G Hetherington	64	1	86	14	165
A R MacKay	58	—	77	9	144
	<u>282</u>	<u>3</u>	<u>364</u>	<u>44</u>	<u>693</u>
Non executive directors:					
J R Davie	25	—	—	—	25
	<u>307</u>	<u>3</u>	<u>364</u>	<u>44</u>	<u>718</u>

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In addition to the above, CVC Capital Partners Limited charged the group £25,000 for directors' fees relating to R R Lucas and J R Kaye.

There was no compensation for loss of office paid during the period.

Included in performance related bonuses were the following amounts which were payable in more than one year:

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
N B le Roux	—	16	—	—
T A Howkins	—	12	—	—
P G Hetherington	—	11	—	—
T J E Brereton	7	—	—	—
	<u>7</u>	<u>29</u>	<u>—</u>	<u>—</u>

Directors' interests in the share capital of the company and loans to the company are provided in note 23.

**7 INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Interest payable to clients and brokers	191	215	501	434
Interest payable on loan finance	—	—	6,461	4,774
Issue costs amortised on loan finance	—	—	3,717	1,637
Other issue costs on loan finance	—	—	103	47
	<u>191</u>	<u>215</u>	<u>10,782</u>	<u>6,892</u>

**8 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES**

**8.1 Tax on Profit on Ordinary Activities**

The tax charge is made up as follows:

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Current tax:				
Corporation tax on profit for the year	4,289	5,127	2,680	550
(Over)/underprovided in prior years	16	(131)	—	—
Total current tax (note 8(b))	<u>4,305</u>	<u>4,996</u>	<u>2,680</u>	<u>550</u>
Deferred tax:				
Origination and reversal of timing differences	—	—	(688)	(75)
Tax on profit on ordinary activities	<u>4,305</u>	<u>4,996</u>	<u>1,992</u>	<u>475</u>

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**8.2 Factors Affecting Current Tax Charge:**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Profit on ordinary activities before tax	13,375	15,281	7,920	5,334
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	4,012	4,584	2,376	1,600
Effects of:				
Corporation tax relief in respect of options exercised	—	—	(930)	—
Depreciation for period exceeding capital allowances	34	110	318	42
Overseas subsidiary losses	—	259	109	109
Expenses not deductible for tax purposes	243	174	1,347	809
Non taxable income	—	—	(540)	(2,010)
Tax (over)/underprovided in prior years	16	(131)	—	—
Corporation tax charge for the period	<u>4,305</u>	<u>4,996</u>	<u>2,680</u>	<u>550</u>

The draft Finance Bill 2005 issued on 24 March 2005 (later withdrawn on 6 April 2005) contained clauses which could potentially give rise to additional taxation payable (in excess of that provided) of approximately £2.5m. Based on an initial reading of the now withdrawn Bill, it is considered that this amount could be in the form of a chargeable gain, the payment of which may be subject to deferral.

**8.3 Deferred Tax Asset**

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

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Included in debtors (note 14)	—	—	688	763
This is provided at 30% as follows:				
Decelerated capital allowances	—	—	343	309
Tax losses carried forward	—	—	345	454
Deferred tax asset	<u>—</u>	<u>—</u>	<u>688</u>	<u>763</u>

The balance of deferred tax for tax losses carried forward relates 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.

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**9 DIVIDENDS**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Ordinary				
— Interim paid	830	1,137	—	—
— Final proposed	<u>1,921</u>	<u>2,516</u>	—	—
	<u>2,751</u>	<u>3,653</u>	—	—

The final proposed dividend for the year ended 31 May 2003 remains unpaid.

B ordinary shares carry no entitlement to dividends.

The directors did not propose a dividend for the year ended 31 May 2004 or for the six months ended 30 November 2004.

**10 EARNINGS PER ORDINARY SHARE**

Earnings per A ordinary share has been calculated for all periods shown on the basis that the weighted average number of A ordinary shares in issue subsequent to the purchase of IG Group Limited by IG Group Holdings Limited were in issue throughout the periods shown.

The calculation of basic earnings per ordinary share is based on 997,572 ordinary shares, being the weighted average number of A ordinary shares in issue during the latest period after excluding the shares owned by the Employee Benefit Trust.

The diluted weighted average number of ordinary shares takes account of the effects of warrants over A ordinary shares giving the diluted weighted average number of ordinary shares of 997,580.

	Year Ended 31 May 2002	Year ended 31 May 2003	Year ended 31 May 2004	Six Months ended 30 November 2004
Earnings used for calculation of earnings per share	<u>9,139</u>	<u>10,408</u>	<u>5,958</u>	<u>4,915</u>
Basic earnings per share	9.16	10.43	5.97	4.93
Diluted earnings per share	<u>9.16</u>	<u>10.43</u>	<u>5.97</u>	<u>4.93</u>

B ordinary shares carry no entitlement to dividends and no voting rights.

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**11 INTANGIBLE FIXED ASSETS**

	Goodwill arising on consolidation £000	Purchased goodwill £000	Total £000
<b>Cost:</b>			
At 1 June 2001, 31 May 2002 and 31 May 2003	—	1,100	1,100
Additions	109,135	—	109,135
At 31 May 2004	109,135	1,100	110,235
Overprovided in prior year	(113)	—	(113)
At 30 November 2004	<u>109,022</u>	<u>1,100</u>	<u>110,122</u>
<b>Amortisation:</b>			
At 1 June 2001	—	14	14
Charge for the year	—	220	220
At 31 May 2002	—	234	234
Charge for the year	—	220	220
At 31 May 2003	—	454	454
Charge for the year	4,020	220	4,240
At 31 May 2004	4,020	674	4,694
Charge for the period	2,730	110	2,840
At 30 November 2004	<u>6,750</u>	<u>784</u>	<u>7,534</u>
<b>Net book value:</b>			
At 31 May 2002	<u>—</u>	<u>866</u>	<u>866</u>
At 31 May 2003	<u>—</u>	<u>646</u>	<u>646</u>
At 31 May 2004	<u>105,115</u>	<u>426</u>	<u>105,541</u>
At 30 November 2004	<u>102,272</u>	<u>316</u>	<u>102,588</u>

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**12 TANGIBLE FIXED ASSETS**

	Leasehold improvements £000	Office equipment, fixtures and fittings £000	Motor vehicles £000	Computer, telephone and electrical £000	Total £000
<b>Cost:</b>					
At 1 June 2001	1,155	327	67	2,817	4,366
Additions	637	157	—	4,401	5,195
Disposals	—	—	(67)	(1)	(68)
At 31 May 2002	1,792	484	—	7,217	9,493
Additions	106	33	—	3,325	3,464
Disposals	—	—	—	(161)	(161)
At 31 May 2003	1,898	517	—	10,381	12,796
Currency movements	—	(2)	—	(16)	(18)
Additions	128	22	—	2,414	2,564
Disposals	—	(37)	—	(22)	(59)
At 31 May 2004	2,026	500	—	12,757	15,283
Currency movements	—	(12)	—	(19)	(31)
Additions	54	12	—	877	943
At 30 November 2004	<u>2,080</u>	<u>500</u>	<u>—</u>	<u>13,615</u>	<u>16,195</u>
<b>Depreciation:</b>					
At 1 June 2001	302	152	22	1,192	1,668
Charge for the year	171	67	12	1,306	1,556
Eliminated on disposals	—	—	(34)	—	(34)
At 31 May 2002	473	219	—	2,498	3,190
Charge for the year	217	83	—	2,175	2,475
At 31 May 2003	690	302	—	4,673	5,665
Currency movements	—	—	—	(4)	(4)
Charge for the year	242	77	—	2,986	3,305
Eliminated on disposals	—	(17)	—	(13)	(30)
At 31 May 2004	932	362	—	7,642	8,936
Currency movements	—	—	—	7	7
Charge for the period	134	23	—	1,742	1,899
At 30 November 2004	<u>1,066</u>	<u>385</u>	<u>—</u>	<u>9,391</u>	<u>10,842</u>
<b>Net book value:</b>					
At 31 May 2002	<u>1,319</u>	<u>265</u>	<u>—</u>	<u>4,719</u>	<u>6,303</u>
At 31 May 2003	<u>1,208</u>	<u>215</u>	<u>—</u>	<u>5,708</u>	<u>7,131</u>
At 31 May 2004	<u>1,094</u>	<u>138</u>	<u>—</u>	<u>5,115</u>	<u>6,347</u>
At 30 November 2004	<u>1,014</u>	<u>115</u>	<u>—</u>	<u>4,224</u>	<u>5,353</u>

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**13 FIXED ASSET INVESTMENTS**

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Shares at cost (unlisted)	2	2	2	—
Loans	5	—	—	—
	7	2	2	—
	=	=	=	=

	Shares (unlisted) £000	Loans £000	Total £000
<b>Cost:</b>			
At 1 June 2001	2	9	11
Redemption of loan	—	(4)	(4)
At 31 May 2002	2	5	7
Redemption of loan	—	(5)	(5)
At 31 May 2003 and 31 May 2004	2	—	2
Disposals	(2)	—	(2)
At 30 November 2004	=	=	=

**Subsidiary undertakings as at 30 November 2004**

Name of Company	Country of incorporation	Holding	Proportion of voting rights held	Nature of business
<b>Subsidiary undertakings held directly:</b>				
IG Group Limited	United Kingdom	Ordinary shares	100%	Holding company
IG Finance	United Kingdom	Ordinary shares	100%	Financing
<b>Subsidiary undertakings held indirectly:</b>				
IG Finance Two	United Kingdom	Ordinary shares	100%	Financing
IG Finance Three	United Kingdom	Ordinary Shares	100%	Financing
IG Finance Four	United Kingdom	Ordinary Shares	100%	Financing
Market Data Limited	United Kingdom	Ordinary shares	100%	Data distribution
IG Markets (South Asia) Limited	Cayman Islands	Ordinary shares	100%	Dormant
IG Index plc	United Kingdom	Ordinary shares	100%	Spread betting



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Name of Company	Country of incorporation	Holding	Proportion of voting rights held	Nature of business
IG Markets Limited	United Kingdom	Ordinary shares	100%	Margin trading and foreign exchange
ITS Market Solutions Limited	United Kingdom	Ordinary shares	60%	Software development and sales
IG Nominees Limited	United Kingdom	Ordinary shares	100%	Nominee company
Binarybet Limited	United Kingdom	Ordinary shares	100%	Fixed odds bookmaker
IG Australia Pty Limited	Australia	Ordinary shares	83%	Australia sales and marketing office
IG Financial Markets Inc	USA	Ordinary shares	100%	Not yet trading
Market Risk Management Inc	USA	Ordinary shares	100%	Market maker
IG Group Limited Employee Benefit Trust	Unincorporated trust			Employee benefit trust

**Analysis of the acquisition of IG Group Limited (formerly IG Group plc):**

On 5 September 2003, the company acquired IG Group Limited (formerly IG Group plc) for a consideration of £152.4 million.

	Book value £000	Adjustments £000	Fair value to group £000
<b>Net assets at date of acquisition</b>			
Intangible fixed assets	588	—	588
Tangible fixed assets	6,959	—	6,959
Fixed asset investments	2	—	2
Debtors	29,809	—	29,809
Cash	27,464	—	27,464
Creditors due within one year	(24,106)	2,516	(21,590)
Net assets	<u>40,716</u>	<u>2,516</u>	<u>43,232</u>
Goodwill arising on acquisition			<u>109,135</u>
			<u>152,367</u>
Discharged by:			
Cash purchase of shares			148,084
Costs associated with the acquisition			<u>3,145</u>
Fair value of cash consideration			151,229
Fair value of loan notes issued			<u>1,138</u>
			<u>152,367</u>

The adjustment to the fair value of creditors was in respect of dividends declared by IG Group Limited in 2003 which have not yet been paid. Under the terms of the acquisition agreement the dividend is payable to IG Group Holdings plc and is now eliminated on consolidation.

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**14 DEBTORS**

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Amounts due from brokers	13,174	13,723	31,474	41,124
Amounts due from clients	5,425	3,052	2,173	2,267
Other debtors	647	852	391	684
Prepayments and accrued income	682	688	892	855
Deferred tax asset (note 8(c))	—	—	688	763
	<u>19,928</u>	<u>18,315</u>	<u>35,618</u>	<u>45,693</u>

The deferred tax asset may be recoverable in part after more than one year.

**15 CREDITORS: amounts falling due within one year**

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Loan notes	—	—	570	289
Loans (subordinated)	—	—	—	4,400
Amounts due to clients	13,804	16,473	19,920	26,697
Corporation tax	2,076	2,492	1,034	979
Other taxes and social security costs	222	394	454	412
Accruals and deferred income	3,477	3,800	9,325	7,000
Proposed dividend	1,921	2,516	—	—
	<u>21,500</u>	<u>25,675</u>	<u>31,303</u>	<u>39,777</u>

The loan notes bear interest at LIBOR minus 1% and have no fixed repayment date.

**16 CREDITORS: amounts falling due after more than one year**

	31 May 2004 £000	30 November 2004 £000
Loans	<u>101,113</u>	<u>99,237</u>
Amounts falling due:		
— in more than one year but not more than two years (subordinated)	4,400	4,400
— in more than two years but not more than five years (subordinated)	21,000	16,600
— in more than five years (subordinated)	75,294	75,294
— in more than five years (secured)	1,000	1,000
	101,694	97,294
Amounts held in Employee Benefit Trust	—	(5)
Accrued interest	1,765	2,962
	103,459	100,251
Less: Issue costs	(2,346)	(1,014)
	<u>101,113</u>	<u>99,237</u>

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	31 May 2004 £000	30 November 2004 £000
Details of loans not wholly repayable within five years are as follows:		
<b>Secured loans</b>		
Sterling secured loan repayable August 2010	170	170
Euro secured loans repayable August 2010	322	322
Sterling secured loans repayable August 2013	508	508
<b>Unsecured subordinated loans</b>		
11% subordinated loans	21,694	21,694
Sterling subordinated loans repayable by instalments between September 2005 and August 2010	13,389	13,389
Euro subordinated loans repayable by instalments between September 2005 and August 2010	25,442	25,442
Sterling subordinated loans repayable by instalments between August 2010 and August 2013	40,169	40,169
	<u>101,694</u>	<u>101,694</u>

The 11% subordinated loans have no fixed repayment date but are repayable in full on the sale or flotation of the company or on giving the Financial Services Authority (FSA) five years notice.

The Sterling denominated loans, other than the 11% subordinated loans, bear interest at LIBOR plus 4%.

The Euro denominated loans bear interest at EURIBOR plus 4%. The company has entered into a currency basis swap in order to hedge its FX risk to these loans. Under the terms of that swap the company pays LIBOR plus 9 basis points and receives EURIBOR on a principal amount equal to the principal amount of the Euro denominated loans.

The secured loans are secured by fixed and floating charges over certain group assets.

The secured loans repayable August 2010 rank equally and in priority to the secured loan repayable August 2013.

Each of the subordinated loans is in the form of a standard subordinated loan for the purposes of consolidated supervision approved by the FSA.

**17 CLIENTS' MONEY**

The group's two FSA regulated subsidiaries, IG Index plc and IG Markets Limited, hold clients' money on trust in client accounts at approved banks in accordance with the rules of the FSA. Clients' money held and the corresponding liability to clients are not included in the balance sheet. The amount held at the balance sheet date was:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Client money held at the balance sheet date:	<u>37,311</u>	<u>43,373</u>	<u>66,339</u>	<u>93,454</u>

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	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
The net interest receivable on client money was as follows:	<u>1,471</u>	<u>1,358</u>	<u>2,244</u>	<u>1,584</u>

**18 SHARE CAPITAL**

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Authorised:				
100,000,000 ordinary shares of 10p each	10,000	10,000	—	—
1,136,363 A ordinary shares of 1p each	—	—	11	11
650 B ordinary shares of 0.1p each	—	—	—	—
	<u>10,000</u>	<u>10,000</u>	<u>11</u>	<u>11</u>
Allotted, called up and fully paid:				
Ordinary shares of 10p each				
31 May 2002 — 54,888,133,				
31 May 2003 — 55,923,133	5,489	5,592	—	—
A Ordinary shares of 1p each				
31 May 2004 — 1,000,000,				
30 November 2004 — 1,000,000	—	—	10	10
A Ordinary shares held in Employee Benefit Trust				
31 May 2004 — 4,851,				
30 November 2004 — 2,428	—	—	—	—
650 B Ordinary shares of 0.1p each	—	—	—	—
	<u>5,489</u>	<u>5,592</u>	<u>10</u>	<u>10</u>

The B Ordinary shares carry no entitlement to dividends and no voting rights. The B ordinary shares' entitlement to capital is based on a progressive formula linked to the total return to certain holders of A Ordinary shares. In the event of a sale or flotation if this formula produces no entitlement to capital for the B Ordinary shares, the shares are redesignated as deferred redeemable shares. These have no entitlement to dividends, no voting rights and on winding up are entitled to the return of their nominal value only once the A Ordinary shares receive a return of capital of £8,000,000 per share.

At 1 June 2001 the allotted share capital of IG Group Limited was 52,968,533 ordinary shares of 10p each. During the year ended 31 May 2002 IG Group Limited allotted 1,919,600 shares at a total premium of £64,683 as a result of the exercise of options over shares in IG Group Limited and IG Index plc.

During the year ended 31 May 2003 IG Group Limited allotted 1,035,000 shares at a total premium of £90,350 as a result of the exercise of options over shares in IG Group Limited and IG Index plc.

During the year ended 31 May 2004 IG Group Limited allotted 2,580,272 shares at a total premium of £3,170,858 as a result of the exercise of options over shares in IG Group Limited and IG Index plc. As explained in Note 1, between 5 September 2003 and 20 November 2003, IG Group Holdings Limited acquired the entire issued share capital of IG Group Limited (formerly IG Group plc) which was the previous ultimate parent company of the group.

On incorporation of IG Group Holdings Limited on 25 February 2003, the authorised share capital of the company was £50,000, comprising 50,000 Ordinary shares of £1 each, of which two were subscribed at par.

During the year ended 31 May 2004 the authorised share capital of the company was increased by £35,661,364 through the creation of 1,136,163 A Ordinary shares of £0.01 each, the creation of 65 B

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Ordinary shares of £0.01 each and the creation of 35,650,002 preference shares of £1.00 each. The 49,998 unissued Ordinary shares of £1 each were re-designated as one Preference Share of £1.00 each and the 65 B Ordinary shares of £0.01 each were each sub-divided into 10 B Ordinary shares of £0.001 each.

On 5 September 2003 each of the two issued shares of £1 were sub-divided and re-designated as 100 A Ordinary shares of £0.01 each. The company also issued 990,846 A Ordinary shares at par and 550 B Ordinary shares at par. On 19 March 2004 the company issued 8,954 A Ordinary shares at par. On 6 May 2004 the company issued 100 B Ordinary shares at par.

On 5 September 2003 the company issued 35,667,686 preferences shares at par. On 19 March 2004 the company issued 32,314 preference shares at par.

**18.1 Share Options**

IG Group Limited (formerly IG Group plc) had two share option schemes through which the directors and staff were able to subscribe for ordinary shares in IG Group plc or IG Index plc.

Prior to the incorporation of IG Group Limited, share options were granted over shares in IG Index plc. Under the provisions of the Articles of Association of IG Index plc, any shares in IG Index plc could be exchanged for shares in IG Group Limited on the basis of 120 IG Group Limited shares for every IG Index plc share. So for the purposes of the table below, options over IG Index shares have been shown as if they were options over 120 IG Group shares.

The movement in options, including those held by directors, carrying the rights of holders to subscribe for shares are set out below.

**Year ended 31 May 2002**

During the year ended 31 May 2002 IG Group Limited allotted 1,919,600 shares at a total premium of £64,673 as a result of the exercise of options over shares in IG Group Limited and IG Index plc. Options over 9,505 IG Index plc shares were exercised at a total premium of £115,225.

Exercise Price £	Exercisable Dates	At 1 June 2001 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2002 No.
0.0875	May 1999 - Sep 2008	306,000	—	(306,000)	—	—
0.1000	Dec 2000 - Sep 2008	2,082,000	—	(1,190,000)	—	892,000
0.1208	Jan 2002 - Feb 2009	396,000	—	(276,000)	—	120,000
0.2083	Aug 2002 - Sep 2009	681,600	—	(9,960)	(2,040)	669,600
0.3333	Feb 2001 - Nov 2009	373,000	—	(119,000)	(6,000)	248,000
0.4167	Feb 2001 - Dec 2009	32,000	—	(1,000)	—	31,000
1.0000	Mar 2003 - Mar 2010	63,000	—	(3,000)	(6,000)	54,000
1.1667	May 2003 - May 2010	247,920	—	(5,640)	(38,400)	203,880
2.4000	July 2003 - July 2010	348,669	—	(8,500)	(24,500)	315,669
3.0900	Aug 2003 - Aug 2010	14,031	—	(500)	—	13,531
5.0900	Feb 2004 - Feb 2010	136,710	—	—	(92,263)	44,447
5.2750	July 2004 - July 2011	—	373,883	—	(28,207)	345,676
3.725	Feb 2005 - Feb 2012	—	48,831	—	(2,146)	46,685
		<u>4,680,930</u>	<u>422,714</u>	<u>(1,919,600)</u>	<u>(199,556)</u>	<u>2,984,488</u>

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**Year ended 31 May 2003**

During the year ended 31 May 2003 IG Group Limited allotted 1,035,000 shares at a total premium of £90,350 as a result of the exercise of options over shares in IG Group Limited and IG Index plc. Options over 8,300 IG Index plc shares were exercised at a total premium of £172,550.

Exercise Price £	Exercisable Dates	At 1 June 2002 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2003 No.
0.1000	Dec 2000 - Sep 2008	892,000	—	(306,000)	—	586,000
0.1208	Jan 2002 - Feb 2009	120,000	—	(120,000)	—	—
0.2083	Aug 2002 - Sep 2009	669,600	—	(438,000)	—	231,600
0.3333	Feb 2001 - Nov 2009	248,000	—	(165,000)	—	83,000
0.4167	Feb 2001 - Dec 2009	31,000	—	(6,000)	—	25,000
1.0000	Mar 2003 - Mar 2010	54,000	—	—	(3,000)	51,000
1.1667	May 2003 - May 2010	203,880	—	—	(8,640)	195,240
2.4000	July 2003 - July 2010	316,169	—	—	(59,500)	256,669
3.0900	Aug 2003 - Aug 2010	13,031	—	—	—	13,031
5.0900	Feb 2004 - Feb 2010	44,447	—	—	(11,000)	33,447
5.2750	July 2004 - July 2011	345,676	—	—	(25,483)	320,193
3.725	Feb 2005 - Feb 2012	46,685	—	—	(7,511)	39,174
2.0250	July 2005 - July 2012	—	1,194,738	—	(169,837)	1,024,901
2.3000	March 2006 - March 2013	—	193,904	—	(5,217)	188,687
		<u>2,984,488</u>	<u>1,388,642</u>	<u>(1,035,000)</u>	<u>(290,188)</u>	<u>3,047,942</u>

**Year ended 31 May 2004**

During the year ended 31 May 2004 all of the options were either exercised and the resulting shares sold to IG Group Holdings plc, or they lapsed as follows:

Exercise Price £	Exercisable Dates	At 1 June 2003 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2004 No.
0.10	Dec 2000 - Sep 2008	586,000	—	(586,000)	—	—
0.2083	Aug 2002 - Sep 2009	231,600	—	(225,600)	(6,000)	—
0.3333	Feb 2001 - Nov 2009	83,000	—	(83,000)	—	—
0.4167	Feb 2001 - Dec 2009	25,000	—	(25,000)	—	—
1.0000	Mar 2003 - Mar 2010	51,000	—	(51,000)	—	—
1.1667	May 2003 - May 2010	195,240	—	(192,720)	(2,520)	—
2.40	Jul 2003 - Jul 2010	256,669	—	(247,169)	(9,500)	—
3.09	Aug 2003 - Aug 2010	13,031	—	—	(13,031)	—
5.09	Feb 2004 - Feb 2010	33,447	—	—	(33,447)	—
5.27	Jul 2004 - Jul 2011	320,193	—	—	(320,193)	—
3.725	Feb 2005 - Feb 2012	39,174	—	—	(39,174)	—
2.025	Jul 2005 - Jul 2012	1,024,901	—	(997,617)	(27,284)	—
2.30	Mar 2006 - Mar 2013	188,687	—	(172,166)	(16,521)	—
		<u>3,047,942</u>	<u>—</u>	<u>(2,580,272)</u>	<u>(467,670)</u>	<u>—</u>

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**18.2 Preference Share Capital**

	31 May 2004 £000	30 November 2004 £000
<i>Authorised:</i>		
35,700,000 preference shares of £1 each	35,700	35,700
<i>Allotted, called up and fully paid:</i>		
35,700,000 preference shares of £1 each	35,700	35,700
7,605 preference shares held in Employee Benefit Trust	—	(8)
	<u>35,700</u>	<u>35,692</u>
Less: Issue costs brought forward	792	480
Amortised during the period	(312)	(305)
Issue costs carried forward	480	175
Carrying value of preference share capital	<u>35,220</u>	<u>35,517</u>

The preference shares are entitled to a fixed non-cumulative dividend of 8% paid in preference to any other dividend. The company's banking arrangements place restrictions on the circumstances in which this dividend can be declared or paid. No dividend was declared or paid in the periods ended 31 May 2004 or 30 November 2004. On a winding up of the company the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, £1 per share plus, if the company has sufficient distributable reserves, any accrued or unpaid preference 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 preference shares are redeemable on a sale or flotation, or at any other time at the option of the company. On redemption the preference shares are entitled to £1 per share plus, if the company has sufficient distributable reserves, any accrued or unpaid dividends.

**18.3 Warrants**

The company has issued warrants giving the holders the right to subscribe for 88,629 A Ordinary shares at par. These warrants are exercisable on the sale or flotation of the company, and in the event of a breach of the warrant instrument.

**19 RESERVES**

	Share premium account £000	Merger reserve £000	Profit and loss account £000
At 1 June 2001	1,314	(4,355)	20,275
Premium on issue of shares	65	—	—
Retained profit for the year	—	—	6,387
Arising on the exchange of IG Index shares for IG Group shares	—	(5)	—
At 31 May 2002	<u>1,379</u>	<u>(4,360)</u>	<u>26,662</u>
Premium on issue of shares	90	—	—
Retained profit for the year	—	—	6,755
At 31 May 2003	<u>1,469</u>	<u>(4,360)</u>	<u>33,417</u>
Retained profit for the year	—	—	5,958
Elimination of reserves of IG Group Limited	(1,469)	4,360	(36,271)
At 31 May 2004	<u>—</u>	<u>—</u>	<u>3,104</u>
Retained profit for the period	—	—	4,915
At 30 November 2004	<u>—</u>	<u>—</u>	<u>8,019</u>

## 20 NOTES TO THE STATEMENT OF CASH FLOWS

### 20.1 Reconciliation of Operating Profit to Net Cash Inflow From Operating Activities:

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
Operating profit	11,381	12,955	15,071	9,787
Depreciation	1,556	2,475	3,305	1,899
Amortisation	220	220	4,240	2,840
(Profit)/loss on sale of tangible fixed assets	—	161	26	(40)
Issue costs amortised	—	—	3,718	1,637
Decrease/(increase) in debtors	(3,732)	1,612	(16,739)	(9,935)
Increase in creditors	4,611	3,166	11,752	2,742
Net cash inflow from operating activities	<u>14,036</u>	<u>20,589</u>	<u>21,373</u>	<u>8,930</u>

### 20.2 Analysis of net funds/(debt):

	At 1 June 2002 £000	Cash flow £000	Other non cash movements £000	At 31 May 2003 £000
Cash at bank and in hand	23,540	12,012	—	35,552
Net funds	<u>23,540</u>	<u>12,012</u>	<u>—</u>	<u>35,552</u>

	At 1 June 2003 £000	Cash flow £000	Other non cash movements £000	At 31 May 2004 £000
Cash at bank and in hand	35,552	(12,476)	—	23,076
Loan notes	—	(570)	—	(570)
Loans	—	(101,694)	581	(101,113)
Net funds/(debt)	<u>35,552</u>	<u>(114,740)</u>	<u>581</u>	<u>(78,607)</u>

	At 1 June 2004 £000	Cash flow £000	Other non cash movements £000	At 30 November 2004 £000
Cash at bank and in hand	23,076	5,627	—	28,703
Loan notes	(570)	281	—	(289)
Loans	(101,113)	—	(2,524)	(103,637)
Net funds/(debt)	<u>(78,607)</u>	<u>5,908</u>	<u>(2,524)</u>	<u>(75,223)</u>

### 20.3 Exceptional Items

Net cash inflow from operating activities includes 31 May 2002 — £nil, 31 May 2003 — £0.1 million, 31 May 2004 — £0.2 million, 30 November 2004 — £nil in respect of fees as described in note 4.



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**20.4 Major Non Cash Transactions**

See note 13 for an analysis of the acquisition of IG Group Limited (formerly IG Group plc).

Non cash transactions relate to the amortisation of issue costs and accrual of interest charges.

**21 OPERATING LEASES**

The group had annual commitments under operating leases on its premises as set out below:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Operating leases which expire:</b>				
In less than one year	—	44	16	23
In over five years	558	646	738	738
	<u>558</u>	<u>690</u>	<u>754</u>	<u>761</u>

**22 PENSION CONTRIBUTIONS**

The group makes contributions into individual personal pension schemes based upon a percentage of the salary of the individuals involved. The group's obligation to these individual pension schemes is a defined contribution scheme per FRS 17, Retirement Benefits.

The pension cost charge represents contributions payable by the group to all the schemes and amounted to:

	Year ended 31 May 2002 £000	Year ended 31 May 2003 £000	Year ended 31 May 2004 £000	Six months ended 30 November 2004 £000
	722	579	587	422

**23 TRANSACTIONS WITH DIRECTORS**

**23.1 Interests in Shares**

The directors who served and their interests in the share capital of the company were:

	At 31 May 2004		At 30 November 2004	
	A Ordinary shares	Preference shares	A Ordinary shares	Preference shares
J R Davie (appointed 23 January 2004)	8,954	32,314	8,954	32,314
N B le Roux (appointed 25 February 2003)	100,814	1,324,239	100,814	1,324,239
P G Hetherington (appointed 25 February 2003)	38,066	238,759	38,066	238,759
T A Howkins (appointed 25 February 2003)	38,212	245,472	38,212	245,472
A R MacKay (appointed 25 February 2003)	19,683	124,387	19,683	124,387
R R Lucas (appointed 22 July 2003)	—	—	—	—
J R Kaye (appointed 22 July 2003)	—	—	—	—

Capital Investors 2002 Limited (one of the CVC Shareholders) held 1,091 A Ordinary shares on trust for R R Lucas and 728 A Ordinary shares on trust for J R Kaye. In total, Capital Investors 2002 Limited held 7,276 A Ordinary shares.

No director had an interest in the B Ordinary shares of the company.

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The directors who served prior to the acquisition of IG Group Limited by IG Group Holdings Limited had interests in the share capital of the ultimate parent company of the group at 31 May 2002 and 2003 as follows:

	2003 Ordinary Shares	2002 Ordinary Shares
J S Wheeler (chairman)	13,221,000	17,221,000
T J E Brereton	342,000	342,000
R J Butler	50,000	50,000
P G Hetherington (appointed 11 June 2002)	157,700	18,450
T A Howkins	174,833	20,833
N B le Roux	1,035,000	1,000,000
T P A Norman	240,000	240,000
C M J Whittington	25,000	12,500

**23.2 Interests in Loans**

Certain directors or their associates have made loans to the company. These loans are 11% subordinated loans further described in note 16. The amounts loaned are as follows:

	At date of issue £000	At 31 May 2004 £000	Unpaid Interest at 31 May 2004 £000	At 30 November 2004 £000	Unpaid interest at 30 November 2004 £000
P G Hetherington	145	145	12	145	20
T A Howkins	149	149	12	149	20
J R Davie	20	20	1	20	3
N B le Roux	805	805	65	805	110
A R MacKay	76	76	6	76	10
	<u>1,195</u>	<u>1,195</u>	<u>96</u>	<u>1,195</u>	<u>163</u>

The offer by the company to acquire IG Group Limited included an option to receive loan notes as an alternative to part of the cash due to shareholders for the sale of IG Group plc shares. The loan notes bear interest at LIBOR minus 1%. The directors' holdings of loan notes were:

	At date of issue £000	Redeemed during the year £000	At 31 May 2004 £000	Unpaid interest at 31 May 2004 £000
P G Hetherington	76	—	76	1
T A Howkins	190	—	190	2
A R MacKay	204	(204)	—	—
	<u>470</u>	<u>(204)</u>	<u>266</u>	<u>3</u>

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	At 1 June 2004 £000	Redeemed during the period £000	At 30 November 2004 £000	Unpaid interest at 30 November 2004 £000
P G Hetherington	76	(76)	—	—
T A Howkins	190	(153)	37	—
	<u>266</u>	<u>(229)</u>	<u>37</u>	<u>—</u>

**23.3 Interests in Options**

IG Group plc had two share option schemes through which directors were able to subscribe for ordinary shares in IG Group plc or IG Index plc. Under the provisions of the Articles of Association of IG Index plc, any shares in IG Index plc could be exchanged for shares in IG Group plc on the basis of 120 IG Group plc shares for every IG Index plc share. This was the basis of the group reconstruction on 9 June 2000. For the purposes of the tables below, options over IG Index plc shares have been shown as if they were options over 120 IG Group plc shares. The interests of the directors who served during each year were as follows:

**Year ended 31 May 2002**

	Exercise dates	Exercise price £	At 1 June 2001 No.	Granted during the year No.	Exercised during the year No.	Cancelled/ lapsed during the year No.	At 31 May 2002 No.
T J E Brereton	Sep 2001-Sep 2008	0.10	1,158,000	—	(992,000)	—	166,000
	July 2004-July 2011	5.27	—	21,397	—	—	21,397
			<u>1,158,000</u>	<u>21,397</u>	<u>(992,000)</u>	<u>—</u>	<u>187,397</u>
T A Howkins	Aug 2002-Aug 2009	0.2083	144,000	—	—	—	144,000
	Sep 2002-Sep 2009	0.2083	156,000	—	—	—	156,000
	July 2004-July 2011	5.27	—	19,360	—	—	19,360
			<u>300,000</u>	<u>19,360</u>	<u>—</u>	<u>—</u>	<u>319,360</u>
N B le Roux	Sep 2001-Sep 2005	0.10	360,000	—	—	—	360,000
	July 2004-July 2011	5.27	—	25,983	—	—	25,983
			<u>360,000</u>	<u>25,983</u>	<u>—</u>	<u>—</u>	<u>385,983</u>

The directors' aggregate notional gain on share options which were exercised during the year was £5,308,900. The market price of the company's shares exercised during the year were £5.40 for 650,000 share options exercised on 3 October 2001 and £5.55 for 342,000 share options exercised on 4 October 2001.

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**Year ended 31 May 2003**

	Exercise dates	Exercise price £	At 1 June 2002 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2003 No.
T J E Brereton	Sept 2001-Sep 2008	0.10	166,000	—	—	—	166,000
	July 2004-July 2011	5.27	21,397	—	—	—	21,397
	July 2005-July 2012	2.025	—	64,197	—	—	64,197
				<u>187,397</u>	<u>64,197</u>	<u>—</u>	<u>—</u>
P G Hetherington	June 2001-June 2008	0.10	108,000	—	(108,000)	—	—
	Feb 2001-Feb 2008	0.33	10,000	—	—	—	10,000
	Nov 2002-Nov 2009	0.33	36,000	—	(36,000)	—	—
	July 2003-July 2010	2.40	40,000	—	—	—	40,000
	July 2004-July 2011	5.27	13,270	—	—	—	13,270
	July 2005-July 2012	2.025	—	55,556	—	—	55,556
			<u>207,270</u>	<u>55,556</u>	<u>(144,000)</u>	<u>—</u>	<u>118,826</u>
T A Howkins	Aug 2002-Aug 2009	0.2083	144,000	—	(144,000)	—	—
	Sep 2002-Sep 2009	0.2083	156,000	—	—	—	156,000
	July 2004-July 2011	5.27	19,360	—	—	—	19,360
	July 2005-July 2012	2.025	—	61,728	—	—	61,728
			<u>319,360</u>	<u>61,728</u>	<u>(144,000)</u>	<u>—</u>	<u>237,088</u>
N B le Roux	Sep 2001-Sep 2008	0.10	360,000	—	—	—	360,000
	July 2004-July 2011	5.27	25,983	—	—	—	25,983
	July 2005-July 2012	2.025	—	81,481	—	—	81,481
			<u>385,983</u>	<u>81,481</u>	<u>—</u>	<u>—</u>	<u>467,464</u>

The directors' aggregate optional gain on share options which were exercised during the year was £612,480. The market price of the company's shares exercised during the year were £2.335 for 144,000 share options exercised on 19 August 2002 and £2.285 for 144,000 share options exercised on 5 November 2002.

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**Year ended 31 May 2004**

	Exercise dates	Exercise price £	At 1 June 2003 No.	Granted during the period No.	Exercised during the period No.	Cancelled/ lapsed during the period No.	At 31 May 2004 No.
N B le Roux	Sep 2001-Sep 2008	0.10	360,000	—	(360,000)	—	—
	Jul 2004-Jul 2011	5.27	25,983	—	—	(25,983)	—
	Jul 2005-Jul 2012	2.025	81,481	—	(81,481)	—	—
			<u>467,464</u>	—	<u>(441,481)</u>	<u>(25,983)</u>	—
P G Hetherington	Feb 2001-Feb 2008	0.33	10,000	—	(10,000)	—	—
	Jul 2003-Jul 2010	2.40	40,000	—	(40,000)	—	—
	Jul 2004-Jul 2011	5.27	13,270	—	—	(13,270)	—
	Jul 2005-Jul 2012	2.025	55,556	—	(55,556)	—	—
		<u>118,826</u>	—	<u>(105,556)</u>	<u>(13,270)</u>	—	
T A Howkins	Sep 2002-Sep 2009	0.2083	156,000	—	(156,000)	—	—
	Jul 2004-Jul 2011	5.27	19,360	—	—	(19,360)	—
	Jul 2005-Jul 2012	2.025	61,728	—	(61,728)	—	—
		<u>237,088</u>	—	<u>(217,728)</u>	<u>(19,360)</u>	—	
A R MacKay	Aug 2003-Aug 2010	2.40	500	—	(500)	—	—
	Jul 2004-Jul 2011	5.27	7,582	—	—	(7,582)	—
	Jul 2005-Jul 2012	2.025	17,284	—	(17,284)	—	—
		<u>25,366</u>	—	<u>(17,784)</u>	<u>(7,582)</u>	—	

No director had an interest in the shares of any other group company.

**23.4 Other Interests**

R R Lucas is a director of CVC Capital Partners Limited. During the year ended 31 May 2004 the company paid £155,508 to CVC Capital Partners Limited to reimburse costs incurred in connection with the acquisition by IG Group Holdings Limited of IG Group plc.

C M J Whittington, R G Butler and J R Kaye are clients of IG Index plc, IG Markets Limited and Binarybet Limited which enter into transactions with them on normal client terms.

The group had no other transactions with its directors other than in relation to the management of the group.

Directors' emoluments are provided in note 6.

**24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS — FRS 13 DISCLOSURES**

The following disclosures are required by FRS 13 "Derivatives and Other Financial Instruments".

The group's principal financial instruments, other than derivative transactions, comprise cash balances with brokers, clients and other debtors or creditors that arise through the normal course of business, other cash and short-term deposits, treasury bills and loans. Derivative transactions with brokers are entered into in the normal course of business in order to hedge market exposures resulting from derivative transactions placed by clients.

In accordance with FRS 13, the group has taken advantage of the exemption permitting the exclusion of short-term debtors and creditors from the following disclosures except for the currency risk disclosures.

### **24.1 Risk Management**

Limits as to the acceptable level of risk are established and regularly reviewed by the board.

The group's principal business activities give rise to market risk, which includes the risks arising from equity, foreign currency and interest rate derivatives and sports bets. The group also faces other interest rate and currency risks which include those arising from certain assets or liabilities being denominated in foreign currencies or where interest is payable.

Separate market risk exposure limits are established for each individual product traded by the group. Limits are also set for groups of products and for markets where it is considered that their market price movements are likely to be positively correlated. The group's computerised trading systems enable exposure to market risk to be monitored in real time and management take action to manage these exposures as limits are approached.

Financial instruments used to reduce the group's exposure to market risk include exchange traded futures and options and contracts for differences on individual shares. The management of foreign currency and interest rate risks is discussed in more detail below.

### **24.2 Foreign Currency Risk**

The group trades in major currencies as principal with its clients. Limits on the exposures which the group will accept in each currency are set by the Board and the group hedges its exposure as necessary with market counterparties.

The group's exposure to foreign exchange risks arising on assets and liabilities denominated in foreign currencies is managed by the foreign exchange department in conjunction with the group's overall foreign currency exposures. Differences arising on the retranslation of foreign currency net assets and liabilities, after taking account of corresponding hedges, are not material.

### **24.3 Interest Rate Risk**

The group offers bets on interest rate derivatives and hedges its exposure using exchange traded futures and options. Exposure limits are set for each product, and also for groups of products where it is considered that their price movements are likely to be positively correlated.

#### **(a) Interest rate risk profile of financial assets and liabilities**

Financial assets on which no interest is earned and financial liabilities on which no interest is paid comprise, predominantly, open positions with clients and brokers, and have been marked to market in accordance with the accounting policy set out in note 1. The majority of positions have an expiry date, but clients are able to close their positions with the group at any time up to the expiry date. The directors therefore consider that a maturity analysis based on expiry date would not provide a meaningful representation as to the maturity of open positions and hence no maturity analysis is provided.

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

	Total financial liabilities £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
<b>31 May 2002</b>							
Sterling	8,607	—	—	8,607	64,628	52,560	12,068
US dollars	4,132	—	—	4,132	7,190	4,830	2,360
Euro	409	—	—	409	2,057	1,831	226
Other currencies	2,981	—	—	2,981	4,451	1,622	2,829
	<u>16,129</u>	<u>—</u>	<u>—</u>	<u>16,129</u>	<u>78,326</u>	<u>60,843</u>	<u>17,483</u>
<b>31 May 2003</b>							
Sterling	8,473	—	—	8,473	87,325	73,536	13,789
US dollars	4,895	—	—	4,895	5,791	2,691	3,100
Euro	787	—	—	787	1,268	574	694
Other currencies	2,576	—	—	2,576	4,383	2,117	2,266
	<u>16,731</u>	<u>—</u>	<u>—</u>	<u>16,731</u>	<u>98,767</u>	<u>78,918</u>	<u>19,849</u>
<b>31 May 2004</b>							
Sterling	144,147	35,700	102,264	6,183	265,754	81,235	184,519
US dollars	2,098	—	—	2,098	11,773	2,720	9,053
Euro	26,117	—	25,325	792	31,640	26,942	4,698
Other currencies	726	—	—	726	5,072	3,843	1,229
	<u>173,088</u>	<u>35,700</u>	<u>127,589</u>	<u>9,799</u>	<u>314,239</u>	<u>114,740</u>	<u>199,499</u>
<b>30 November 2004</b>							
Sterling	150,019	35,700	101,979	12,340	321,349	111,434	209,915
US dollars	2,659	—	—	2,659	24,801	2,327	22,474
Euro	35,313	—	26,459	8,854	33,182	29,423	3,759
Other currencies	4,736	—	—	4,736	40,956	5,431	35,525
	<u>192,727</u>	<u>35,700</u>	<u>128,438</u>	<u>28,589</u>	<u>420,288</u>	<u>148,615</u>	<u>271,673</u>

The table above includes clients' money and the corresponding liability to clients, except insofar as they are short term creditors. This has been reconciled to the balance sheet in note 24(e).

The group has no fixed rate financial assets. Fixed rate financial liabilities relate to issued preference shares as described in note 18.

Floating rate financial assets comprise money market deposits at call rates, including segregated client money which is not included in the balance sheet, and treasury bills placed with brokers as collateral.

Floating rate financial liabilities comprise secured loans and unsecured subordinated loans as described in note 16.

Financial assets, on which no interest is earned, include 2002: £7,133, 31 May 2003 — £1,970, 31 May 2004 — £1,970, 30 November 2004 — £nil in respect of an investment.

The financial assets and liabilities have been reconciled to the balance sheet in note 24(e).

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(b) Other interest rate risks

Financial assets and liabilities have been included in the analysis at their mark to market value. Certain additional information on interest rate risks arising on these assets and liabilities is described below.

*Funding of contracts for differences*

The group uses contracts for differences with various financial institutions to hedge its market risk in respect of equity derivatives traded with clients. It also offers similar contracts for differences to certain of its clients. The net equity derivatives position gives rise to a funding liability or asset which bears or earns interest at rates linked to inter-bank rates on the gross value of the underlying equities. The amounts involved were as follows:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Asset/(liability)</b>				
Sterling	(1,043)	2,256	(2,581)	(6,657)
US dollars	(1,527)	(5,202)	3,813	1,129
Euro	182	30	1,587	(343)
Other currencies	421	(93)	(274)	(719)
	<u>(1,967)</u>	<u>(3,009)</u>	<u>2,545</u>	<u>(6,590)</u>

*Interest rate futures*

The group offers bets to its clients on the prices of interest rate futures and options contracts and hedges its exposure using underlying exchange traded futures and options. The overall interest rate risk is to floating rates and is shown in the following table which shows the net notional principal of client positions and hedges.

	31 May 2002 £000	Notional principal		30 November 2004 £000
		31 May 2003 £000	31 May 2004 £000	
<b>Contracts based on short term interest rates</b>				
Sterling	(6,492)	64,490	(41,148)	(10,721)
US dollars	(6,905)	(32,950)	(36,211)	3,538
Euro	34,937	1,269	51,574	24,471
Yen	17,006	4,800	2,963	10,461
<b>Contracts based on long term interest rates</b>				
Sterling	(3,500)	770	(140)	980
US dollars	(641)	(2,143)	(28,273)	(9,408)
Euro	(1,169)	723	338	534
Yen	131	261	554	2,011
	<u>33,367</u>	<u>37,220</u>	<u>(50,343)</u>	<u>21,866</u>



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(c) Currency risk

The functional currency of the group is Sterling. The net monetary assets and liabilities in currencies other than Sterling at the balance sheet dates were as follows:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
US dollars	247	(7,650)	(5,970)	1,305
Euro	(540)	(1,938)	(6,029)	(13,417)
Yen	702	631	1,712	(476)
Swiss franc	2,249	(2,224)	(1,290)	(1,310)
Other currencies	523	1,005	1,437	4,211

(d) Maturity profile of financial liabilities

The group's floating rate financial liabilities are repayable as shown in note 16.

The group's fixed rate financial liabilities relate to issued preference shares which are repayable as described in note 18.

The group's financial liabilities on which no interest is paid were all due within one year or less, on demand.

(e) Fair values

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 fair value of the group's financial assets and liabilities, excluding short term debtors and creditors, analysed into appropriate categories, is as follows:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Financial Assets</b>				
Financial assets other than financial instruments:				
Cash and money market deposits, including client money (see note 17)	60,851	78,925	89,415	122,157
Investments	7	2	2	—
	60,858	78,927	89,417	122,157
Financial instruments	17,468	19,840	199,496	271,672
Total financial assets	<u>78,326</u>	<u>98,767</u>	<u>288,913</u>	<u>393,829</u>
<b>Financial Liabilities</b>				
Financial liabilities other than financial instruments:				
Loans	—	—	(102,264)	(101,979)
Preference shares	—	—	(35,700)	(35,700)
Financial instruments	(16,129)	(16,731)	(9,798)	(28,589)
Total financial liabilities	<u>(16,129)</u>	<u>(16,731)</u>	<u>(147,762)</u>	<u>(166,268)</u>
Net financial assets	<u>62,197</u>	<u>82,036</u>	<u>141,151</u>	<u>227,561</u>

*Reconciliation of financial assets and liabilities to amounts included in the balance sheet*

The table above includes clients' money and the corresponding liability to clients, except insofar as they are short term creditors. As explained in note 17, these amounts are not included in the balance sheet.

In order to reconcile the amounts shown for financial instruments above to the amounts included in the balance sheet, it is necessary to add back short term debtors and creditors with clients and brokers and, after appropriately netting gross debit and credit balances, deduct the liability corresponding to clients' money held

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by the group. Gross balances are netted only where a legally binding and enforceable netting agreement is in place.

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
<b>Reconciliation of financial assets</b>				
Financial instruments	17,468	19,840	199,496	271,672
Client debit balances	1,238	2,292	1,680	3,414
Cash held with brokers	20,391	13,022	(148,788)	(201,790)
Effect of netting	<u>(20,498)</u>	<u>(18,379)</u>	<u>(18,741)</u>	<u>(29,905)</u>
Total financial assets	<u>18,599</u>	<u>16,775</u>	<u>33,647</u>	<u>43,391</u>
<b>As recorded in the financial statements</b>				
Amounts due from brokers (note 14)	13,174	13,723	31,474	41,124
Amounts due from clients (note 14)	<u>5,425</u>	<u>3,052</u>	<u>2,173</u>	<u>2,267</u>
	<u>18,599</u>	<u>16,775</u>	<u>33,647</u>	<u>43,391</u>
<b>Reconciliation of financial liabilities</b>				
Financial instruments	16,129	16,731	9,798	28,589
Client credit balances	55,484	24,736	95,202	121,467
Effect of netting	(20,498)	18,379	(18,741)	(29,905)
Segregated client net equity (note 17)	<u>(37,311)</u>	<u>(43,373)</u>	<u>(66,339)</u>	<u>(93,454)</u>
Total financial liabilities	<u>13,804</u>	<u>16,473</u>	<u>19,920</u>	<u>26,697</u>
<b>As recorded in the financial statements</b>				
Amounts due to clients (note 15)	<u>13,804</u>	<u>16,473</u>	<u>19,920</u>	<u>26,697</u>

(f) Gains and losses on financial assets and liabilities

Gains and losses from trading in financial assets and liabilities are provided in the segmental analysis in note 2. The types of financial instrument included within each of the categories for which gains and losses are shown are also provided.

(g) Undrawn committed borrowing facilities

The group had the following undrawn committed borrowing facilities at each balance sheet date, each of which expired within one year of the balance sheet date:

	31 May 2002 £000	31 May 2003 £000	31 May 2004 £000	30 November 2004 £000
Undrawn committed borrowing facilities	<u>20,000</u>	<u>18,000</u>	<u>25,000</u>	<u>25,000</u>

All conditions precedent had been met at the balance sheet date.

**25 RELATED PARTY TRANSACTIONS**

During the year ended 31 May 2004 the company paid a fee of £1 million to CVC Capital Partners Advisory Co Limited, a company related to CVC Capital Partners Limited. Funds managed or advised by CVC Capital Partners Limited or its affiliates hold 64.2% of the issued A ordinary share capital of the company.

Funds managed or advised by CVC Capital Partners Limited or its affiliates have made loans of £18.1 million to the company. These loans are 11% subordinated loans further described in note 16.

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**26 NOVEMBER 2003 COMPARATIVE INFORMATION**

**26.1 Group Profit and Loss Account**

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Turnover	29,501	23,088
Cost of sales	(1,366)	(793)
<b>Gross profit</b>	<b>28,135</b>	<b>22,295</b>
Administrative expenses	(18,348)	(14,728)
<b>Operating profit</b>	<b>9,787</b>	<b>7,567</b>
Interest receivable	2,439	1,447
Interest payable and similar charges	(6,892)	(4,622)
<b>Profit on ordinary activities before taxation</b>	<b>5,334</b>	<b>4,392</b>
Tax charge on profit on ordinary activities	(475)	(1,492)
<b>Profit on ordinary activities after taxation</b>	<b>4,859</b>	<b>2,900</b>
Minority interests – equity	56	39
<b>Profit attributable to members of the parent company</b>	<b>4,915</b>	<b>2,939</b>
Dividends	—	—
<b>Retained profit for the period</b>	<b>4,915</b>	<b>2,939</b>
Earnings per share		
– Basic	£4.93	£2.95
– Diluted	£4.93	£2.95

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**26.2 Group Balance Sheet**

	<b>30 November 2004 £000</b>	<b>30 November 2003 £000</b>
<b>Fixed assets</b>		
Intangible assets	102,588	108,389
Tangible assets	5,353	6,549
Investments	—	2
	<u>107,941</u>	<u>114,940</u>
<b>Current assets</b>		
Debtors	45,693	35,801
Cash at bank and in hand	28,703	12,006
	<u>74,396</u>	<u>47,807</u>
<b>Creditors: amounts falling due within one year</b>	<u>39,777</u>	<u>28,825</u>
<b>Net current assets</b>	<u>34,619</u>	<u>18,982</u>
<b>Total assets less current liabilities</b>	<u>142,560</u>	<u>133,922</u>
<b>Creditors: amounts falling due after more than one year</b>	99,237	98,982
Minority interests	223	163
	<u>43,546</u>	<u>35,103</u>
<b>Capital and reserves</b>		
Ordinary share capital	10	10
Preference share capital	35,517	35,008
Profit and loss account	8,019	85
<b>Total shareholders' funds</b>	<u>43,546</u>	<u>35,103</u>

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**26.3 Group Statement of Cash Flow**

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Net cash inflow from operating activities	8,930	6,886
<b>Returns on investments and servicing of finance</b>		
Interest received	2,373	1,592
Interest paid	(3,888)	(7,960)
Issue costs of new long term finance	—	(6,544)
	<u>(1,515)</u>	<u>(12,912)</u>
<b>Taxation</b>		
Corporation tax paid	(606)	(2,670)
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	(943)	(1,015)
Sale of tangible fixed assets	—	1
Sale of fixed asset investments	42	—
	<u>(901)</u>	<u>(1,014)</u>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertaking	—	(151,229)
<b>Financing</b>		
Loans advanced	—	117,394
Loans repaid	—	(15,700)
Loan notes repaid	(281)	(11)
Issue of ordinary shares	—	10
Issue of preference shares	—	35,700
	<u>(281)</u>	<u>137,393</u>
<b>Increase/(decrease) in cash</b>	<u>5,627</u>	<u>(23,546)</u>

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**26.4 Reconciliation of Net Cash Flow to Movement in Net Debt**

	<b>Six months ended 30 November 2004 £000</b>	<b>Six months ended 30 November 2003 £000</b>
Increase/(decrease) in cash	5,627	(23,546)
Cash inflow from increase in loans	—	(117,394)
Repayment of short term loans	—	15,700
Interest accrued but not paid	(1,197)	(569)
Issue costs of new long term loans	(1,327)	3,281
Net cash inflow from loan notes	<u>281</u>	<u>(1,127)</u>
<b>Movement in net funds/(debt)</b>	<b>3,384</b>	<b>(123,655)</b>
Opening net funds/(debt)	<u>(78,607)</u>	<u>35,552</u>
Closing net funds/(debt)	<u><u>(75,223)</u></u>	<u><u>(88,103)</u></u>

**Part VI**  
**Accountants' Report on the Group**

**26.5 Other Disclosures**

(a) Segmental analysis

(i) Business segments

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
<b>Turnover</b>		
Financial	23,113	18,573
Financial binaries	2,541	897
Sports	3,847	3,618
	<u>29,501</u>	<u>23,088</u>
Turnover for the Financial and Sports business segments is further analysed as follows:		
<b>Financials</b>		
Equity indices	7,695	8,526
Equities	9,061	6,733
Currencies	4,532	3,026
Other	1,825	288
	<u>23,113</u>	<u>18,573</u>
<b>Sports</b>		
Spread bets	3,389	3,540
Binary bets	458	78
	<u>3,847</u>	<u>3,618</u>
<b>Profit</b>		
<i>Segment profit</i>		
Financial	17,457	14,097
Financial binaries	1,770	566
Sports	684	871
	<u>19,911</u>	<u>15,534</u>
Common costs	(14,577)	(11,142)
Profit before taxation	<u>5,334</u>	<u>4,392</u>
<b>Net assets</b>		
Financial	13,450	9,953
Financial binaries	(643)	(214)
Sports	440	890
	<u>13,247</u>	<u>10,629</u>
Unallocated net assets	<u>30,299</u>	<u>24,474</u>
	<u>43,546</u>	<u>35,103</u>

**Part VI**  
**Accountants' Report on the Group**

Unallocated net assets comprise the following items which do not relate to specific business segments:

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Goodwill	102,272	107,853
Tangible fixed assets	1,298	1,385
Fixed asset investments	—	2
Debtors and prepayments	2,120	877
Cash	28,087	11,776
Creditor balances	(5,058)	(5,784)
Corporation tax	4,994	7,184
Minority interests	223	163
Loans	(103,637)	(98,982)
	<u>30,299</u>	<u>24,474</u>

(ii) Geographical segments

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
<b>Turnover</b>		
United Kingdom	27,660	22,596
Australia	1,841	492
	<u>29,501</u>	<u>23,088</u>
<b>Profit</b>		
<i>Segment profit</i>		
United Kingdom	13,599	10,332
Australia	922	(121)
	<u>14,521</u>	<u>10,211</u>
Common costs	(9,187)	(5,819)
Profit before taxation	<u>5,334</u>	<u>4,392</u>
<b>Net assets</b>		
United Kingdom	41,363	24,843
Australia	3,548	1,389
	<u>44,911</u>	<u>26,232</u>
Unallocated net assets	(1,365)	8,871
	<u>43,546</u>	<u>35,103</u>



**Part VI**  
**Accountants' Report on the Group**

Unallocated net assets comprise the following items which do not relate to specific geographical segments:

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Goodwill	102,272	107,853
Loans	(103,637)	(98,982)
	<u>(1,365)</u>	<u>8,871</u>

(b) Operating profit

This is stated after charging:

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Amortisation of goodwill	2,840	1,392
Depreciation of owned assets	1,899	1,597
Operating lease rentals for land and buildings	497	475
Foreign exchange differences	702	(756)
Loss/(profit) on sale of tangible fixed assets	(40)	(2)
Auditors' remuneration — audit services	78	60
— non-audit services	66	17
	<u>66</u>	<u>17</u>

(c) Staff costs

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Wages and salaries	7,213	6,742
Social security costs	868	806
Other pension costs	422	294
	<u>8,503</u>	<u>7,842</u>

Wages and salaries include the following amounts in respect of performance related bonuses:

Performance related bonuses	<u>2,307</u>	<u>2,129</u>
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(d) Clients' money

	Six months ended 30 November 2004 £000	Six months ended 30 November 2003 £000
Net interest receivable on client money	<u>1,584</u>	<u>950</u>

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## Part VII

# Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation

## 1 OVERVIEW

The audited financial information of IG has been prepared in accordance with UK GAAP, which differs in certain significant respects from US GAAP and IFRS. The Company has identified certain significant differences between UK GAAP, US GAAP and IFRS, as summarised below, that may be applicable to its financial statements.

IG has undertaken a high level reconciliation of its financial statements prepared under UK GAAP to IFRS as at 30 November 2004 and quantified the effect of the differences between current UK GAAP and IFRS. Other than as set out below, no significant effects were identified as part of the high level analysis undertaken by IG although a more detailed exercise might identify other potentially significant accounting and disclosure differences. IG has not undertaken a reconciliation of its financial statements prepared under UK GAAP to US GAAP or quantified the effect of the differences between current UK GAAP and US GAAP on its profits or losses or shareholders' funds. Had IG undertaken such a reconciliation or quantification, other potentially significant accounting and disclosure differences may have been identified that would need to be disclosed in the summary below. Accordingly there can be no assurances that such profits or losses or shareholders' funds determined in accordance with UK GAAP would not be significantly different if they had been determined under US GAAP.

The summaries below should not be taken as a complete list of all differences between UK GAAP, US GAAP and IFRS. IG can provide no assurance that the differences identified below represent all the differences relating to its consolidated financial statements. These summaries do not attempt to identify all disclosures, presentations or classifications that would affect the manner in which transactions or events are presented in the financial statements or notes thereto.

## 2 SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN UK GAAP AND US GAAP

Certain significant differences between UK GAAP and US GAAP as they relate to IG for financial years 2002, 2003 and 2004 and the six months ended 30 November 2004 are summarised below.

### UK GAAP

#### Business combinations, goodwill and intangible assets

The identifiable assets and liabilities of IG Group are initially recognised at fair value and the difference between the cost of the acquired business and the sum of these fair values is recognised as goodwill.

The goodwill arising on the purchase of IG Group has been capitalised and is being amortised over its estimated useful life of 20 years.

The goodwill arising on the purchase of the goodwill and trade of William Hill Index has been capitalised and is being amortised over its estimated useful life of five years.

### US GAAP

#### Business combinations, goodwill and intangible assets

Similarly, under US GAAP, the assets and liabilities of a purchased business are initially recognised at fair value and the difference between the cost of the acquired business and the sum of these fair values if lower is recognised as goodwill.

For all purchase transactions goodwill is no longer subject to amortisation.

All goodwill must be allocated to reporting units and the goodwill of each reporting unit is tested at least annually for impairment or more often if circumstances indicate the carrying value may not be recoverable.

## **Part VII**

### **Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation**

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#### **UK GAAP**

In addition, goodwill is subject to an impairment review if there are events or circumstances that indicate that the carrying amount is not recoverable.

#### **Deferred taxes**

Deferred taxation is recognised in respect of all timing differences between taxable and book income and expenditure that have originated but not reversed at the balance sheet date. Deferred taxation is measured using enacted or substantially enacted rates. Deferred taxation is not recognised on permanent differences or for taxation that would become payable if the undistributed reserves of overseas companies were remitted to the United Kingdom.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

#### **Dividends**

Dividends are accrued in the periods for which they are declared or proposed by the directors.

#### **Warrants**

Under UK GAAP, no charges are recognised for ordinary shares issued under warrant instruments when the exercise price is below fair market value on the date of issue. On exercise, the excess of the proceeds received over the nominal value of the shares issued will be taken to the share premium account.

#### **Redeemable preference shares**

Amounts relating to the Preference Shares are reflected as non-equity shareholders' funds within shareholders' funds.

#### **Employee incentive plans**

The amount recognised as a charge to the profit and loss account, in respect of awards of shares or rights to shares, should be the fair value of the shares at the date an award is granted reduced by any consideration payable by the employee. This amount should be charged over the period to which the employee's performance relates. However, where there are no performance criteria and the award is clearly unrelated to past performance, the cost is recognised immediately.

A provision is made for the expected employers' National Insurance charge on the benefit to be

#### **US GAAP**

Other intangible assets identified are amortised over their useful lives and subject to impairment testing when events or circumstances indicate that their carrying amount may not be recoverable.

#### **Deferred taxes**

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences and tax loss carryforwards if their realisation is more likely than not.

The tax effects of temporary differences and tax loss carryforwards is calculated using enacted tax rates expected to apply to taxable income in the period in which the deferred tax liability or asset is expected to be settled or realised.

#### **Dividends**

Dividends are recorded in the period in which they are declared.

#### **Warrants**

Under U.S. GAAP, the Group would record a charge against profit based on the fair value of the warrants, determined using an option pricing model, on the date the goods are provided or the service is performed.

#### **Redeemable preference shares**

These amounts would either be included within shareholders' funds or within liabilities as redeemable preferred stock based on whether certain criteria are met.

#### **Employee incentive plans**

A company currently has a choice to account for stock options granted to a company's employees using the intrinsic value method or the fair value method, using an option pricing model. Any compensation charges arising from either the intrinsic value method or the fair value method would be charged to profit over the option vesting period.

A liability for employee payroll taxes on employee stock compensation is recognised on the date of the event triggering the measurement and payment of tax to the relevant authority.

## Part VII

### Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation

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#### UK GAAP

received by the employees (being the difference between the fair value of the shares on vesting and the consideration payable by the employee).

#### Derivative financial instruments

Bets and derivative financial instruments are carried at fair market value and the resultant profits and losses are included in turnover. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients and brokers, reduced by the effect of other assets or liabilities with a counterparty where a qualifying netting agreement is in place. Fair value is determined by reference to third party market values or, in the case of sports bets and other bets where there is no underlying market, to the Group's quote 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 year end settlement prices.

The Group uses derivative transactions with brokers in order to hedge exposures resulting from derivative transactions placed by clients

#### Consolidated cash flow statement

Cash flows do not include cash equivalents, which are generally incorporated into the "financing" and "financial investments" components of cash flow statements. Cash flow is reconciled to cash including fiduciary funds.

Under UK GAAP, if applicable, cash flows are presented separately for operating activities, dividends from associates, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions, equity dividends and management of liquid resources and financing.

#### US GAAP

#### Derivative financial instruments

All derivatives are required to be recognised in the statement of financial position as either assets or liabilities and measured at fair value.

The change in fair value is recognised in net income or other comprehensive income depending on whether a derivative is designated and qualifies as part of a hedge transaction. US GAAP prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. The Company's hedges would not meet the criteria for hedge accounting under US GAAP and therefore the change in fair value would be recognised immediately in net income.

#### Consolidated cash flow statement

Cash and cash equivalents are included within cash flows and include short-term highly liquid investments but do not include bank overdrafts.

Cash flows are presented under the headings of operating, investing, and financing activities. Cash flow would be reconciled to own cash, which would exclude fiduciary funds.

Under U.S. GAAP, cash paid or received for interest and income taxes would be included in operating activities and capital expenditure would be included within investing activities

### 3 UNAUDITED IFRS RECONCILIATION

The following IFRS reconciliation (the "IFRS Reconciliation") sets out the main areas of impact on IG's profits after taxation and minority interests for the six month period ended 30 November 2004 (ie as if IG had reported under IFRS for this period) which would result from the application of accounting standards endorsed for use by EU entities required to comply with Regulation EC 1606/2002 ("adopted IFRS") in accordance with the basis set out in Note 1, below, instead of accounting standards applicable in the United Kingdom.

## Part VII

### Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation

	Notes	Six months ended 30 November 2004 £000
Profit after taxation and minority interests (UK GAAP)		4,915
Amortisation of goodwill	3	2,840
Bid/offer adjustment	4	(94)
Taxation charge adjustment	5	28
Profit after taxation and minority interest (IFRS)		<u>7,689</u>

## NOTES TO THE IFRS RECONCILIATION

### 1 BASIS OF PREPARATION

Following Admission, the Company will be required to prepare for the first time consolidated financial statements which comply with adopted IFRS, commencing 1 June 2005, (the “2006 financial statements”) and subsequently.

In addition to financial information under UK GAAP for financial years 2002, 2003 and 2004, and the six months ended 30 November 2004, the Directors have prepared a reconciliation for the six months ended 30 November 2004 (the “underlying reconciliation”) on the basis expected to be applicable, insofar as this is currently known, to comparative information prepared for inclusion in the first consolidated financial statements of the Company prepared in accordance with adopted IFRS.

When the 2006 financial statements are prepared, they will be the first financial statements prepared by the Company in accordance with adopted IFRS and as such will take account of the requirements and options in IFRS 1 “First-time Adoption of International Financial Reporting Standards” as they relate to the 2005 comparatives included therein.

Notes 2 to 5 below describe how, in preparing the underlying reconciliation, the Directors have applied adopted IFRS under the first-time adoption provisions set out in IFRS 1 and the assumptions they have made about the standards and interpretations expected to be effective and the policies they expect to adopt in the 2006 financial statements.

However, certain of the requirements and options in IFRS 1 relating to comparative financial information presented on first-time adoption may result in a different application of accounting policies in the underlying reconciliation to that which would apply if the 2005 financial statements were the first financial statements of the Company prepared in accordance with adopted IFRS. Consequently the underlying reconciliation may require adjustment before constituting part of the comparative financial information to be included in those 2006 financial statements. Different applications may arise when:

- ▶ there are subsequent changes to the Standards or Interpretations applicable to the 2006 financial statements; or
- ▶ where the Directors, in drawing up the 2006 financial statements, make different choices from those which they have assumed in preparing the underlying reconciliation with respect to the options in IFRS 1.

The underlying reconciliation has been prepared on a consistent basis with the recommendations of CESR for the consistent implementation of the European Commission’s Regulation on Prospectuses 809/2004 as to the presentation of one-year information in prospectuses for entities transitioning to adopted IFRS.

### 2 FIRST-TIME ADOPTION OF IFRS

The general principle that should be applied on the first-time adoption of IFRS is that standards in force at the first reporting date (that is, for the Company, 31 May 2006) should be applied retrospectively. IG has elected

## **Part VII**

### **Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation**

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not to restate its financial information for acquisitions occurring before 1 June 2004 in accordance with the exemptions contained in IFRS 1 which companies are permitted to apply.

#### **3 GOODWILL AMORTISATION**

Goodwill created on the management buy-out of IG has been capitalised and is currently being amortised over its estimated useful economic life of 20 years. Under IFRS, amortisation of goodwill is not permitted and accordingly no amortisation charge will arise. IFRS requires an annual impairment test in lieu of the amortisation charge. No adjustment, however, is made for amortisation charged prior to the effective date of adoption of IFRS.

#### **4 BID/OFFER ADJUSTMENT**

Bets and financial derivatives are carried at fair market value and the resultant profits and losses are included in turnover. IFRS requires the use of bid prices for open long positions and ask prices for open short positions where IG has historically accounted for bets and financial derivative positions using the mid-market price. Accordingly, IG will book a mid to bid/offer adjustment. Before tax, this adjustment reduces IG's shareholders funds by £585,000 as at 1 June 2004 and £679,000 as at November 2004.

#### **5 TAXATION CHARGE ADJUSTMENT**

The reconciling item relating to the amortisation of goodwill does not have a related impact on the Group's charge for taxation. The bid/offer adjustment impacts the Group's charge for taxation and this has been calculated assuming an effective tax rate of 30 per cent.

#### **6 OTHER AREAS OF IMPACT**

In addition to the above principal areas of impact on profit after taxation and minority interests, a number of other changes will arise upon transition to adopted IFRS which, whilst not impacting total profit after taxation and minority interests, will affect the presentation or disclosure of the financial information as at 1 June 2004 and/or 30 November 2004. These include:

##### **6.1 Client Money**

Client money held on trust is not currently included in the balance sheet. Under IFRS, it will be required to be included in IG's current assets with a corresponding liability to clients included in current liabilities.

##### **6.2 Preference Shares**

The fixed rate non-cumulative preference shares are currently recorded as non-equity shareholders' funds. Under IFRS, the preference shares will be recorded as a liability. It is intended that these preference shares will be redeemed out of the net proceeds of the Global Offer receivable by the Company, together with existing surplus cash.

##### **6.3 Offset**

Assets and liabilities with the same counterparty are offset in the balance sheet where IG has the legal right to offset in the event of the counterparty's default. Under IFRS, offset is only permitted if, additionally, IG has the intention to settle net. An adjustment is therefore required to gross-up current assets and current liabilities.

##### **6.3 Minority Interest**

Under IFRS the minority interest is treated as a separate component of equity in the balance sheet.

**Part VII**

**Summary of Certain Significant Differences between UK GAAP and US GAAP and IFRS Reconciliation**

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The Directors  
IG Group Holdings plc  
Friars House  
157 — 168 Blackfriars Road  
London SE1 8EZ

UBS Limited  
1 Finsbury Avenue  
London EC2M 2PP

13 April 2005

Dear Sirs

We report on the unaudited International Financial Reporting Standards (“IFRS”) reconciliation (the “IFRS Reconciliation”) in respect of the financial information of IG Group Holdings plc (the “Company”) set out in Part VII of the prospectus dated 13 April 2005 (the “Prospectus”) which has been prepared on the basis set out in Note 1 in anticipation of the Company’s transition to accounting standards endorsed for use by EU entities required to comply with Regulation EC 1606/2002 (“adopted IFRS”).

The IFRS Reconciliation incorporates significant adjustments to the total consolidated profit after taxation and minority interests for the six months ended 30 November 2004 of the Company as set out in the Accountants’ Report in Part VI of the Prospectus which is prepared in accordance with accounting standards applicable in the United Kingdom (“UK GAAP”). The financial information for the six months ended 30 November 2004 is based on the audited non-statutory financial statements of IG Group Holdings plc for the same period, which were prepared in accordance with UK GAAP.

As explained in Note 1, the basis on which the IFRS Reconciliation has been prepared may differ from the basis applicable if the information was prepared for the purposes of the first consolidated financial statements of the Company under adopted IFRS and from the basis which will be adopted for the 2005 comparative financial information in the Company’s 2006 consolidated financial statements prepared for the first time under adopted IFRS.

**Responsibility**

It is the responsibility solely of the Directors of the Company to prepare the IFRS Reconciliation so as to present the consolidated financial information of the Company therein on a basis consistent in all material respects in accordance with adopted IFRS. It is our responsibility to form an opinion on the IFRS Reconciliation information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work consisted primarily of making enquiries of management of the Company to establish the accounting policies intended to be applied in the first consolidated financial statements, considering the evidence supporting the IFRS Reconciliation and discussing the IFRS Reconciliation with the directors of the Company.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

**Opinion**

In our opinion the IFRS Reconciliation information has been properly compiled on the basis stated and the adjustments set out are appropriate for the purpose of presenting the financial information (as adjusted for adopted IFRS) in accordance with the basis set out in Note 1.

Yours faithfully  
Ernst & Young LLP

## Part VIII

### Pro Forma Statement of Net Assets

#### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The following unaudited pro forma statement of net assets (“pro forma statement”) of the Company and its subsidiaries (“the Group”) has been prepared on the bases set out in the notes below and is presented for illustrative purposes only in order to give an indication of the net assets of the Group had the changes to the capital structure relating to the Global Offer been completed on 30 November 2004. The pro forma statement, because of its nature, may not give a true picture of the financial position of the Group.

	30 November 2004 £'000	Adjustments Notes (b)-(e) £'000	Pro forma net assets of the Group £'000
<b>Fixed assets</b>			
Intangible assets	102,588	—	102,588
Tangible assets	5,353	—	5,353
	<u>107,941</u>	<u>—</u>	<u>107,941</u>
Current assets/debtors	45,693	—	45,693
Cash at bank and in hand	28,703	(23,689)	5,014
	<u>74,396</u>	<u>(23,689)</u>	<u>50,707</u>
Creditors: amounts falling due within one year	(39,777)	4,405	(35,372)
Net current assets	<u>34,619</u>	<u>(19,284)</u>	<u>15,335</u>
Total assets less current liabilities	142,560	(19,284)	123,276
Creditors: amounts falling after more than one year	(99,237)	99,237	—
Minority interests	223	—	223
Net assets	<u><u>43,546</u></u>	<u><u>79,953</u></u>	<u><u>123,499</u></u>

- (a) *The net assets of the Group at 30 November 2004 are extracted without material adjustment from the consolidated balance sheet in the Accountant’s Report in Part VI.*
- (b) *The net proceeds of the Global Offer receivable by the Company will be approximately £124 million. These proceeds are to be used to repay bank debt of £80.0 million, shareholder loans of £21.7 million and preference shares of £35.7 million along with accrued interest and preference dividends amounting to £10.3 million.*
- (c) *The reduction in cash at bank and in hand of £23.7 million represents the net cash impact of the transactions described above in note (b).*
- (d) *The adjustment to creditors: amounts falling due within one year represents the repayment of the element of bank debt due within one year.*
- (e) *The decrease in creditors: amounts falling due after more than one year represents the repayment of the remainder of the bank debt amounting to £75.6 million, shareholder loans of £21.7 million and accrued interests of £3.0 million, less unamortised issue costs of £1.0 million.*
- (f) *No adjustments have been made to reflect any trading or other transactions since 30 November 2004 other than those disclosed above.*





1 More London Place  
London  
SE1 2AF

13 April 2005

The Directors  
IG Group Holdings plc  
Friars House  
157 – 168 Blackfriars Road  
London SE1 8EZ

UBS Limited  
1 Finsbury Avenue  
London EC2M 2PP

Dear Sirs

We report on the pro forma statement of net assets set out in this Part VIII of the prospectus dated 13 April 2005 which has been prepared, for illustrative purposes only, to provide information about how the Global Offer might have affected the financial information presented.

**Responsibility**

It is the responsibility solely of the directors of IG Group Holdings plc to prepare the pro forma statement of net assets in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma statement of net assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information (ie, the financial statements for the six months ended 30 November 2004) used in the compilation of the pro forma statement of net assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and the Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of IG Group Holdings plc.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

**Opinion**

In our opinion:

- (a) the pro forma statement of net assets has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the issuer; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully  
Ernst & Young LLP

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## Part IX

# The Global Offer

### SUMMARY OF THE GLOBAL OFFER

By way of the Global Offer, which is fully underwritten by the Underwriters subject to certain conditions including the determination of the Offer Price and the number of Ordinary Shares to be comprised in the Global Offer and the entering into of a purchase memorandum in accordance with the terms of the Underwriting Agreement (further details of which are set out in paragraph 10 of Part XI (Additional Information) of this document), the Company intends to raise approximately £124 million, net of the estimated commissions, fees and expenses of the Global Offer and therefore the aggregate number of New Ordinary Shares available under the Global Offer will vary depending on the Offer Price. Based upon an Offer Price at the mid-point of the Indicative Offer Price Range, it is currently expected that 105,079,793 New Ordinary Shares will be issued by the Company and 73,885,035 Existing Ordinary Shares will be offered by the Selling Shareholders and will be available under the Global Offer. The actual number of New Ordinary Shares to be issued by the Company and Existing Ordinary Shares to be offered under the Global Offer will only be decided by the Company and the Selling Shareholders together with the Global Coordinator at the same time as determination of the Offer Price and may vary significantly above or below the expected figure.

UBS is the Global Coordinator of the Global Offer. The Global Offer comprises the Institutional Offer and the Public Offer.

The Institutional Offer is being made by way of an offering outside the United States to certain institutional investors in reliance on Regulation S and within the United States to people reasonably believed to be QIBs in reliance on Rule 144A or another exemption from registration under the Securities Act.

The Public Offer comprises:

- (i) the Client Offer, being an offer of Ordinary Shares to Qualifying Clients; and
- (ii) the Employee Offer, being an offer of Ordinary Shares to Qualifying Employees.

Certain restrictions that apply to the distribution of this document and the offer, sales and transfers of Ordinary Shares in jurisdictions outside the United Kingdom are described in paragraphs 15 and 16 of Part XI (Additional Information) of this document.

In connection with the Global Offer, the Institutional Investors have granted the Global Coordinator, on behalf of the Underwriters, the Overallotment Option. There will be no obligation on the Global Coordinator to exercise the Overallotment Option.

Under the Global Offer, all Ordinary Shares will be issued at the Offer Price, which will be determined by the Global Coordinator, the Company and the CVC Shareholders. It is currently expected that the Offer Price will be within the Indicative Offer Price Range. **There is no assurance, however, that the actual Offer Price, when determined, will be within this range.** No fixed number of Ordinary Shares is being specifically reserved for any part of the Global Offer.

The Global Coordinator, the Company and the CVC Shareholders will determine the allocation between the Institutional Offer and the Public Offer, and between the two components of the Public Offer. The Global Coordinator and the Company shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances, as they deem appropriate. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer. Applicants in the Public Offer are encouraged to complete the relevant Application Form, further details of which are set out in Part X (Terms and Conditions of Application for the Public Offer), and return it with a Sterling cheque or bankers' draft payable to Capita IRG Plc, A/c "IG Share Offer" and drawn on a UK

## **Part IX**

### **The Global Offer**

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bank account to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH as soon as possible and, in any event, by 5.00 p.m. on 20 April 2005. Separate payment arrangements will be notified to employees of IG Australia who apply for Ordinary Shares under the Employee Offer but such employees will otherwise be subject to the same terms and conditions of the Employee Offer as are applicable to UK employees of the Group. **When determining whether to accept applications and allocations of Ordinary Shares amongst successful applicants, the Company may give priority according to the date applications are received so that greater priority may be given the earlier the date on which a valid application is received. However, there is no guarantee that applicants will receive all of the Ordinary Shares for which they apply and it is possible that they may not receive any.**

The Offer Price will not be known until after the last date for the receipt of bids from institutional investors and may be set at a price which is lower or higher than the Indicative Offer Price Range set out at the beginning of this document. Following determination of the Offer Price, a supplementary prospectus will be published setting out *inter alia*, the Offer Price, the aggregate number of New Ordinary Shares to be issued by the Company and the aggregate number of Existing Ordinary Shares to be sold by the Selling Shareholders. **Applications received in respect of the Public Offer are irrevocable and based on the amount the applicant wishes to invest and not a number of Ordinary Shares or the Offer Price. Applications, once received, cannot be withdrawn if there is a change to the Indicative Offer Price Range or if the Offer Price is set above or below this range.** An announcement of the Offer Price and allocation policies is expected to take place on 28 April 2005 when a supplementary prospectus is expected to be published. No fractions of Ordinary Shares will be allocated under the Global Offer or any part thereof and the moneys referable to any such fractional entitlements will be aggregated and the proceeds donated to a charity nominated by the Company. There can be no assurance that a regular trading market for Ordinary Shares will be sustained. The prices at which Ordinary Shares will be bought and sold on the public market after the Global Offer may be lower than the Offer Price.

Admission is expected to take place and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 4 May 2005. Prior to that time, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 28 April 2005 and that the earliest date for settlement of such dealings will be 4 May 2005. These times and dates may be changed. All dealings in the Ordinary Shares before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

Further details of the Global Offer are set out below.

#### **The Institutional Offer**

The Institutional Offer comprises an offer of Ordinary Shares outside the United States to institutional investors in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from registration under the Securities Act. The Global Coordinator is soliciting from prospective eligible investors indications of interest in acquiring Ordinary Shares in the Institutional Offer. Prospective eligible investors will be required to specify the number of Ordinary Shares which they would be prepared to acquire at different levels of the Indicative Offer Price Range. Allocations of Ordinary Shares under the Global Offer will be determined by the Global Coordinator, the Company and the CVC Shareholders after indications of interest from prospective investors have been received.

#### **The Public Offer**

The Public Offer comprises the Client Offer and the Employee Offer.

Applications for Ordinary Shares in the Public Offer must be made on the appropriate Application Form referred to in this document on or before 5.00 p.m. on 20 April 2005. All Ordinary Shares for which applications are wholly or partly accepted will be issued at the Offer Price (which may be within, above or below the Indicative Offer Price Range). By completing an Application Form, applicants will be irrevocably committing to acquire Ordinary Shares at the Offer Price whether it is within, above or below the Indicative Offer Price Range. If an application is accepted in part, the balance of moneys paid on that application will be returned by crossed cheque (without interest). No moneys will, however, be returned in amounts below the Offer Price and any such amounts will be donated to a charity nominated by the Company.

## **Part IX**

### **The Global Offer**

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The terms and conditions of the Public Offer are set out in Part X (Terms and Conditions of Application for the Public Offer) of this document.

#### **Client Offer**

Qualifying Clients may apply for Ordinary Shares online using the Client Application Form available from the Website.

In order to apply for Ordinary Shares in the Client Offer, Qualifying Clients must complete the Client Application Form (carefully following the instructions in the accompanying guidance notes) and return it by post or (during normal business hours only) by hand to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH with a Sterling cheque or bankers' draft payable to Capita IRG Plc, A/c "IG Share Offer" and drawn on a UK bank account, as soon as possible. In all cases, completed Client Application Forms must be received by Capita Registrars at the above address by no later than 5.00 p.m. on 20 April 2005. Client Application Forms must not be altered in any way as this may result in the application for Ordinary Shares being rejected in whole or in part. No acknowledgement of Client Application Forms will be given.

**When determining whether to accept applications and allocations of Ordinary Shares amongst successful applicants, the Company may give priority according to the date applications are received so that greater priority may be given the earlier the date on which a valid application is received. However, there is no guarantee that applicants will receive all of the Ordinary Shares for which they apply and it is possible that they may not receive any.**

Applications must be for a minimum of £250 worth of Ordinary Shares. Applications above £250 must be in multiples of £250. If the Global Offer is over-subscribed, applications under the Client Offer may be subject to scaling back, subject always to the discretion of the Global Coordinator and the Company to scale back applications in aggregate or in individual circumstances as they deem appropriate. Qualifying Clients may not receive all of the Ordinary Shares they apply for and it is possible that they may not receive any.

Further terms and conditions of the Client Offer are set out in Part X (Terms and Conditions of Application for the Public Offer) of this document.

#### **Employee Offer**

Qualifying Employees may apply for Ordinary Shares using the Employee Application Form on or before 5.00 p.m. on 20 April 2005. The Employee Application Form is available from the Company. In order to apply for Ordinary Shares in the Employee Offer, Qualifying Employees must complete the Employee Application Form by following the instructions on the form (carefully following the instructions in the accompanying guidance notes) and return it by post or (during normal business hours only) by hand to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH together with a Sterling cheque or bankers' draft payable to Capita IRG Plc A/c "IG Share Offer" and drawn on a UK bank account, as soon as possible. Separate payment arrangements will be notified to employees of IG Australia who apply for Ordinary Shares under the Employee Offer but such employees will otherwise be subject to the same terms and conditions of the Employee Offer as are applicable to UK employees of the Group. In all cases, completed Employee Application Forms must be received by Capita Registrars at the above address by no later than 5.00 p.m. on 20 April 2005. Employee Application Forms must not be altered in any way as this may result in the application for Ordinary Shares being rejected in whole or in part. No acknowledgement of Employee Application Forms will be given.

Applications must be for a minimum of £250 worth of Ordinary Shares. Applications above £250 must be in multiples of £250. The Global Coordinator and the Company shall have discretion to scale back, applications under the Employee Offer, in aggregate or in individual circumstances as they deem appropriate. Qualifying Employees may not receive all of the Ordinary Shares they apply for and it is possible that they may not receive any.

## **Part IX**

### **The Global Offer**

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Further terms and conditions of the Employee Offer are set out in Part X (Terms and Conditions of Application for the Public Offer) of this document.

#### **Pricing and allocation**

All Ordinary Shares issued or sold pursuant to the Global Offer will be issued or sold, payable in full, in cash, at the Offer Price. The Offer Price, the number of Ordinary Shares allocated and the basis of allocation is expected to be announced on 28 April 2005.

Following Admission, the rights attaching to the New Ordinary Shares and the Existing Ordinary Shares will be uniform in all respects and they will form a single class for all purposes. The proportions in which particular allocations of Ordinary Shares under the Global Offer will comprise Existing Ordinary Shares and New Ordinary Shares may vary at the discretion of the Global Coordinator and the Company. Certain rights of recourse arising pursuant to the Global Offer in respect of the Ordinary Shares (including in relation to title to the Ordinary Shares) may be derived from different persons according to whether the Ordinary Shares acquired are New Ordinary Shares or Existing Ordinary Shares.

It is currently expected that the Offer Price will be within the Indicative Offer Price Range, but it may be set above or below this range. The Offer Price will be determined by the Global Coordinator, the Company and the CVC Shareholders. Following determination of the Offer Price, a supplementary prospectus will be published setting out, inter alia, the Offer Price, the aggregate number of New Ordinary Shares to be issued by the Company and the aggregate number of Existing Ordinary Shares to be sold by the Selling Shareholders. **Applications received in respect of the Public Offer are irrevocable and are based on the amount the applicant wishes to invest and not a number of shares or the Offer Price. Applications, once received, cannot be withdrawn if there is a change to the Indicative Offer Price Range or if the Offer Price is set above or below this range.**

The Global Coordinator, the Company and the CVC Shareholders will determine the allocation between the Institutional Offer and the Public Offer, and between the two components of the Public Offer. The Global Coordinator and the Company shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances as they deem appropriate. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer. Applicants in the Public Offer may not receive all of the Ordinary Shares they apply for and it is possible that they may not receive any. Applicants in the Public Offer are encouraged to complete an Application Form as soon as possible and return it with a Sterling cheque or bankers' draft payable to Capita IRG Plc, A/c "IG Share Offer" drawn on a UK bank account to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham Kent BR3 4TH as soon as possible and, in any event, by 5.00 p.m. on 20 April 2005. **When determining whether to accept applications and allocations of Ordinary Shares amongst successful applicants, the Company may give priority according to the date applications are received so that greater priority may be given the earlier the date on which a valid application is received. However, there is no guarantee that applicants will receive all of the Ordinary Shares for which they apply and it is possible that they may not receive any.**

#### **Overallotment and stabilisation**

In connection with the Global Offer, UBS, as stabilising manager, or any of its agents, may over allot or effect other transactions with a view to supporting the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, the Ordinary Shares or other securities of the Company, in each case at a level higher than that which might otherwise prevail for a limited time after the Offer Price is announced. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. However, there is no obligation on UBS or any of its agents to undertake stabilisation transactions. Such stabilising transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law or regulation, neither UBS nor its agents intend to disclose the extent of any overallotments and/or stabilisation transactions under the Global Offer.

The Institutional Investors have granted to UBS, as stabilising manager, the Overallotment Option pursuant to which UBS may require the Institutional Investors to sell additional Existing Ordinary Shares at the Offer Price to cover overallotments, if any, made in connection with the Global Offer and to cover any short

## **Part IX**

### **The Global Offer**

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positions resulting from stabilisation transactions. Any such Existing Ordinary Shares will be offered by the Institutional Investors on the same terms and conditions as other Ordinary Shares in the Global Offer. The number of Existing Ordinary Shares to be subject to the Overallotment Option is, in aggregate, expected to be equal to approximately 13 per cent. of the total number of Ordinary Shares to be issued or sold in the Global Offer, amounting to 23,358,828 Existing Ordinary Shares based on the Assumptions. The Overallotment Option may be exercised, in whole or in part, at any time between determination of the Offer Price and 30 days from Admission.

#### **Underwriting Agreement**

The Company, certain of the Directors, the Institutional Investors, certain of the Group's senior management team and the Underwriters have entered into an Underwriting Agreement pursuant to which, subject to certain conditions which are customary in agreements of this nature, the Underwriters have, severally and not jointly, agreed to procure subscribers or purchasers for the Global Offer Shares or, failing which, to subscribe for or purchase such shares, in each case at the Offer Price. The Underwriting Agreement will become unconditional upon Admission. The Underwriters' agreement to procure subscribers or purchasers for or, failing which, to subscribe for or purchase, the Global Offer Shares is subject to the execution of a separate purchase memorandum by the Company, the Underwriters and the CVC Shareholders to record, inter alia, the Offer Price and the number of Ordinary Shares to be comprised in the Global Offer. The Underwriters are under no obligation to enter into this purchase memorandum.

The Global Offer is conditional upon Admission becoming effective and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms.

The Underwriters are able to terminate the Underwriting Agreement in certain circumstances at any time prior to Admission. If such right is exercised, the Global Offer will lapse and any monies received in respect of the Global Offer will be returned to placees or purchasers without interest.

The Underwriting Agreement provides for the Underwriters to be paid a commission based on the overall proceeds of the Global Offer. It also provides that certain discretionary fees may be paid to the Underwriters in the sole discretion of the Company and CVC Capital Partners Limited. The Company, certain of the Directors and members of senior management that are party to the Underwriting Agreement and the Institutional Investors have given the Underwriters certain representations, warranties and undertakings and, in the case of the Company, indemnities.

Further details of the terms of the Underwriting Agreement are set out in paragraph 10 of Part XI (Additional Information) of this document.

#### **Lock-up Arrangements**

Each of the Institutional Investors, the Company, each Director and each employee of the Group that will hold Ordinary Shares immediately following Admission (other than Ordinary Shares acquired pursuant to the Global Offer) is subject to certain lock-up arrangements pursuant to the Underwriting Agreement or to a separate lock-up agreement.

Other than in respect of those Ordinary Shares to be issued or sold as part of the Global Offer or to be issued to satisfy awards under the Share Plans in accordance with normal practice, the Company has undertaken to the Underwriters, inter alia, not, without the prior written consent of the Global Coordinator, to offer, issue, sell or contract to sell, grant any options in respect of or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein or in respect thereof) or any securities convertible into or exchangeable for, Ordinary Shares or to enter into any transaction with the same economic effect, prior to a date falling six months after Admission.

Other than in respect of those Ordinary Shares to be sold as part of the Global Offer, the Executive Directors have each undertaken to the Underwriters and the Company, inter alia, not to and will procure that his connected persons will not, without the prior written consent of the Global Coordinator and the Company, offer, sell or contract to sell or otherwise dispose of, directly or indirectly, any Ordinary Shares held by him or his connected persons immediately following Admission (or any interest therein or in respect thereof) or any

## **Part IX**

### **The Global Offer**

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securities convertible into or exchangeable for, such Ordinary Shares or enter into any transaction with the same economic effect, prior to the announcement of the Group's preliminary results for the financial year ending 31 May 2006 ("2006 Preliminary Results Date") except in respect of 25 per cent of the Ordinary Shares currently held by each of the Executive Directors (or his connected persons) in relation to which the same restrictions shall continue to apply, subject to the written consent of the Global Coordinator and the Company, until the announcement of the Group's preliminary results for the financial year ending 31 May 2007.

Other than in respect of those Ordinary Shares to be sold or acquired as part of the Global Offer, certain of the Group's senior management team and certain of the Non-Executive Directors that will hold Ordinary Shares immediately following Admission have undertaken to the Underwriters and the Company, inter alia, not to and will procure that his connected persons will not, without the prior written consent of the Global Coordinator and the Company, offer, sell or contract to sell or otherwise dispose of, directly or indirectly, any Ordinary Shares held by them or their connected persons immediately following Admission (or any interest therein or in respect thereof) or any securities convertible into or exchangeable for, such Ordinary Shares or enter into any transaction with the same economic effect, prior to the announcement of the Group's preliminary results for the financial year ending 31 May 2006.

The Trustee has agreed to certain lock-up arrangements pursuant to the Orderly Marketing Deed. Other than in respect of those Ordinary Shares to be sold or acquired as part of the Global Offer, the Trustee has undertaken to the Underwriters and the Company, inter alia, not to, without the prior written consent of the Global Coordinator and the Company, offer, sell or contract to sell or otherwise dispose of, directly or indirectly, any Ordinary Shares held by it or to which it is entitled immediately following Admission (or any interest therein or in respect thereof) or any securities convertible into or exchangeable for, such Ordinary Shares or enter into any transaction with the same economic effect. The undertakings given by the Trustee in the Orderly Marketing Deed shall be released (i) in respect of such Ordinary Shares held by the Trustee as nominee for certain existing and former employees of the Group who acquired those Ordinary Shares in connection with the management buyout, on the date of the announcement by the Company of its interim financial results for the financial year ending 31 May 2006 (the "2006 Interim Results Date") and (ii) in respect of all other relevant Ordinary Shares, on the 2006 Preliminary Results Date except that, at any time after the 2006 Interim Results Date, the Trustee shall be entitled (if requested by any of the B shareholders) to sell Ordinary Shares up to the maximum amount which the B shareholder could have required to be sold in the Global Offer to the extent it did not exercise this entitlement in the Global Offer. The undertakings given by the Trustee in the Orderly Marketing Deed are subject to certain exceptions as are usual in an agreement of this nature which, amongst other things, allow the Trustee to accept a general offer made to all of the holders of Ordinary Shares and allow the Trustee to transfer Ordinary Shares to satisfy awards under the Share Plans.

Further details of the terms of the lock-up arrangements and certain exceptions are set out in paragraphs 10 and 11 of Part XI (Additional Information) of this document.

#### **Dealings and Admission**

It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 am on 28 April 2005. The earliest date for settlement of such dealings will be 4 May 2005. All dealings in the Ordinary Shares between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued basis" and at the risk of the parties concerned. If the Global Offer does not become unconditional, these dealings will be of no effect.

Admission is expected to take place and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 am on 4 May 2005. CREST accounts in respect of Ordinary Shares issued in uncertificated form are expected to be credited on 4 May 2005. It is intended that, where applicable, definitive share certificates in respect of the Global Offer will be despatched by 9 May 2005 or as soon thereafter as is practicable. Temporary documents of title will not be issued.

#### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. With effect from Admission, the Articles of the

## **Part IX**

### **The Global Offer**

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Company will permit the holding of Ordinary Shares under the CREST system. The Company will apply for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

Successful applicants for Ordinary Shares in the Public Offer will receive their shares in certificated form. Share certificates are expected to be despatched on 9 May 2005 or as soon thereafter as is practicable. Investors applying for Ordinary Shares under the Institutional Offer may, however, elect to receive Ordinary Shares in uncertificated form if they are a system-member (as defined in The Uncertificated Securities Regulations 2001) in relation to CREST.

#### **Conditionality of the Global Offer**

The Global Offer will be subject to the satisfaction of conditions which are customary for transactions of this type contained in the Underwriting Agreement, including the absence of any breach of representation or warranty, the absence of any material adverse changes affecting the Group's business, the non-occurrence of any adverse market conditions or economic or political events as described in the Underwriting Agreement, Admission occurring on 4 May 2005 or such later date as may be agreed between the Company and the Underwriters, the determination of the Offer Price and the entering into of a purchase memorandum. Further details of the Underwriting Agreement are set out in paragraph 10 of Part XI (Additional Information) of this document. The Company also reserves the right to terminate the Global Offer or any component of it (and the arrangements associated with the Global Offer or any component of it) at any time prior to Admission. In either of these events, the Global Offer or any component of it (and the arrangements associated with the Global Offer or any component of it) will lapse and any moneys received in respect of the Global Offer will be returned to applicants without interest.

#### **Selling restrictions**

The offer, sale or transfer of Ordinary Shares and the distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those set out in paragraphs 15 and 16 of Part XI (Additional Information) of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further details regarding transfer and selling restrictions under the laws of particular jurisdictions, including the United States, which must be adhered to in connection with the Global Offer are set out in paragraphs 15 and 16 of Part XI (Additional Information) of this document.



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# Part X

## Terms and Conditions of Application for the Public Offer

### 1 INTRODUCTION

These Terms and Conditions of Application apply to any application made under the Client Offer or the Employee Offer (together, the “Public Offer”).

Applications must be made:

- ▶ in the case of an application by a Qualifying Client in the Client Offer, on a Client Application Form; or
- ▶ in the case of an application by a Qualifying Employee in the Employee Offer, on an Employee Application Form.

Qualifying Clients are those individuals who, as at 11.59 p.m. on 28 February 2005, were clients of IG Index, IG Markets or Binarybet and have had at least one bet or trade with one of these companies between 1 March 2002 and 28 February 2005 (inclusive), were at least 18 years of age and are resident in the United Kingdom, the Isle of Man or the Channel Islands.

Qualifying Employees are those employees of the Group who as at 11.59 p.m. on 12 April 2005 were aged 18 or over and employed by the Group and the Directors.

It is important to note that applications for Ordinary Shares must be made on the basis of an amount of money you wish to invest, rather than a number of Ordinary Shares. This is because the final Offer Price successful applicants will pay for Ordinary Shares will not be decided until after the Public Offer has closed. The Offer Price is expected to be between 112 pence and 139 pence per Ordinary Share (the “Indicative Offer Price Range”). You should, however, note that the actual price per Ordinary Share payable by you could be set above or below this range.

If you apply for Ordinary Shares in the Public Offer, you will be agreeing with the Company, the Global Co-ordinator, the Joint Lead Managers and the Receiving Agent (together, the “Company and its agents”) as set out in these Terms and Conditions of Application. Client Application Forms, together with the Prospectus and the answers to frequently asked questions will be available online by following the instructions found on the Website. Employee Application Forms will be available from the Company. If you apply for shares on a Client Application Form or an Employee Application Form you will be agreeing with the Company, the Global Coordinator, the Joint Lead Managers and the Receiving Agent as follows:

### 2 OFFER TO ACQUIRE ORDINARY SHARES

- 2.1 All applications in the Public Offer must be for a minimum of £250 worth of Ordinary Shares and, if your application is for more than £250 worth of Ordinary Shares, must be for such greater sum as is a multiple of £250.
- 2.2 By completing and delivering an Application Form to the Receiving Agent by post, or by hand, you as the applicant or, if signing on behalf of another person, that person:
  - (a) offer to subscribe at the Offer Price the maximum number of Ordinary Shares that may be applied for with the amount specified in the relevant Application Form as the amount that you wish to invest (or any smaller amount in respect of which your offer is accepted) (the “Offer”) provided that your application must be for a minimum of £250, subject to these terms and conditions, the terms of the relevant Application Form and accompanying guide, and solely on the basis of

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**Terms and Conditions of Application for the Public Offer**

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information contained in this document, the Client Application Form and in accordance with the Memorandum and Articles of Association of the Company;

- (b) authorise Capita Registrars, as Receiving Agent on behalf of the Company, to send you a definitive share certificate by post at your risk to your postal address as set out in your Application Form and/or to return to you by cheque to your postal address as set out in your Application Form any moneys returnable (without interest), and to ensure that your name is placed on the register of members of the Company in respect of any Ordinary Shares for which your application is accepted;
- (c) in consideration of the Company making the Global Offer, and as a collateral contract between you and the parties referred to above, which will become binding on receipt by the Receiving Agent of your Application Form:
  - (i) agree that the offer referred to in paragraph 2.2(a) above may not be withdrawn by you or on your behalf prior to 30 June 2005 in the event Admission has not taken place;
  - (ii) agree that any communication with you in respect of the Public Offer may be to the e-mail address set out in your Application Form and, in this regard, you agree that the Company may seek to communicate with you on an urgent basis at any time between the date of the Prospectus and Admission and you agree that it is your responsibility to check your e-mail regularly during this period. Any failure by you promptly to respond to any e-mail sent to you which results in your application being deemed to have been withdrawn or which otherwise affects your application will be your responsibility and none of the Company, the Global Coordinator, the Joint Lead Managers or the Receiving Agent shall have any liability to you in this respect;
  - (iii) undertake to pay (by Sterling cheque or bankers' draft payable to Capita IRG Plc, A/c "IG Share Offer" drawn on a UK bank account, such payment to accompany your Application Form) the Offer Price for the Ordinary Shares (payable in full on application) in respect of which your application is accepted (if any) and you warrant that your remittance will be honoured on first presentation and in any event by 2.00 p.m. on 27 April 2005, failing which you will not be entitled to receive a share certificate, nor to enjoy or receive any rights in respect of such Ordinary Shares unless and until you make payment in cleared funds for such Ordinary Shares and such payment is accepted by the Receiving Agent (which acceptance shall be in its absolute discretion and on the basis that you indemnify the Receiving Agent, the Company, the Global Coordinator and the Joint Lead Managers in respect of any costs, expenses, losses or liabilities incurred as a result) and, pending receipt of cleared funds, the Receiving Agent, on behalf of the Company and the Global Coordinator, may terminate the agreement to allocate Ordinary Shares to you and re-allocate the Ordinary Shares to another person;
  - (iv) agree, on request by the Company, the Global Coordinator or the Receiving Agent, to disclose promptly in writing to the Company, the Global Coordinator or the Receiving Agent such information as they may request in connection with your application and authorise them to disclose any information relating to your application to such persons, in each case, as any of the Company, the Global Coordinator or the Receiving Agent considers in its absolute discretion necessary or appropriate;
  - (v) agree that any share certificate in respect of any Ordinary Shares to which you may become entitled and moneys returnable to you may be retained pending clearance of your remittance, investigation of any suspected breach of these terms and conditions (including, for the avoidance of doubt, any of the confirmations, representations and warranties herein contained) and any verification of identity which is, or which the Company, the Global Coordinator or the Receiving Agent considers may be, required for the purposes of the

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Money Laundering Regulations 2003 and that any interest accruing on such retained moneys shall accrue to, and be for the benefit of, the Company;

- (vi) agree that, if evidence of identity satisfactory to the Company, the Global Coordinator and the Receiving Agent is not provided on or before 2.00 p.m. on 27 April 2005, the Company may terminate the contract of allocation with you and, in such case, the Ordinary Shares which would otherwise have been allocated to you will be sold as soon as is reasonably practicable (and for which purpose you hereby irrevocably authorise the Company or any person appointed by it for this purpose to execute on your behalf any instrument of transfer which may be necessary to effect such sale (if any)) and, as soon as is reasonably practicable after such sale, your application moneys (or, if less, an amount equal to the proceeds of such sale net of all expenses of the sale including for the avoidance of doubt any stamp duty and/or stamp duty reserve tax that may be payable) will be returned by crossed cheque (without interest) and you agree that, in such event, you will have no claim against the Company, the Global Coordinator, the Joint Lead Managers or the Receiving Agent or any of their respective officers, agents or employees in respect of the balance of your application moneys, if any (such balance being retained by the Company as compensation for breach of contract), or for any loss arising from the price, the timing or the manner of such sale or otherwise in connection therewith;
- (vii) agree that you are not applying on behalf of a person engaged in money laundering;
- (viii) undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney or other authority (or a complete copy certified by a solicitor or notary) is sent to the Receiving Agent;
- (ix) agree that any future communication sent by the Company to you in your capacity as a shareholder of the Company may be in the English language and may be sent to you by e-mail to the e-mail address as set out in your Application Form;
- (x) agree that, subject to any scaling down as set out in paragraph 7 below, the number of Ordinary Shares allocated to you will be calculated as the Sterling amount applied for (or Sterling equivalent thereof) divided by the Offer Price and rounded down to the nearest whole number of Ordinary Shares;
- (xi) AGREE THAT THE OFFER PRICE MAY BE SET WITHIN, ABOVE OR BELOW THE INDICATIVE OFFER PRICE RANGE SET OUT IN THIS DOCUMENT AND THAT APPLICATIONS RECEIVED IN RESPECT OF THE PUBLIC OFFER ARE IRREVOCABLE AND BASED ON THE AMOUNT YOU WISH TO INVEST AND NOT A NUMBER OF ORDINARY SHARES OR THE OFFER PRICE AND THAT APPLICATIONS, ONCE RECEIVED, CANNOT BE WITHDRAWN IF THERE IS A CHANGE TO THE INDICATIVE OFFER PRICE RANGE OR IF THE OFFER PRICE IS SET ABOVE OR BELOW THIS RANGE;
- (xii) agree that the Offer Price and the allocation of Ordinary Shares the subject of the Global Offer may be determined prior to, or later than, 5.00 p.m. on 27 April 2005;
- (xiii) agree that, in the event of a material change affecting the Company occurring between the date of the Prospectus and Admission, the Company may, in its absolute discretion and at its election, do any of the following:
  - (A) withdraw the Client Offer and/or the Employee Offer (or any aspect of either of them);
  - (B) notify you by e-mail of such material change and require you to take such action as may be specified in the e-mail in order to reconfirm your application. (In the event that you fail to take such action as may be required to reconfirm your application within

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the timescale specified in the e-mail, the Company will be entitled to treat your application as having been withdrawn by you and you will have no further rights in respect of your Application Form and no claim against the Company, the Global Coordinator, the Joint Lead Managers or the Receiving Agent as a result of your Application Form being deemed to have been withdrawn.); or

(C) proceed with the Client Offer and/or the Employee Offer notwithstanding the occurrence of such material change, in which case you will have no right to withdraw your application and you accept that your Application Form will continue to be binding and enforceable against you;

(xiv) agree that the Global Coordinator and the Company reserve the right to alter any arrangements in connection with the Public Offer (including the timetable and terms of application) and that the Company reserves the right in its absolute discretion, to withdraw the Client Offer and/or the Employee Offer, in whole or in part at any time prior to Admission; and

(xv) agree that the contract arising from acceptance of applications (in whole or in part) under the Global Offer will be, or will be deemed to be, entered into by you (if you are a successful applicant) and the Company on these Terms and Conditions of Application for the Public Offer and any changes, additions or alterations made by you or on your behalf to any Application Form will have no effect.

2.3 If your Application Form is not completed correctly or is amended or if you do not send to the Receiving Agent a power of attorney or other authority where required, your Application Form may still be treated as valid. In these circumstances, the decision of the Company and the Global Coordinator, as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to invest a higher amount than is indicated in your application.

2.4 The Company reserves the right to reject, in whole or in part, or to scale down any application, or in the case of paragraph 2.4(d) below, to cancel any contract of allocation of Ordinary Shares including, without limitation:

- (a) multiple or suspected multiple applications;
- (b) any application for an amount which is less than £250;
- (c) any application which has not been received by the Receiving Agent by 5.00 p.m. on 20 April 2005;
- (d) any application in relation to which the sum stated in the Application Form has not been cleared on first presentation and, in any event, by 2 p.m. on 27 April 2005;
- (e) any application where the Application Form is not properly completed in all respects in accordance with the instructions on the Application Form, or as otherwise provided;
- (f) any application where as a result of such application the provisions of paragraph 6 below are, or, but for the rejection of such application, would be, breached;
- (g) any application made on an Application Form that has been, or is suspected of having been, changed by way of any addition, deletion or alteration or otherwise;
- (h) any application in names that are, or are suspected to be, fictitious, or which are otherwise unsuitable for share registration purposes; and
- (i) any application where you have supplied an incorrect or invalid e-mail address.

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### **Terms and Conditions of Application for the Public Offer**

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#### **3 ACCEPTANCE OF YOUR OFFER**

- 3.1 You agree that acceptance of your application, if it is received valid (or treated as valid), processed (and not rejected) and provided that it is not rejected subsequently as a result of a failure by you to comply with these Terms and Conditions of Application, shall be constituted at the election of the Company either:
- (a) by notifying the London Stock Exchange of the basis of allocation (in which case the acceptance will be on that basis); or
  - (b) by notifying acceptance to the Receiving Agent.
- 3.2 The Company and its agents reserve the right to treat as valid any application not complying fully with these Terms and Conditions of Application or not in all respects completed or sent in accordance with the instructions accompanying the Application Form. The Company and its agents reserve the right to waive in whole or in part any of the provisions of these Terms and Conditions of Application, either generally or in respect of one or more applications. In particular, but without limitation, the Company may accept an application made otherwise than by completion of an Application Form where the applicant has agreed in some other manner satisfactory to the Company and its agents to apply in accordance with these Terms and Conditions of Application.
- 3.3 The Global Coordinator, the Company and the CVC Shareholders will determine the basis of allocation of Ordinary Shares between the Institutional Offer and the Public Offer, and between the two components of the Public Offer. The Global Coordinator, the Company and the CVC Shareholders shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances, as they deem appropriate. Accordingly, you may not receive all of the Ordinary Shares you apply for and you may not receive any at all. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer.

#### **4 CONDITIONS**

- 4.1 The contracts created by the acceptance of applications (in whole or in part) under the Public Offer will be conditional upon the Offer Price having been determined (whether at a price which is within, above or below the Indicative Offer Price Range), the admission of the Ordinary Shares, issued and to be issued, to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities and such admission becoming effective and the Underwriting Agreement having become wholly unconditional and not being terminated in accordance with its terms on or prior to 4 May 2005 (or such later date as the Company and the Global Coordinator may agree). The Company, the Global Coordinator and the CVC Shareholders expressly reserve the right to determine, at any time prior to Admission, not to proceed with the Client Offer and/or the Employee Offer.
- 4.2 You will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance of your application. This does not affect any other rights you may have.

#### **5 RETURN OF APPLICATION MONEYS**

If any application is not accepted in whole, or is accepted in part only, or if any contract created by acceptance does not become unconditional, the application moneys or, as the case may be, the balance of the amount paid on application will be returned without interest in Sterling by returning your cheque, or by crossed cheque in your favour by post at the risk of the person(s) entitled thereto. In the meantime, application moneys will be retained by the Receiving Agent in a separate account. No moneys will be

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remitted for amounts below the Offer Price and any such amount will be donated to a charity nominated by the Company.

**6 WARRANTIES**

6.1 By completing an Application Form, you:

- (a) confirm that you are resident in the United Kingdom, the Channel Islands or the Isle of Man (or, in the case of employees of IG Australia completing an Employee Application Form, in Australia);
- (b) acknowledge that no action has been taken to permit a public offer in any jurisdiction outside the United Kingdom and if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, warrant that you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action or omitted to take any action which will result in the Company or its agents or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements, directly or indirectly, of any territory or jurisdiction outside the United Kingdom in connection with the Public Offer or your application;
- (c) confirm that in making an application you are not relying on any information or representations in relation to the Group or the Ordinary Shares other than that contained in the Prospectus (as may be supplemented by a supplementary prospectus) (on the basis of which alone your application is made) and accordingly you agree that no person responsible solely or jointly for the Prospectus or any part thereof shall have any liability for any such other information or representations;
- (d) acknowledge that no person is authorised in connection with the Public Offer to give any information or make any representation other than as contained in the Prospectus (as may be supplemented by a supplementary prospectus) and, if given or made, any information or representation must not be relied upon as having been authorised by the Company or the Selling Shareholders or any of their respective agents;
- (e) warrant that you are an individual who is not under the age of 18 on the date of your application;
- (f) agree that all documents sent by post to you, by or on behalf of the Company or any of its agents will be sent at your risk and may be sent to you at your address as set out in your Application Form;
- (g) confirm that you have reviewed the restrictions contained in the section entitled “Overseas Investors” in paragraphs 10.1 and 10.2 and warrant, to the extent relevant, that you (and any person on whose behalf you apply) comply or have complied with the provisions of such section;
- (h) warrant that you are not in the United States, or subscribing for the Ordinary Shares for the account of any person in the United States, and are not a Canadian person, or an individual, corporation or other entity resident in Japan or Australia, other than employees of IG Australia who are participating in the Employee Offer;
- (i) warrant that the details relating to you as set out in your Application Form are correct;
- (j) warrant that, in the case of an application made on a Client Application Form, you are (or, if you are signing on behalf of another person, that other person is) a Qualifying Client on the date of your application and that the Client Application Form is completed and delivered solely for and on behalf of the Qualifying Client and not directly or indirectly, in whole or in part, for and on behalf of any other person;

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- (k) warrant that, in the case of an application made on an Employee Application Form, you are (or, if you are signing on behalf of another person, that other person is) a Qualifying Employee on the date of your application and that the Employee Application Form is completed and delivered solely for and on behalf of the Qualifying Employee and not directly or indirectly, in whole or in part, for and on behalf of any other person and warrant that only one application has been made by you or on your behalf on an Employee Application Form; and
- (l) acknowledge and agree that the decision as to your eligibility to participate as a Qualifying Client or Qualifying Employee is at the sole discretion of the Company.

## **7 ALLOCATIONS**

- 7.1 The Global Coordinator, the Company and the CVC Shareholders will determine the allocation between the Institutional Offer and the Public Offer, and among each component of the Public Offer. The Global Coordinator and the Company shall have discretion to scale back applications under the Client Offer and the Employee Offer, as the case may be, in aggregate or in individual circumstances as they deem appropriate. The Company will have absolute discretion to determine eligibility under the Client Offer and the Employee Offer. **WHEN DETERMINING WHETHER TO ACCEPT APPLICATIONS AND ALLOCATIONS OF ORDINARY SHARES AMONGST SUCCESSFUL APPLICANTS, THE COMPANY MAY GIVE PRIORITY ACCORDING TO THE DATE APPLICATIONS ARE RECEIVED SO THAT GREATER PRIORITY MAY BE GIVEN THE EARLIER THE DATE ON WHICH A VALID APPLICATION IS RECEIVED. APPLICANTS IN THE PUBLIC OFFER MAY, HOWEVER, NOT RECEIVE ALL OF THE ORDINARY SHARES FOR WHICH THEY APPLY AND IT IS POSSIBLE THAT THEY MAY NOT RECEIVE ANY.**
- 7.2 Announcement of the Offer Price and allocation policies is expected to take place on 28 April 2005 when a supplementary prospectus is expected to be published.

## **8 MISCELLANEOUS**

- 8.1 To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent representations), are expressly excluded in relation to the Ordinary Shares and the Public Offer.
- 8.2 The rights and remedies of the Company, the Global Coordinator, the Joint Lead Managers, the Receiving Agent and their respective agents under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to them, and the exercise or partial exercise of one will not prevent the exercise of others.
- 8.3 The dates and times referred to in these Terms and Conditions of Application may be altered by the Global Coordinator and the Company at their sole discretion.
- 8.4 You agree that the Global Coordinator, the Joint Lead Managers and Lexicon Partners Limited are acting for the Company in connection with the Global Offer and for no-one else and that the Global Coordinator, the Joint Lead Managers and Lexicon Partners Limited will not treat you as their client by virtue of your application being accepted or owe you any duties concerning the price of Ordinary Shares or concerning the suitability of Ordinary Shares for you or otherwise in relation to the Global Offer.
- 8.5 You authorise the Receiving Agent or any person authorised by them or the Company, as your agent, to do all things necessary to effect registration of any Ordinary Shares subscribed for or purchased by you in your name and authorise any representatives of the Receiving Agent to execute and/or complete any document required therefor.

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- 8.6 You agree that by completing an Application Form, you are applying to receive information by e-mail or any other communication method regarding the Public Offer and specifically to receive notification of the availability of information regarding the Public Offer.
- 8.7 You agree that a failure to receive, process or accept your application for Ordinary Shares does not give rise to any right of action by any person against the Company, the Global Coordinator, the Joint Lead Managers, Lexicon Partners Limited, the Receiving Agent or any other person. You agree that the non-receipt by any person of the Prospectus or any other related document shall not invalidate the Global Offer in whole or in part or give rise to any right of action by any person against the Company, the Global Coordinator, the Joint Lead Managers, Lexicon Partners Limited, the Receiving Agent or any other person.
- 8.8 You agree that all applications, acceptances of applications and contracts resulting therefrom under the Public Offer shall be governed by and construed in accordance with the laws of England and Wales and that, for the benefit of the Company, the Global Coordinator, the Joint Lead Managers, Lexicon Partners Limited and the Receiving Agent, you submit to the non-exclusive jurisdiction of the English courts and agree that nothing shall limit the right of the Company, the Global Coordinator, the Joint Lead Managers, Lexicon Partners Limited, the Receiving Agent or their agents or advisers to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances and contracts in any other manner permitted by law or in any court of competent jurisdiction.
- 8.9 Completed Application Forms, together with payment, must be returned so as to be received by 5.00 p.m. on 20 April 2005 by post, or (during normal business hours only) by hand at Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH. An Application Form which is sent by post or delivered by hand (as described above) will be treated as having been received only when it is received by the person to whom it has been sent or delivered.
- 8.10 Applications by Qualifying Clients in the Client Offer are made on and subject to these Terms and Conditions of Application, the Prospectus (as may be supplemented by a supplementary prospectus), the Memorandum and Articles of Association of the Company (as amended from time to time), and the Client Application Form and its accompanying guidance notes.
- 8.11 Applications by Qualifying Employees in the Employee Offer are made on and subject to these Terms and Conditions of Application, the Prospectus (as may be supplemented by a supplementary prospectus), the Memorandum and Articles of Association of the Company (as amended from time to time) and the Employee Application Form and its accompanying guidance notes.

## **9 MONEY LAUNDERING**

- 9.1 You agree that, in order to ensure compliance with the Money Laundering Regulations 2003, the Receiving Agent or the Company may at their absolute discretion require, and you will provide, evidence which is satisfactory to them to establish your identity or that of any person on whose behalf you are acting and/or your status. Failure to provide the necessary evidence of identity may result in application(s) being rejected or delays in the despatch of documents.
- 9.2 Without prejudice to the generality of paragraph 9.1 above, verification of the identity of applicants may be required if the total price of the Ordinary Shares applied for, whether in one or more applications, exceeds the Sterling equivalent (at that time) of €15,000.

## **10 OVERSEAS INVESTORS**

- 10.1 If you receive a copy of the Prospectus or an Application Form in any territory other than the United Kingdom, the Channel Islands or the Isle of Man (unless you are an employee of IG Australia participating in the Employee Offer), you may not treat it as constituting an invitation or offer to you,



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nor should you, in any event, use an Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to you or an Application Form could lawfully be used without contravention of any registration or other legal requirements. It is your responsibility, if you are outside the United Kingdom and wishing to make an application for Ordinary Shares under the Public Offer, to satisfy yourself that you have fully observed the laws of any relevant territory or jurisdiction in connection with your application, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory. The Company reserves the right, in its absolute discretion, to reject any application received from outside the United Kingdom.

- 10.2 Without limiting the above, the Ordinary Shares may not be offered, sold or delivered, directly or indirectly, in or into Canada, Japan or Australia (except in relation to employees of IG Australia who are participating in the Employee Offer) or in or into the United States except in reliance on, or in a transaction not subject to, the registration requirements under the Securities Act or other relevant legislation. If you subscribe for or purchase Ordinary Shares in the Public Offer you will, unless the Company agrees otherwise in writing, be deemed to represent and warrant to the Company and its agents that you are not in the United States. No application will be accepted if it bears an address in the United States or appears to have been posted from the United States or otherwise there is cause to believe you are in the United States.

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## Part XI

### Additional Information

#### 1 RESPONSIBILITY

The Directors of the Company, whose names appear on page 8 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2 THE COMPANY

The Company was incorporated and registered in England and Wales with the name DMWSL 404 plc on 25 February 2003 with registered number 4677092 as a public company limited by shares under the Act. On 22 July 2003, pursuant to a special resolution passed on the same date, the Company was re-registered as a private limited company and changed its name to IG Group Holdings Limited. The Company was re-registered as a public limited company under the Act in England and Wales and changed its name to IG Group Holdings plc on 31 March 2005, pursuant to a special resolution passed on the same date.

The principal legislation under which the Company operates is the Act and regulations thereunder.

The registered and head office of the Company is at Friars House, 157-168 Blackfriars Road, London SE1 8EZ.

#### 3 SHARE CAPITAL

3.1 Save in respect of the Global Offer, none of the Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to the Official List. The Ordinary Shares are in registered form and are capable of being held in uncertificated form. In connection with the Global Offer, temporary documents of title will not be issued. However, it is expected that share certificates, for those who wish to hold shares in certificated form, will be posted on 9 May 2005 or as soon thereafter as is practicable. None of the Company's share capital is in bearer form.

#### 3.2 IG Group Holdings plc

On incorporation, the authorised share capital of the Company was £50,000 divided into 50,000 shares of £1.00 each, of which two were subscribed at par, nil paid, by 25 Nominees Limited and DM Company Services Limited (whose registered address in each case is Royal London House, 22-25 Finsbury Square, London EC2A 1DX). Since the incorporation of the Company, changes have occurred in the authorised and issued share capital of the Company as described below:

- (a) By a written resolution passed on 5 September 2003:
  - (i) the authorised share capital of the Company was increased from £50,000 to £35,711,364.12 by the creation of 1,136,163 A Ordinary Shares of £0.01 each, 49 B Ordinary Shares of £0.01 each and 35,650,002 Preference Shares of £1.00 each;
  - (ii) each of the two issued shares of £1.00 each were sub-divided and re-designated as 100 A Ordinary Shares of £0.01 each;
  - (iii) each of the 49,998 unissued shares of £1.00 each were re-designated as one Preference Share of £1.00;
  - (iv) the Directors were generally and unconditionally authorised pursuant to Section 80 of the Act to exercise all the powers of the Company to allot relevant securities up to a nominal amount of £35,711,362.12, such authority to expire on the fifth anniversary of the date of

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- the passing of the resolution (but the Company would be able before such expiry to make an offer or agreement which would or may require relevant securities to be allotted after such expiry);
- (v) the Directors were empowered pursuant to Section 95 of the Act to allot equity securities within the meaning of Section 94 of the Act pursuant to the authority referred to in paragraph (iv) above as if Section 89(1) of the Act did not apply to such allotment (but the Company would be able before such expiry to make an offer or agreement which would or may require relevant equity securities to be allotted after such expiry); and
  - (vi) new articles of association were adopted confirming that the authorised share capital of the Company was £35,711,364.12 comprising 1,136,363 A Ordinary Shares of £0.01 each, 49 B Ordinary Shares of £0.01 each and 35,700,000 Preference Shares of £1.00 each.
- (b) By a further written resolution passed on 5 September 2003:
- (i) the authorised share capital of the Company was increased from £35,711,364.12 to £35,711,364.28 by the creation of 16 B Ordinary Shares of £0.01 each;
  - (ii) each of the 65 unissued B Ordinary Shares of £0.01 each were sub-divided into 10 B Ordinary Shares of £0.001 each;
  - (iii) the Directors were generally and unconditionally authorised pursuant to Section 80 of the Act to exercise all the powers of the Company to allot relevant securities up to a nominal amount of £35,711,362.28, such authority to expire on the fifth anniversary of the date of the passing of the resolution (but the Company would be able before such expiry to make an offer or agreement which would or may require relevant securities to be allotted after such expiry);
  - (iv) the Directors were empowered pursuant to Section 95 of the Act to allot equity securities within the meaning of Section 94 of the Act pursuant to the authority referred to in paragraph (iii) above as if Section 89(1) of the Act did not apply to such allotment (but the Company would be able before such expiry to make an offer or agreement which would or may require relevant equity securities to be allotted after such expiry); and
  - (v) the articles of association were amended to reflect changes to the authorised share capital of the Company which as updated was £35,711,364.28 comprising 1,136,363 A Ordinary Shares of £0.01 each, 650 B Ordinary Shares of £0.001 each and 35,700,000 Preference Shares of £1.00 each.
- (c) On 5 September 2003, 990,846 A Ordinary Shares of £0.01 each, 550 B Ordinary Shares of £0.001 each and 35,667,686 Preference Shares of £1.00 each were allotted and issued for cash at par.
- (d) On 6 May 2004, 100 B Ordinary Shares of £0.001 each were allotted and issued for cash at par.
- (e) On 19 March 2004, 8,954 A Ordinary Shares of £0.01 each and 32,314 Preference Shares of £1.00 each were allotted and issued for cash at par.
- (f) By a series of ordinary and special resolutions duly passed at an Extraordinary General Meeting of the Company held on 31 March 2005:
- (i) it was resolved to re-register the Company as a public company;
  - (ii) the A Ordinary Shares were subdivided and redesignated as Ordinary Shares of 0.005p each, having the rights set out in the existing articles of association;

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- (iii) the B Ordinary Shares were subdivided and redesignated as 'B' Shares of 0.001p each, having the rights set out in the existing articles of association;
  - (iv) the existing articles of association were adopted as the articles of association of the Company in substitution for and to the exclusion of the previous articles of association of the Company.
- (g) By a series of ordinary and special resolutions that are to be tabled at an Extraordinary General Meeting of the Company to be held on 27 April 2005:
- (i) the authorised share capital of the Company will be increased from £35,711,364.28 to £35,725,000.65 by the creation of 272,727,400 Ordinary Shares;
  - (ii) in addition to and without prejudice to any authorities and powers granted to the Directors pursuant to the resolution set out at paragraph (g)(iv) below, the Directors will be authorised in accordance with Section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act, provided that such authority is limited to the allotment of relevant securities):
    - (A) in connection with the Global Offer up to an aggregate amount of £122,805,593; and
    - (B) during the period commencing on the date the resolution is passed and expiring (unless previously reviewed, varied or revoked) on 30 June 2005,save that the Company may before the expiry of such authority make offers or agreements which would or might require relevant securities to be allotted after such an offer or agreement as if such authority had not expired;
  - (iii) in addition to and without prejudice to any powers granted to the Directors prior to the passing of the resolution or pursuant to any other resolution, the Directors will be empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority enforced by the resolution at paragraph (g)(ii) above as if Section 89 (i) of the Act did not apply to such allotment, provided that:
    - (A) such powers are limited to the allotment of equity securities in connection with the Global Offer; and
    - (B) such powers expire on 30 June 2005,save that the Company may before the expiry of the authority make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority had not expired;
  - (iv) conditional upon, and with effect from, Admission, in addition to and without prejudice to the authority to be conferred by the resolution set out at paragraph (g)(ii) above, the Directors will be generally and unconditionally authorised, in accordance with Section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act), provided that the authority is limited to the allotment of relevant securities:
    - (A) (otherwise than in connection with the Global Offer) up to an aggregate nominal amount equal to one third of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital on the date immediately following the date of Admission; and

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- (B) during the period commencing on the date the resolution was passed and expiring (unless previously reserved, varied or revoked) on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 15 months after the date of Admission,

save that the Company may before the expiry of such authority make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired;

- (v) conditional upon, and with effect from, Admission, in addition to and without prejudice to any unexercised portion of any powers to be granted to the Directors prior to the passing of the resolution or pursuant to any other resolution, the Directors will be empowered pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority enforced by the resolution at paragraph (g)(iv) above as if Section 89(1) of the Act did not apply to such allotment, provided that:

- (A) such powers are limited to the allotment of equity securities otherwise than in connection with the Global Offer;

- (B) such powers are limited to the allotment of equity securities in connection with a rights issue (subject to any necessary arrangements or exclusions in relation to fractional entitlements and legal or practical problems);

- (C) such powers are limited to the allotment of equity securities (otherwise than pursuant to sub-paragraph (g)(v)(B) above) up to an aggregate nominal amount equal to five per cent of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital on the date immediately following the date of Admission; and

- (D) such powers expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 15 months after the date of Admission,

save that the Company may before the expiry of the powers make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority had not expired;

- (vi) conditional upon, and with effect from, Admission, the Articles will be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association of the Company; and

- (vii) conditional upon, and with effect from, Admission, the Share Plans will be adopted by the Company and the Directors will be authorised and instructed to do all acts and things necessary or expedient to carry the same into effect.

### 3.3 IG Group Limited

As at 13 April 2002, being the date falling three years prior to the date of this document, the authorised share capital of IG Group Limited was £10,000,000 divided into 100,000,000 ordinary shares of 10 pence each, of which 54,888,133 ordinary shares were in issue. Between 13 April 2002 and the date of this document, a further 3,628,315 ordinary shares of 10 pence each have been issued and treated as paid up at par pursuant to:

- (a) the exercise for cash consideration of options over the ordinary shares in IG Group Limited granted pursuant to the discretionary share option scheme previously operated by IG Group Limited; and

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- (b) the issue of shares in IG Group for non-cash consideration in exchange for shares in IG Index in accordance with the articles of association of IG Index following the exercise of options over the shares in IG Index.

As at the date of this document, IG Group Limited has a total issued share capital of £10,520,165, of which £5,851,645 represents par value and £4,668,521 represents premium.

- 3.4 The following table shows the existing authorised and issued ordinary share capital of the Company and the authorised and issued share capital as it is expected to be immediately following Admission based on the Assumptions:

**Existing**

	Authorised		Issued and fully paid	
	Amount (£)	Number	Amount (£)	Number
Ordinary Shares	11,363.63	227,272,600	10,000	200,000,000
B Shares	0.65	65,000	0.65	65,000
Preference Shares	35,700,000	35,700,000	35,700,000	35,700,000

**Immediately following Admission**

	Authorised		Issued and fully paid	
	Amount (£)	Number	Amount (£)	Number
Ordinary Shares	25,000	500,000,000	16,140	322,805,593
B Shares	0.65	65,000	0.65	65,000

- 3.5 Conditional upon, and with effect from, Admission, the Preference Shares will be redeemed out of the net proceeds of the Global Offer and existing surplus cash in accordance with the terms of the articles of association of the Company adopted on 5 September 2003.
- 3.6 Save as disclosed in paragraphs 3.2, 3.3 and 5 of this Part XI:
- (a) there has been no change in the amount of the issued share or loan capital of the Company or of IG Group Limited and no material change in the amount of the issued share or loan capital of any other member of the Group (other than intra-Group issues by wholly-owned subsidiaries) in the three years immediately preceding the date of this document;
- (b) no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document; and
- (c) no share or loan capital of the Company or any other member of the Group is under option or is, or will, immediately following Admission, be agreed, conditionally or unconditionally, to be put under option.

**4 MEMORANDUM AND ARTICLES OF ASSOCIATION**

**4.1 Memorandum of Association**

Clause 4.2 of the Memorandum of Association of the Company provides that its objects are, amongst other things, to carry on business as a general commercial company and clauses 4.10(l) and (z) further provide that its objects are, amongst other things, to carry on the business of a holding company and to

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do all such other things as in the opinion of the Company are or may be incidental or conducive to the attainment of the Company's objects or any of them.

The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company, which is available for inspection as described in paragraph 25 of this Part XI.

**4.2 Articles of Association**

The Articles which will be in force from Admission will be adopted, conditionally upon Admission, pursuant to a special resolution to be duly passed at an Extraordinary General Meeting of the Company to be held on or around 27 April 2005. The Articles contain (amongst others) provisions to the following effect:

(a) Rights attaching to the Ordinary Shares

(i) *Dividends*

The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

If and so far as in the opinion of the Directors the profits of the Company justify such payments, the Directors may from time to time pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

The Company may upon the recommendation of the Directors by ordinary resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of any other company) and the Directors shall give effect to such resolution.

The Directors may also offer to ordinary shareholders the right to elect to receive, in lieu of any dividend or part thereof payable in cash, an allotment of new ordinary shares credited as fully paid by way of a scrip dividend, provided so authorised by ordinary resolution of the Company to do so.

No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Act.

(ii) *Capitalisation of profits and reserves*

The Directors may, with the sanction of an ordinary resolution of the Company, capitalise any sum standing to the credit of the Company's reserve accounts or any sum standing to the credit of profit and loss account. Such capitalisation shall be effected by appropriating such sum to the holders of shares in proportion to their holdings of ordinary shares and applying such sum on their behalf in paying up in full unissued ordinary shares (or, subject to any special rights previously conferred on any class of shares, unissued shares of any other class) for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.

Any dividend unclaimed after six years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

(iii) *Rights in a winding-up*

Except as the shareholders have agreed or may otherwise agree, on a winding-up of the Company, the balance of assets available for distribution:

(A) after the payment of all of the Company's creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and

(B) subject to any special rights attaching to any class of shares,

is to be distributed among the holders of shares according to the amounts paid up on the shares held by them. This distribution is generally to be made in cash. A liquidator may, with the authority of an extraordinary resolution of the Company, divide among the shareholders in specie or in kind the whole or any part of the assets of the Company.

(iv) *Alteration and reduction of share capital*

The Company may from time to time, by ordinary resolution:

- (A) increase its capital by such sum to be divided into shares of such amounts as the resolution prescribes;
- (B) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (C) cancel any shares that, at the date of the resolution, have not been taken, or agreed to be taken, by any person and diminish its share capital by the amount of the shares so cancelled; and
- (D) subdivide its shares into shares of a smaller nominal amount than is fixed by its Memorandum of Association, subject to English law, so that the resolution whereby any share is subdivided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

Subject to the provisions of the Act, the Company may, by special resolution, reduce its share capital, share premium account, capital redemption reserve or other undistributable reserve in any way.

(v) *Purchase of own shares and treasury shares*

Subject to the provisions of the Act, the Company may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including any redeemable shares, but so that if there are in issue any shares or other securities that are admitted to the Official List and that are convertible into the equity share capital of the Company of the class proposed to be purchased, then the Company will not purchase, or enter into a contract under which it will or may purchase, such equity shares, unless either:

- (A) the terms of issue of such convertible shares or other securities include provisions permitting the Company to purchase its own equity shares or providing for adjustment to the conversion terms upon such a purchase; or
- (B) the purchase or the contract has first been approved by an extraordinary resolution passed at a separate meeting of the holders of such convertible shares or other securities.

The Company may not exercise any right in respect of treasury shares held by it, including any right to attend or vote at meetings, to participate in any offer by the Company to shareholders or to receive any distribution (including in a winding-up), but without prejudice to its right to sell the treasury shares, to transfer the shares for the purposes of or pursuant to an employees' share scheme, to receive an allotment of shares as fully paid bonus shares in respect of the treasury shares or to receive any amount payable on redemption of any redeemable treasury shares.



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(vi) *Allotment of shares and disapplication of pre-emption rights*

Subject to the provisions of the Act and any resolution of the Company in general meeting, all unissued shares shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

(vii) *Meetings of shareholders*

An annual general meeting shall be held once in every year, at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting) and at such place as may be determined by the Board. All other general meetings shall be extraordinary general meetings. Extraordinary general meetings shall be held whenever the Board thinks fit or on the requisition of shareholders in accordance with the Act.

An annual general meeting and any extraordinary general meetings at which it is proposed to pass a special resolution or (save as provided by the Act) a resolution of which special notice has been given to the Company, shall be called by at least 21 days' written notice and any other extraordinary general meeting shall be called by at least 14 days' written notice, unless such shareholder meetings are called by shorter notice in accordance with the Act.

The requisite quorum for general meetings of the Company shall be two persons, whether present in person or by proxy, entitled to vote on the business to be transacted at the meeting.

(viii) *Voting rights*

At any general meeting of shareholders, voting shall be on a show of hands, unless a poll is duly demanded either before a resolution is put to the vote on a show of hands or on the declaration of the result of the show of hands. On a show of hands, every shareholder present in person at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote per share held by that shareholder.

A poll may be demanded by any of the following: the chairman of the meeting; not less than five shareholders present in person or by proxy and entitled to vote; any shareholder or shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or any shareholder or shareholders present in person or by proxy and holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid-up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Shareholders may appoint a proxy to attend and, on a poll, vote on their behalf at a general meeting. A proxy need not be a member of the Company. A proxy shall have the right to demand or join in demanding a poll but no further right to speak at the meeting, except with the permission of the chairman of the meeting. Unless his appointment provides otherwise, a proxy may vote or abstain at his discretion on any matter coming before the meeting on which proxies are entitled to vote.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a casting vote in addition to any other vote he may have.

(ix) *Variation of rights*

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Act, be varied or abrogated, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise), and

such special rights may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up.

The provisions of the Articles relating to general meetings and the proceedings thereat shall *mutatis mutandis* apply to every such separate meeting, except that the requisite quorum shall be two persons at least holding or representing by proxy not less than one-third in nominal value of the issued shares of the class, that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

(x) *Transfer of shares*

All transfers of shares which are in certificated form may be effected by a transfer in writing in any usual or common form or in any other form acceptable to the Directors. An instrument of transfer must be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of such shares. There is no fee payable to the Company for transferring shares.

All transfers of shares which are in uncertificated form may be effected by means of a relevant system (unless the Regulations provide otherwise).

The Directors may, in the case of shares in certificated form, in their absolute discretion and without giving any reason therefor, refuse to register any transfer of shares (not being fully paid up shares), provided that the Directors may not exercise their discretion where shares are admitted to the Official List in such a way as to prevent dealings in such shares from taking place on an open and proper basis.

The Directors may determine, subject to the Act and the Regulations, that any class of shares may be held in uncertificated form and that title to shares of that class may be transferred by means of a relevant system or that shares of that class should cease to be held and transferred as aforesaid.

(xi) *Lien and forfeiture*

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable in respect of such share. The Directors may waive any lien which has arisen and may resolve that any share shall be wholly or partially exempt from this provision.

The Directors may call any moneys unpaid on shares, together with any interest accrued thereon and any expenses the Company has incurred by reason of such non-payment. The Directors may further resolve to forfeit shares, including all dividends declared on such shares and not already paid before forfeiture, in respect of which calls payable are not duly paid.

A share forfeited shall become the property of the Company and may be sold, re-allotted or otherwise disposed of, in each case on such terms as the Directors shall think fit, and a person whose shares have been forfeited shall cease to be a member in respect of those shares.

(xii) *Limitations on voting and shareholding*

There are no limitations imposed by English law or the Company's Memorandum of Association or Articles on the rights of non-residents or foreign persons to hold or vote with respect to the shares, other than the limitations that would generally apply to all of the Company's shareholders.

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*(xiii) Controller Shareholders*

If any person (to the knowledge of the Directors) becomes or is deemed to be a Controller (as defined below) without obtaining the prior written approval of the FSA (or any successor thereof), the Directors will be entitled, but will not be obliged, to serve a written notice (a “Disposal Notice”) on all those who have interests in, and, if different, on the holder(s) of, the shares in which such Controller is interested. The Disposal Notice will state the number of shares (“Excess Shares”) which are required to be disposed of. Where a Disposal Notice has been served the holder(s) of the shares will not, in respect of the number of Excess Shares held, be entitled, with effect from the date of service, to receive notice of, or to attend or vote at, any general meeting of the Company or any meeting of the holders of shares of the relevant class.

If a Disposal Notice is not complied with to the satisfaction of the Directors and has not been withdrawn, the Directors will, so far as they are able, dispose of the Excess Shares at the best price reasonably obtainable in all the circumstances and will give written notice of any such disposal to those persons on whom the Disposal Notice was served. Such a disposal will usually be completed as soon as reasonably practicable after expiry of the Disposal Notice. Neither the Company nor the Directors will be liable to any holder, or to any person having an interest in any share, or any other person, for failing to obtain the best price so long as the Directors act in good faith.

For the purposes of the Articles summarised in this paragraph (a) a “Controller” means any person who (a) either alone or with any connected person is entitled to exercise, or to control the exercise of, 10 per cent or more of the voting power at any general meeting of the Company or of another body corporate by which it is controlled, or (b) in accordance with whose directions or instructions (either alone or with those of any connected person) the Directors are accustomed to act.

**(b) Rights attaching to the B Shares**

The B Shares shall constitute a separate class of shares from the Ordinary Shares, and shall have the following rights and restrictions.

*(i) Dividends*

The B shareholders shall not be entitled to any dividend or other distribution in respect of their holdings of B Shares.

*(ii) Rights on a winding-up*

To the extent not already received by them, the B shareholders shall be entitled to receive a consideration equal to the amount realised by the sale by the Trustee of 12,387 Ordinary Shares for every 100 B Shares. On a winding-up, holders of B Shares shall be entitled to the return this nominal value only once the Ordinary Shares receive a return of capital of £8,000,000 per share.

*(iii) Voting rights*

The B shareholders shall not be entitled to receive notice of or attend general meetings of shareholders and shall not be entitled to vote at such meetings in respect of their B Shares.

*(iv) Transfer of shares*

The B shareholders shall be entitled to sell their B Shares to the Trustee at any time subsequent to Admission for a consideration equal to the amount realised by the sale by the Trustee of 12,387 Ordinary Shares for every 100 B Shares. Other than as described above, the B Shares shall not be transferable. In addition, in respect of those B Shares which the B Shareholders are entitled to sell to the Trustee in connection with the Global Offer on or after Admission and have indicated their intention to sell in writing to the Company, the B Shareholders shall be entitled to receive cash consideration equal to £2,453,576

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(v) *Conversion of shares*

Once all the B Shares have been purchased by the Trustee, the B Shares will automatically convert into Deferred Redeemable Shares and will be redeemed for 1p each.

(c) Deferred Redeemable Shares

The Deferred Redeemable Shares will carry no rights to dividends and will have no voting rights. On a return of assets whether on a liquidation or otherwise, the Deferred Redeemable shareholders shall be entitled to a return of the nominal value in respect of the Deferred Redeemable Shares pro rata to the number of Deferred Redeemable Shares held by them and the amounts paid up on those Deferred Redeemable Shares.

(d) Directors' interests

Subject to the provisions of the Act, and provided that a Director has disclosed to the Board the nature and extent of any interest of his, a Director:

- (i) may be party to, or otherwise interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;
- (ii) may be a director or other officer of, or employed by, or party to any contract, transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
- (iii) may (or any firm of which he is a partner, employee or member may) act in a professional capacity for the Company (other than an Auditor) and be remunerated therefor; and
- (iv) shall not, save as otherwise agreed by him, be accountable to the Company for any benefit which he derives from such contract, transaction or arrangement or from any such office or employment or from any interest in such body corporate or for such remuneration.

A Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest (otherwise than by virtue of interests in shares, debentures or other securities of, or otherwise in or through, the Company). A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote.

Subject to the provisions of the Act, a Director shall be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- (i) the giving of a security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings or a debt or other obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility under a guarantee or indemnity or by giving security;
- (ii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or subunderwriting of which he is to participate;
- (iii) any proposal concerning any other body corporate in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that he (together with persons connected with him) does not have an interest in one per cent or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of the relevant body corporate;

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- (iv) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- (v) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors, indemnities in favour of Directors, the funding of expenditure by Directors on defending proceedings against them or doing anything to enable such Directors to avoid incurring such expenditure.

A Director may not vote or be counted in the quorum on a resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of appointment) to an office or employment with the Company or any body corporate in which the Company is interested.

(e) Remuneration of Directors

The ordinary remuneration of the Directors shall from time to time be determined by the Directors, except that such remuneration (excluding, for the avoidance of doubt, any remuneration to be paid to Directors by way of salary, commission or otherwise as referred to in the following subparagraphs of this paragraph (e)) shall not exceed £500,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Company.

Any Director who holds any executive office or who serves on any committee of the Board of Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the Directors may determine.

The Directors shall have the power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to any Director or ex-Director and for the purpose or providing any such gratuities, pensions or other benefits to contribute to any scheme or fund or to pay premiums.

The Company may repay to any Director all such reasonable expenses as he may incur in attending meetings of the Board of Directors or committees of the Board of Directors or shareholders meetings or otherwise in connection with the business of the Company.

A Director shall not be required to hold any shares of the Company by way of qualification.

(f) Appointment, retirement and removal of Directors

The Directors shall not be less than two nor more than fifteen in number. The Company may by ordinary resolution from time to time vary the minimum and maximum number of Directors.

The Company may by ordinary resolution elect, and the Directors shall have power at any time to appoint, any person to be a Director either to fill a casual vacancy or as an additional Director. Any person so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for election.

Each Director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected but, unless he falls within the next following provision, he shall be eligible for re-election. A Director shall also retire at any annual general meeting if he has agreed to do so (whether in accordance with the terms of his appointment or otherwise) and, unless the Directors have agreed otherwise, he shall not be eligible for re-election.

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The Company may, in accordance with and subject to the Act, by ordinary resolution of which special notice has been given, remove any Director from office and elect another person in place of a Director so removed from office.

(g) Borrowing powers

Subject to the provisions of the Act and as hereinafter provided, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company, or of any third party.

The Directors shall restrict the borrowings of the Company so as to secure that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the Company and its subsidiary undertakings and for the time being owing to persons outside the Company and its subsidiary undertakings, less the aggregate amount of its current asset investments, shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to two and a half times the adjusted capital and reserves, as such borrowings, current asset investments and adjusted capital and reserves are defined in the Articles for these purposes.

(h) Indemnity of officers

So far as is permitted by and consistent with the Act, every Director and officer of the Company shall be indemnified by the Company out of its own funds against any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him to any person other than the Company or any member of the Group (other than liabilities excluded by the Act) and any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in connection with his duties, powers or office. Such indemnity shall not however extend to any liability incurred by or attaching to a Director or officer as a result of his own fraud or wilful default.

The Directors shall have power to purchase and maintain insurance for the benefit of any person who was at any time a Director or officer and, subject to the provisions of and so far as may be permitted by the Act, the Company may provide a Director or officer with funds to meet expenditure incurred by him in defending any criminal or civil proceedings and may do anything to enable a Director or officer to avoid incurring such expenditure.

(i) Untraced shareholders

The Company shall be entitled to sell at the best price reasonably obtainable at the time of sale, the shares of a member or the shares to which a person is entitled by transmission on death or bankruptcy or otherwise by operation of law provided that:

- (i) during a period of six years prior to the date of advertising its intention to sell such shares at least three dividends in respect of such shares have become payable and no dividend in respect of those shares has been claimed;
- (ii) on the expiry of such period of six years the Company advertises in a national newspaper and in a newspaper circulating in the area of the last known postal address of the member or the postal address at which serving of notices may be effected is located giving notice of its intention to sell such shares; and
- (iii) during the period of three months following the publication of the advertisements the Company receives no communication from such member or person.

The net proceeds of such sale shall belong to the Company, which shall be obliged to account to the former member or other person previously entitled to the shares for an amount equal to such proceeds and shall enter the name of such former member or other person in the books of the

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Company as a creditor for such amount which shall be a permanent debt of the Company. No trust shall be created and no interest shall be payable in respect of the debt and the Company shall not be required to account for any money earned on the net proceeds.

- (j) Communications with shareholders  
Any notice or document may be served on or delivered to any member of the Company either personally or by sending it by post to such member at his registered address.

Any member may notify the Company of an address for the purpose of his receiving electronic communications from the Company and, having done so, shall be deemed to have agreed to receive notices and other documents from the Company by electronic communication of the kind to which the address relates.

A member who (having no registered addresses within the United Kingdom) has not supplied to the Company a postal address within the United Kingdom for the service of notices shall not be entitled to receive notices from the Company.

## **5 EMPLOYEE SHARE PLANS**

### **5.1 Introduction**

- (a) There are two employee Share Plans to be put in place prior to Admission. The Share Plans consist of:
- (i) an LTIP under which there will be a pre-IPO award and future awards; and
  - (ii) a SIP.

A summary of the main provisions of each of the Share Plans is set out below.

The LTIP allows the award of nil cost or nominal cost shares (referred to as “awards”). Awards referred to as IPO LTIP Awards, will be made under the LTIP prior to and conditional upon Admission.

### **5.2 IPO LTIP Award**

- (a) The following IPO LTIP awards will be made prior to, and conditional upon, Admission:
- (i) Senior Management IPO High Growth Incentive Award;
  - (ii) Senior Management IPO Basic Award; and
  - (iii) Management IPO Award.
- (b) In the case of the Senior Management IPO High Growth Incentive Award, the maximum value of Ordinary Shares that can be awarded to Executive Directors will equal 300 per cent of the participant’s salary and between 150 and 240 per cent for other managers.
- (c) In the case of the Senior Management IPO Basic Award, the maximum value of shares awarded to Executive Directors and other managers of the Group will equal 100 per cent of the participant’s salary.
- (d) The Management IPO Award will be made to other managers (excluding Executive Directors) of the Group. In the case of the Management Award 2005, the value of Ordinary Shares awarded to other managers of the Group will range from 20 per cent to 80 per cent of the participant’s salary from the Group.

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(e) All awards made under the IPO LTIP will be subject to the following performance targets:

(i) **Senior Management IPO High Growth Incentive Award**

(A) These awards are intended to reward the achievement of a compound annual growth rate (“CAGR”) in the Company’s normalised EPS of between 20 per cent and 50 per cent over a period of three years ending 31 May 2008. If the CAGR in EPS falls between these levels, the proportion of the maximum award which will vest is given by the formula:

$$\frac{1}{3}((A - B) \times C)$$

where:

A = the percentage CAGR in EPS achieved over the three year period to 31 May 2008

B = 20 per cent

C = 10

(B) The maximum award will be 300 per cent of salary for Executive Directors and between 150 and 240 per cent of basic annual salary of other managers.

(C) The table below shows the award which vests at percentage of basic annual salary awarded to Executive Directors under different EPS growth scenarios.

Compound annual percentage growth in the Company’s normalised earnings per share (‘EPS’) over the three year period ending 31 May 2008:	Equivalent to percentage of basic annual salary
Less than 20 per cent	0
25 per cent	50
30 per cent	100
35 per cent	150
40 per cent	200
45 per cent	250
50 per cent	300

(ii) **Senior Management IPO Basic Award**

Compound annual percentage growth in the Company’s normalised earnings per share (‘EPS’) over the three year period ending 31 May 2008:

	Percentage of award vesting
Less than 15 per cent	None of the award vests
Between 15 per cent and 25 per cent	Award vests proportionally between nil and 100 per cent
25 per cent or more	100 per cent of award vests

(iii) **Management IPO Award**

Compound annual percentage growth in the Company’s normalised earnings per share (‘EPS’) over the three year period ending 31 May 2008:

	Percentage of award vesting
Less than 10 per cent	None of the award vests
Between 10 per cent and 15 per cent	Award vests proportionally between 50 per cent and 100 per cent
15 per cent or more	100 per cent of award vests



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EPS is defined as the normalised earnings per share calculated on a fully diluted basis and excluding exceptional items, as adjusted by the Remuneration Committee as may be necessary to ensure a consistent basis of calculation.

No re-testing of the performance criteria will occur.

**5.3 Post IPO LTIP Award**

- (a) The Remuneration Committee will make future awards under the LTIP using performance conditions and target levels which are believed to be appropriate and to provide value to the participants commensurate with the performance achieved. The policy when deciding on performance measures will be to use measures the participants can, by their actions, influence, in order to provide effective motivation. The policy will be to make awards annually and, as mentioned above, to ensure that the targets are set at the time of award with regard to prevailing conditions.
- (b) Performance targets once set will not be amended unless an event occurs which causes the Remuneration Committee to consider that an amended target would be a fairer measure of performance and is not materially less difficult to satisfy.
- (c) Future awards under the LTIP will take into account the guidelines set by the Association of British Insurers.

**5.4 General LTIP Conditions**

(a) Employee Eligibility

The LTIP will offer selected Executive Directors (excluding Non-Executive Directors) and other managers of the Group the opportunity to acquire Ordinary Shares.

(b) Award Price

The award price shall be determined by the Remuneration Committee but it is anticipated that it will be nil or the nominal value of the Ordinary Shares where awards are to be satisfied by the issue of new shares.

(c) Employer National Insurance Contributions

All awards made under the LTIP will be made subject to each participant agreeing to bear the employer national insurance contributions liabilities associated with the awards.

(d) Shareholder Dilution

The LTIP contains a limit on the number of new Ordinary Shares to be issued. These limits apply to awards made under all employee share schemes operated by the Group. Awards which have lapsed are disregarded.

The directors will ensure that appropriate policies are in place in order to spread the potential issue of new shares over the life of the LTIP.

The rules of the LTIP provide that no more than 10 per cent of the issued ordinary share capital of the Company, adjusted for scrip and bonus issues and rights issues, should be issued under all share incentive schemes operated by the Company in any rolling ten year period. Shares purchased “on market” into treasury and SIP shares issued to employees upon payment of market value for those shares are excluded from this 10 per cent limit.

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(e) **Making of Awards**

The IPO LTIP awards will be made prior to and conditional on Admission and will be limited to the initial awards described above.

Subsequently, awards can only be granted in the period of 42 days following Admission, or following the announcement of the Company's interim or final results, or at other times if the Remuneration Committee considers there are exceptional circumstances.

An award will be personal to the participant and not transferable (other than on death when it can be exercised by the participant's personal representatives).

No award can be granted more than 10 years after adoption of the LTIP and no award can be granted to an employee less than six months before the date on which he is bound or entitled to retire under the terms of his contract of employment.

(f) **Variation of Share Capital**

Upon any variation of the share capital of the Company, whether by way of a capitalisation issue (other than a capitalisation issue in substitution for or as an alternative to a cash dividend), a rights issue or any sub-division, consolidation, reduction or other variation, the Company's share capital may be adjusted in such manner as the Remuneration Committee determines to be fair and reasonable.

(g) **Vesting of Awards**

Where the participant ceases to be employed by the Group as a result of death, injury, disability, ill health or retirement, or as a result of the Company or part of the business by which a participant was employed ceasing to be a member or part of the Group (a "good leaver"), the award will vest, subject to the achievement of the performance targets described above. These targets will be tested at the date of cessation of employment. The amount of the award which vests will then be proportionately reduced by expressing the period of time elapsed from the date of award to the date of cessation of employment as a percentage of the vesting period.

(i) The Remuneration Committee has the discretion to allow a participant's award to vest in whole or in part if he is transferred to work overseas and as a result would suffer less favourable tax treatment in respect of his award or become subject to a restriction on his ability to hold or deal in the Ordinary Shares acquired or the sale proceeds received.

(ii) If a participant ceases to be employed by the Group for any other reason, the award will lapse unless the Remuneration Committee, in exceptional circumstances, determines otherwise. If the Remuneration Committee decides to use its discretion, the amount of the award which vests will be the proportion that would have vested had the employment ceased under the good leaver criteria.

(iii) Additionally, in the event of a takeover, reconstruction, amalgamation or winding up of the Company, the awards vest immediately subject to the achievement of the performance targets described above. These targets will be tested at the date of the event in question. The amount of the award which vests will then be proportionately reduced by expressing the period of time elapsed from the date of award to the date of the event in question as a percentage of the vesting period. The Remuneration Committee may in exceptional circumstances determine that performance targets need not be achieved and/or no time apportionment is necessary.

(h) **Pensionability**

(i) Awards under the LTIP will not be pensionable.

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- (i) Source of shares and employee trust
  - (i) The LTIP allows the use of newly issued Ordinary Shares and Ordinary Shares acquired “on market” either through the medium of an employee benefit trust or the holding of shares in treasury.
  - (ii) The Company or any subsidiary may provide financial assistance, to the extent permitted by company law, to a person such as a trustee of an employee benefit trust to enable shares to be acquired by the person and held for the purpose of the LTIP.
  - (iii) The trust deed of any employee benefit trust will preclude the trustees from holding more than 5 per cent of the Company’s issued ordinary share capital at any one time.
  - (iv) The Trustee currently holds 1,089,600 Ordinary Shares which are available to satisfy awards made under the LTIP and the SIP.
- (j) Amendments to the LTIP

The LTIP may be amended at any time, however the provisions in the LTIP relating to:

  - (i) eligibility to participate in the LTIP;
  - (ii) limits on the number of new Ordinary Shares which may be issued pursuant to the LTIP;
  - (iii) the maximum entitlement of individual participants under the LTIP; and
  - (iv) the basis for determining a participant’s entitlement to benefit under the LTIP and the terms of the shares to be provided, and for the adjustment thereof, if any, in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of Ordinary Shares or reduction of capital or any other variation of capital,

will not be altered to confer any additional advantage on any participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain a favourable tax advantage, exchange control or regulatory treatment for participants, the Company or a member of the Group). Additionally, no amendment can be made which would adversely affect the rights of participants without their consent.

**5.5 Share Incentive Plan**

**(a) Introduction**

The SIP is an all employee scheme under which employees being offered free shares must participate on the “same terms” (this can include awards being made by reference to remuneration, length of service or hours worked). The main features of the SIP are set out below. Approval for the SIP is being sought from the Inland Revenue.

It is proposed that, as soon as is reasonably practicable after receipt of Inland Revenue approval, all employees with a salary of no more than £60,000 will receive an award of free shares with a value of £3,000 as at the Offer Price (subject to Inland Revenue approval). Of these shares, £500 worth of shares will vest immediately and the remaining £2,500 worth of shares will vest after three years. The vesting of these free shares will not be subject to performance targets. Employees with a salary exceeding £60,000 will be awarded Ordinary Shares at the Offer Price (subject to Inland Revenue approval) which will vest immediately since the Inland Revenue requires all employees to participate in the SIP.

The SIP has been broadly drafted to facilitate the making of all forms of award possible under the SIP legislation in future but no other awards are anticipated in the next twelve months.

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**(b) Employee Eligibility**

The directors may from time to time provide that free or matching shares may be appropriated to, and partnership and dividend shares may be acquired by, eligible employees of the Company. The directors will have the discretion to set a minimum service requirement of up to 18 months in order for an employee or executive director to be eligible to participate.

**(c) Principal Features and General Conditions of the SIP**

(i) The SIP will allow eligible employees to obtain Ordinary Shares in the Company in up to four ways: through the award of free shares, partnership shares, matching shares and dividend shares, the principal features of which are set out below. The directors have discretion to use any or all parts of the SIP subject to complying with the rules on shareholder dilution incorporated in the rules of the SIP.

(ii) Ordinary Shares acquired pursuant to the SIP will rank *pari passu* with other Ordinary Shares in the Company subject to the provisions of the SIP.

(iii) The free, matching and dividend shares are subject to holding periods of at least 3 years in an employee benefit trust which will be established by the Company in conjunction with the SIP. The holding period for free and matching shares can be set at between three and five years, at the discretion of the directors.

(iv) Subject to the forfeiture provisions mentioned below, all shares must be released to the employee from the SIP if the employee ceases to be employed by the Company or any other associated company.

(v) Invitations to participate in any element of the SIP and awards of shares under the SIP may not be made at any time when this would not be in accordance with the Model Code issued by the UK Listing Authority.

(vi) The SIP contains a limit on the number of new Ordinary Shares to be issued. These limits apply to awards made under all employee share schemes operated by the Group. Awards which have lapsed are disregarded.

(vii) The directors will ensure that appropriate policies are in place in order to spread the potential issue of new shares over the life of the SIP.

(viii) The rules of the SIP provide that no more than 10 per cent of the issued ordinary share capital of the Company, adjusted for scrip and bonus issues and rights issues, should be issued under all share incentive schemes operated by the Company in any rolling ten year period. Shares purchased “on market” into treasury and SIP shares issued to employees upon payment of market value for those shares are excluded from this 10 per cent limit.

(ix) *Free shares*

Up to £3,000 of shares may be awarded to each eligible employee each tax year. The Directors may choose to make the award of shares subject to the prior satisfaction of performance targets. Provided certain conditions are met such performance targets need not be on the same terms. At the discretion of the directors, shares may be subject to forfeiture if the employee leaves within 3 years of the award. The forfeiture provisions do not apply in certain defined circumstances including where employment ceases due to injury, disability, redundancy, retirement, death or by reason of a change in control of the Company by which the individual is employed or business for which he works.

(x) *Partnership shares*

Eligible employees may be given the opportunity to purchase up to £1,500 of shares each tax year out of their pre-tax employment income. The Directors may set a savings period of up to 12 months in duration. In such circumstances the price at which shares will be deemed to be

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acquired by eligible employees will be the lower of the market value of the shares at either the beginning or end of the savings period set by the directors. If no savings period is set, shares will be acquired at market value on the acquisition date. Once acquired, Ordinary Shares may be withdrawn from the SIP by the employee at any time and will not be capable of forfeiture under any circumstances.

(xi) *Matching shares*

Partnership Shares purchased by eligible employees may, at the discretion of the directors, attract an award of further shares at a ratio of up to 2:1, that is, the Directors have power to award matching shares to eligible employees with a value of up to £3,000 each tax year. Such shares may, at the discretion of the directors, be subject to forfeiture if the employee leaves (other than in the circumstances mentioned above) within 3 years of the award or if Partnership Shares are withdrawn from the SIP earlier than 3 years after they are acquired by the eligible employee.

(xii) *Dividend shares*

Eligible employees may be given the opportunity to use any cash dividend income received on the shares which have been awarded to them, and are held in the trust, to acquire dividend shares up to an annual limit of £1,500 per tax year. The dividend shares can be withdrawn from the SIP by the eligible employee after 3 years. Dividend shares are not capable of forfeiture in any circumstances.

(d) **Pensionability**

Benefits under the SIP in the form of free, matching or dividend shares will not be pensionable. Any salary used to acquire partnership shares will continue to be treated as pensionable income so as not to disadvantage employees who decide to use part of their salary to purchase such shares.

(e) **Source of Shares and Employee Trust**

All shares that are awarded to eligible employees under the SIP must, initially, be held in a UK resident employee benefit trust. Shares can either be provided by subscription from the Company or through market purchases.

(f) **Amendments to the SIP**

(i) The Directors may amend any of the provisions of the SIP which they deem necessary or expedient in order to obtain Inland Revenue approval for the SIP.

(ii) Following Inland Revenue approval of the SIP, subsequent changes to key features (provisions necessary to meet the requirements of the taxation legislation) will not have effect until approved by the Inland Revenue.

(iii) Following Admission and subject to the paragraphs (f)(i) and (f)(ii) above, the SIP may be amended. However, provisions of the SIP relating to:

(A) eligibility to participate in the SIP;

(B) limits on the number of new Ordinary Shares which may be issued pursuant to the SIP;

(C) the maximum entitlement of individual participants under the SIP; and

(D) the basis for determining a participant's entitlement to benefit under the SIP and the terms of the Ordinary Shares to be provided, and for the adjustment thereof, if any, in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital

will not be altered to confer any additional advantage on any participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the SIP, to take account of a change in legislation or to obtain or maintain a favourable tax advantage, exchange

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control or regulatory treatment for participants, the Company or a member of the group). Additionally, no amendment can be made which would adversely affect the rights of participants without their consent.

**6 DIRECTORS' AND OTHERS' INTERESTS**

6.1 The Directors, their functions within the Company and brief biographies, are set out in the paragraph headed "Directors, Management and Employees" in Part II.

6.2 The interests of each Director and of senior management in the share capital of the Company (all of which interests are beneficial) which (i) have or will have been notified to the Company pursuant to Section 324 or Section 328 of the Act, (ii) are required pursuant to Section 325 of the Act to be entered into the Register of Directors' interests, or (iii) are interests of a connected person (within the meaning of Section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director were as at 12 April 2005 (being the latest practicable date prior to the printing of this document) and are expected to be, on the basis of the Assumptions, immediately following Admission, as follows:

Director	No. of Ordinary Shares prior to Admission	Number of Preference Shares prior to Admission <sup>(1)</sup>	Percentage of issued Ordinary Share capital prior to Admission <sup>(2)</sup>	No. of Ordinary Shares following Admission <sup>(3)</sup>	Percentage of issued share capital following Admission <sup>(4)</sup>
Jonathan Richard Davie	1,790,800	32,314	0.8	1,790,800	0.6
Nathaniel Bernard le Roux	20,162,800	1,324,239	9.3	15,122,100	4.7
Timothy Alexander Howkins	7,642,400	245,472	3.5	5,731,800	1.8
Peter Geoffrey Hetherington	7,613,200	238,759	3.5	5,709,900	1.8
Andrew Robert MacKay	3,936,600	124,387	1.8	2,952,450	0.9
Robert Richard Lucas <sup>(4)</sup>	218,200	—	0.1	136,714	—
David Martin Jackson	—	—	—	—	—
Senior management	11,908,200	300,432	5.5	9,540,300	3.0

(1) *The Preference Shares will be redeemed on Admission*

(2) *After exercise of Warrants over 17,725,800 Ordinary Shares, which will occur on Admission. For more information see paragraph 12(b) of this Part XI*

(3) *Based on the Assumptions*

(4) *Capital Investors 2002 Limited (one of the CVC Shareholders) holds 218,200 Ordinary Shares on trust for Robert Lucas and will sell Ordinary Shares in the Global Offer in the same proportion as the other CVC Shareholders*

6.3 Save as set out in paragraphs 6.3(a) and 6.3(b) below, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of IG and which was effected by any member of the Group in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

(a) On 29 July 2003, the Company entered into separate FSA long-term subordinated loan agreements with each of Nat le Roux (£804,706), Tim Howkins (£149,168), Peter Hetherington (£145,088) and Andrew MacKay (£75,586). The loans from Messrs. Howkins, Hetherington and MacKay were repaid on 3 March 2004 out of the proceeds of FSA long-term subordinated loans advanced on the same terms from the spouses of each of these lenders. In addition, on 19 March 2004 the Company entered into a FSA long-term subordinated loan agreement with Jonathan Davie, £19,637, of which loan is still outstanding.

(b) On 5 September 2003, the Company issued floating rate unsecured loan notes due 2013 to each of Tim Howkins (in the amount of £189,975, all of which have subsequently been redeemed), Peter

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Hetherington (in the amount of £76,500 all of which have subsequently been redeemed) and Andrew MacKay (in the amount of £204,000 all of which have subsequently been redeemed), pursuant to and as constituted by a Loan Note Instrument entered into by the Company on 29 July 2003.

- (c) Robert Lucas is a director of CVC Capital Partners Limited. During the year ended 31 May 2004, the Company paid £155,508 to CVC Capital Partners Limited to reimburse costs incurred in connection with the acquisition by the Company of IG Group Limited (formerly IG Group plc).
- (d) During the year ended 31 May 2004, the Company paid of £1 million to CVC Capital Partners Advisory Co Limited, a company related to CVC Capital Partners Limited. Funds managed or advised by CVC Capital Partners Limited or its affiliates currently hold 64.2% of the issued ordinary share capital of the Company.

6.4 There are no outstanding loans granted by any member of the Group to any Director, nor has any guarantee been provided by any member of the Group for their benefit.

6.5 Save as set out below, the Directors have not held any directorships of any company (other than companies in the Group and companies which are subsidiaries of companies of which the Director is or was also a director) or partnerships within the last five years:

Name of Director	Current directorships/partnerships	Former directorships/partnerships
Jonathan Davie	B&J Developments Limited Everychild Credit Suisse (United Kingdom) Limited	Credit Suisse First Boston (Europe) Limited The European Children's Trust Isle of Dogs Community Foundation
Nat le Roux	The Rollright Trust Limited	—
Peter Hetherington	—	—
Tim Howkins	—	—
Andrew MacKay	GAMC Limited	—
Robert Lucas	Aprilway Limited Kwik-Fit Group Limited CVC Capital Partners Limited Halfords Holdings Limited AA Acquisition Co Limited AA Junior Mezzanine Co Limited AA SPC Co Limited AA Top Co Limited	Britton Group (Holdings) Limited The Dutton-Forshaw Group Limited De Facto 936 Limited Cellar 5 Group Limited Cork International Limited (in administrative receivership) Collins Stewart Tullett plc
Sir Alan Budd	Information Sciences Limited Voltaire Foundation Limited	
Martin Jackson	The Brainwave Centre Limited Admiral Group plc Raymond Road Estate Limited	Friends Provident Plc

6.6 Save as set out above, none of the Directors has any business interests or performs any activities outside the Group which are significant with respect to the Group.

6.7 At the date of this document, none of the Directors named above:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has been declared bankrupt or entered into an individual voluntary arrangement;

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- (c) was a director with an executive function of any company at the time of, or within 12 months preceding, any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
- (d) has been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- (e) has had any of his assets the subject of any receivership or has been a partner of a partnership at the time of, or within 12 months preceding, any assets thereof being the subject of a receivership; or
- (f) has been subject to any public criticism by any statutory or regulatory authorities (including any designated professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

**7 DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT**

- 7.1 The following Executive Directors entered into service agreements with the Company on 12 April 2005, the terms of which are conditional upon Admission occurring on or before 30 June 2005, as summarised below:

Name	Title	Date of commencement of continuous employment	Gross basic salary (£/per annum)	Leave (days/per annum)	Notice period (either party)
Nat le Roux	Chief Executive Officer	2 October 1992	220,000	30	6 months
Tim Howkins	Finance Director	5 July 1999	170,000	30	6 months
Peter Hetherington	Chief Operating Officer	26 January 1994	150,000	30	6 months
Andrew MacKay	Legal Director	22 February 1999	135,000	30	6 months

- 7.2 Each of the Executive Directors is entitled to medical insurance for himself, his spouse and any dependants, and to participate in the Company's pension arrangements, permanent health insurance and life insurance cover.
- 7.3 Each of the Executive Directors shall be invited to participate in the bonus arrangements determined by the Remuneration Committee. The bonus arrangements may vary from one financial year to another and the Remuneration Committee has absolute discretion to determine the bonus parameters. It is intended that the maximum bonus opportunity in any year will equal 150 per cent of basic salary for each Executive Director.
- 7.4 The employment of each Executive Director may be terminated by the Company or the Executive Director providing to the other six months' written notice. The Company may also terminate the employment by making a payment of salary and an amount equating to the value of benefits that would otherwise have been receivable in lieu of notice or any unexpired period of notice. In addition, the service agreement of each of the Executive Directors is subject to termination by the Company without notice if the Executive Director is guilty of any serious or persistent breach of his obligations, gross misconduct, dishonesty or is convicted of a criminal offence resulting in a custodial sentence, becomes of unsound mind or bankrupt, becomes disqualified from being a Director of a company, or resigns as a Director without the consent of the Company. If an Executive Director is on sick leave for more than 180 days in any twelve-month period, the Company may terminate his employment with immediate effect by giving written notice.



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- 7.5 When notice has been given by either the Company or the Executive Director to terminate his employment, the Company has a right to exclude the Executive Director from attending the Company's premises and to prohibit the Executive Director from communicating with suppliers, clients, employees, agents or representatives of the Company for a period of up to six months (garden leave). Each of the Executive Directors is also subject to non-compete, non-solicitation and non-dealing restrictive covenants for a maximum period of six months following termination of his service agreement or commencement of the garden leave, whichever occurs first.
- 7.6 The Non-Executive Directors have entered into the following letters of appointment with the Company:
- (a) Jonathan Davie entered into terms of appointment with the Company with effect from 1 January 2004 to act as a Non-Executive Director and Chairman of the Company for an annual fee, which will from May 2005 be £65,000 (net of any taxes and deductions which the Company is required by law to make). The appointment is subject to the Company's articles of association in force from time to time and is for an initial term of one year and continues thereafter unless terminated by either party on three months' written notice. The appointment of Mr Davie may be terminated by the Company by notice in writing immediately in the event of a breach of his obligations that has not been remedied after a 21 day period, incompetence, gross misconduct or persistent failure to carry out the duties reasonably and properly required of him. The Company agrees to reimburse Mr Davie for the reasonable expenses he may properly incur in the performance of his duties. Mr Davie is subject to a confidentiality undertaking without limitation in time and to a non-compete obligation for a period of six months after termination of his appointment.
  - (b) Robert Lucas entered into a letter of appointment with the Company on 12 April 2005 to act as a Non-Executive Director of the Company and to receive an annual fee of £30,000 (net of any taxes and deductions which the Company is required by law to make), which fees will be paid to CVC Capital Partners Limited.
  - (c) Sir Alan Budd entered into a letter of appointment with the Company on 11 April 2005 to act as a Non-Executive Director of the Company and to receive an annual fee of £30,000 (net of any taxes and deductions which the Company is required by law to make).
  - (d) Martin Jackson entered into a letter of appointment with the Company on 7 April 2005 to act as a Non-Executive Director of the Company and to receive an annual fee of £30,000, together with a further annual fee of £5,000 for chairing the Audit Committee, (in each case, net of any taxes and deductions which the Company is required by law to make).
  - (e) The aggregate remuneration (including salaries, fees, pension contributions, bonus payments and benefits in kind) granted to the Directors by the Group for financial year 2004 amounted to £1,787,000.
  - (f) The aggregate amount payable to the Directors by the Group under arrangements in force at the date of this document (including salaries, fees, pension contributions, bonus payments and benefits in kind) is estimated to amount to £1,535,000 (which includes bonuses that are dependent on whether certain targets are achieved by the Company) for the financial year ending 31 May 2005.
  - (g) There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 7.7 Hardy McLain, Donald Mackenzie, Jonathan Kaye and Jonathan Feuer have been appointed to the board of IG Group Limited and will receive a fee, in aggregate, of £20,000, which fee will be paid to CVC Capital Partners Limited. Messrs McLain, Mackenzie, Kaye and Feuer are all employees of CVC Capital Partners Limited.

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**8 SHAREHOLDERS**

In so far as is known to the Company as at 12 April 2005 (being the latest practicable date prior to the publication of this document), the following persons (other than the Directors and other than the Company itself by virtue of its holding treasury shares) were, and, on the basis of the Assumptions, following Admission are expected to continue to be, interested, directly or indirectly, in three per cent or more of the issued share capital of the Company (calculated exclusive of treasury shares):

Name	No. of Ordinary Shares prior to Admission	No. of Preference Shares prior to Admission	Percentage of existing issued share capital prior to Admission	No. of Ordinary Shares following Admission	Percentage of issued share capital following Admission
CVC European Equity Partners III LP	107,201,400	24,798,861	49.2	67,167,363	20.8
Uberior Investments plc	13,240,000	3,051,751	6.1	3,566,057	1.1
Citicorp Capital Investors Europe Limited	6,871,800	1,870,200	3.2	4,305,547	1.3
CVC Europe Enterprise (Cayman) LP	5,524,200	1,277,930	2.5	3,461,204	1.1

The actual number of Existing Ordinary Shares to be offered under the Global Offer will only be decided by the Selling Shareholders together with the Global Coordinator and the Company at the same time as determination of the Offer Price and may vary significantly above or below the figures set out above.

Funds managed or advised by CVC Capital Partners Limited or its affiliates hold a total of 128,400,000 Ordinary Shares, representing 64.2 per cent of the issued share capital of the Company.

Save as disclosed above, the Directors are not aware of any person who is interested, directly or indirectly, in three per cent or more of the issued share capital of the Company.

Save as disclosed above, the Directors are not aware of any person or persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

**9 PREMISES**

The following are the principal establishments of the Group:

Location	Tenure	Rent	Expiry date
Fourth Floor, Friars House, 157-168 Blackfriars Road, London SE1 8EZ	Leasehold	£250,000 per annum; next rent review 29 September 2008	28 September 2013
Seventh Floor, Friars House, 157-168 Blackfriars Road, London SE1 8EZ	Leasehold	£398,160 per annum; next rent review 25 December 2006	28 September 2013
Third Floor, 32 Southwark Bridge Road, London SE1 9EU	Leasehold	£90,000 per annum; next rent review 20 April 2005	12 July 2008
Suites C and D, Part Ground Floor, Friars House, 157-168 Blackfriars Road, London SE1 8EZ	Leasehold	£18,160 per annum; next rent review 29 September 2008	28 September 2013
Level 3, 499 St. Kilda Road, Melbourne, Victoria, Australia	Leasehold	AUS\$53,500 per annum; no rent review date	14 February 2008

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**10 UNDERWRITING AND LOCK-UP ARRANGEMENTS**

On 13 April 2005 the Company entered into an Underwriting Agreement with the Institutional Investors, certain of the Group's senior management team excluding the Executive Directors (hereinafter referred to in this paragraph 10 as the "Managers"), the Executive Directors, certain of the Non-Executive Directors and the Underwriters. The Underwriting Agreement provides that:

10.1 The Company, the Institutional Investors, the Managers, the Executive Directors and certain of the Non-Executive Directors shall, subject to certain conditions as are customary in an agreement of this nature, allot and issue or transfer, as the case may be, at the Offer Price, the Global Offer Shares.

10.2 Each Underwriter severally, and not jointly, shall, subject to certain conditions as are customary in an agreement of this nature, procure subscribers or purchasers for or, failing which, subscribe for or purchase, the Global Offer Shares in the proportions indicated:

<b>Name</b>	<b>Percentage</b>
UBS Limited	80%
Bridgewell Limited	10%
Numis Securities Limited	10%

10.3 The Selling Shareholders and the Company have agreed to pay to the Underwriters commissions of 2 per cent of the amount equal to the Offer Price multiplied by the aggregate number of Ordinary Shares for which the Underwriters agree to procure subscribers and purchasers for, or failing which to subscribe and/or purchase themselves, pursuant to the terms of the Underwriting Agreement. The Institutional Investors have agreed to pay the Underwriters commissions of 2 per cent of the amount equal to the Offer Price multiplied by the aggregate number of the Ordinary Shares (if any) sold by the Institutional Investors under the Overallotment Option. An amount of up to 0.4 per cent of the aggregate proceeds (including in respect of Ordinary Shares (if any) sold by the Institutional Investors under the Overallotment Option) of the Global Offer will be deducted from the commissions payable to the Underwriters to pay the fees of Lexicon Partners Limited, joint financial advisers to the Company.

In addition the Company and CVC Capital Partners Limited may, in their sole discretion, on behalf of the Company and the Selling Shareholders, agree that the Company and the Selling Shareholders shall pay the Underwriters an incentive fee (the "Incentive Fee") of up to 0.5 per cent of the aggregate proceeds (including in respect of Ordinary Shares (if any) sold by Institutional Investors under the Overallotment Option) of the Global Offer. Any Incentive Fee determined to be payable will be payable by the Company and the Selling Shareholders on a pro rata basis by reference to the number of Ordinary Shares being issued by the Company or being sold by the Selling Shareholders, as the case may be, under the Global Offer. In determining whether or not to pay the Incentive Fee, and the amount (if any) payable, the Company and CVC Capital Partners Limited shall have regard to the market capitalisation of the Company calculated on the basis of the Offer Price.

In addition the Company and CVC Capital Partners Limited may, in their sole discretion and on behalf of the Company and the Selling Shareholders, agree that the Company and the Selling Shareholders shall pay the Underwriters a discretionary incentive fee (the "Discretionary Incentive Fee") of up to 0.5 per cent of the aggregate proceeds (including in respect of Ordinary Shares (if any) sold by Institutional Investors under the Overallotment Option) of the Global Offer. The Discretionary Incentive Fee will be payable by the Company and the Selling Shareholders on a pro rata basis by reference to the number of Ordinary Shares being issued by the Company or being sold by the Selling Shareholders, as the case may be, under the Global Offer. The amount of the Discretionary Incentive Fee (if any) shall be determined within 45 days of Admission and paid within 50 days of Admission.

All commissions shall be paid together with any applicable value added tax chargeable thereon.

10.4 The obligations of each Underwriter to procure subscribers for or, failing which, to subscribe for or purchase the Global Offer Shares at the Offer Price, are subject to certain conditions. These conditions

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include amongst others, the absence of certain breaches of warranty under the Underwriting Agreement and that Admission occurs by not later than 4 May 2005 or such later time and/or date as may be agreed by the Company and the Global Coordinator on behalf of the Underwriters. The Underwriters' agreement to procure subscribers or purchasers for or, failing which, to subscribe for or purchase, the Global Offer Shares is also subject to the signing of a separate purchase memorandum by the Company, the Selling Shareholders and the Underwriters to record the Offer Price and the number of Global Offer Shares to be comprised in the Global Offer. The Underwriters are under no obligation to enter into the purchase memorandum. In addition, the Underwriters have the option to terminate the Underwriting Agreement in certain circumstances as are customary in an agreement of this nature prior to Admission.

- 10.5 The Institutional Investors have severally, and not jointly, granted the Global Coordinator an Overallotment Option of such number of Ordinary Shares as will be set out in the purchase memorandum;
- 10.6 Each of the Company (in respect of the New Ordinary Shares) and the Selling Shareholders (in respect of the Existing Ordinary Shares) has severally agreed to pay by way of reimbursement to the Underwriters or as otherwise set out in the Underwriting Agreement, any stamp duty or stamp duty reserve tax arising on the issue or sale (as applicable) of Global Offer Shares by them (including in the case of the Institutional Investors pursuant to the Overallotment Option).
- 10.7 The Company has agreed to pay the costs, charges, fees and expenses of the Global Offer (together with any related value added tax).
- 10.8 The Company has appointed the Global Coordinator as Sponsor in connection with Admission.
- 10.9 The Company, certain of the Non-Executive Directors, each of the Managers, each of the Executive Directors, and each of the Institutional Investors have given certain representations, warranties, undertakings and, in the case of the Company, indemnities to the Underwriters as are usual in an agreement of this nature. The liabilities of the Company are not limited as to time or amount, whereas those of the Non-Executive Directors, the Managers, the Executive Directors and the Institutional Investors are limited both as to time (other than certain warranties relating to title to the Ordinary Shares being sold and authority to enter into the Underwriting Agreement) and amount.
- 10.10 The Company has undertaken with the Underwriters that (other than in order to comply with its obligations under the Underwriting Agreement or where the Global Coordinator has given its prior written consent) for a period commencing on the date of the Underwriting Agreement and ending six months after Admission, it will not, and will procure that none of its affiliates or persons acting on its or their behalf will (i) issue, offer, sell, contract to sell or issue, grant any option, right or warrant to subscribe or purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any securities convertible into or exchangeable for Ordinary Shares or which carry rights to subscribe or purchase Ordinary Shares) or any interest (within the meaning of Section 208(2) of the Companies Act) in any Ordinary Shares or (ii) publicly announce any intention to do any of such things. This undertaking does not apply to Ordinary Shares to be issued upon exercise of warrants to purchase or subscribe Ordinary Shares, or upon conversion of securities convertible into Ordinary Shares, in each case, outstanding on the date of the Underwriting Agreement or to the grant, in accordance with normal practice, of share awards from time to time under the Company's Share Plans referred to in paragraph 5 of this Part XI (Additional Information).
- 10.11 Each of the Institutional Investors has undertaken with the Underwriters and the Company that (other than in order to comply with its obligations under the Underwriting Agreement or in respect of Ordinary Shares acquired pursuant to the Global Offer or where the Global Coordinator and the Company have given their prior written consent) for a period commencing on the date of the Underwriting Agreement and ending six months after Admission, it will not, and will procure that none of its affiliates or persons acting on its or their behalf will (i) offer, sell, contract to sell, grant any option, right or warrant to subscribe or purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares held by the relevant Institutional

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Investor, or to which the relevant Institutional Investor is entitled, immediately following Admission (or any securities convertible into or exchangeable for Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) or any interest (within the meaning of Section 208(2) of the Companies Act) in any such Ordinary Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in such part, any of the economic consequences of ownership of any such Ordinary Shares, (iii) deposit any such Ordinary Shares (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) in any depository receipt facility, or (iv) publicly announce any intention to do any of such things.

- 10.12 Each of the Managers and certain of the Non-Executive Directors who will hold Ordinary Shares immediately following Admission has undertaken with the Underwriters and the Company that (other than in order to comply with his obligations under the Underwriting Agreement or in respect of Ordinary Shares acquired pursuant to the Global Offer or where the Global Coordinator and the Company have given their prior written consent), for a period commencing on the date of the Underwriting Agreement and ending on the date of the announcement by the Company of its preliminary results for the financial year ending 31 May 2006 (the “2006 Preliminary Results Date”), he will not, and will procure that none of his connected persons or persons acting on his or their behalf will (i) offer, sell, contract to sell, grant any option, right or warrant to subscribe or purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares held by him, or to which he is entitled, immediately following Admission (or any securities convertible into or exchangeable for such Ordinary Shares or which carry formality rights to subscribe or purchase such Ordinary Shares) or any interest (within the meaning of Section 208(2) of the Companies Act) in any such Ordinary Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Ordinary Shares, (iii) deposit any such Ordinary Shares (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) in any depository receipt facility, or (iv) publicly announce any intention to do any of such things.
- 10.13 Each of the Executive Directors has undertaken with the Underwriters and the Company that (other than in order to comply with his obligations under the Underwriting Agreement or in respect of any Ordinary Shares acquired pursuant to the Global Offer or where the Global Coordinator and the Company have given their prior written consent) for a period commencing on the date of the Underwriting Agreement he will not, and will procure that none of his connected persons or persons acting on his or their behalf will (i) offer, sell, contract to sell, grant any option, right or warrant to purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares held by the relevant Director, or to which the relevant Director is entitled, immediately following Admission (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) or any interest (within the meaning of section 208(2) of the Companies Act) in any such Ordinary Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Ordinary Shares, (iii) deposit any such Ordinary Shares (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) in any depository receipt facility or (iv) publicly announce any intention to do any of such things. This undertaking shall be released (i) in respect of 25 per cent of the Ordinary Shares currently held by the relevant Director on the date of the announcement by the Company of its preliminary results for the financial year ending 31 May 2007 and (ii) in respect of all other such Ordinary Shares, on the 2006 Preliminary Results Date.
- 10.14 The undertakings given by each of the Selling Shareholders to the Underwriters described in paragraphs 10.11, 10.12 and 10.13 above are subject to certain exceptions as are usual in an agreement of this nature which, amongst other things, allow the Selling Shareholders to accept a general offer made to all of the holders of Ordinary Shares or to transfer Ordinary Shares to a Connected Person (as defined in the Underwriting Agreement).

## **11 OTHER LOCK-UP ARRANGEMENTS**

On 13 April 2005 the Underwriters entered into an Orderly Market Deed with, amongst others, the Trustee. Pursuant to the Orderly Marketing Deed, the Trustee has undertaken with the Underwriters and the Company that (other than in respect of Ordinary Shares being sold or acquired by the Trustee pursuant to the Global Offer or where the Global Coordinator and the Company have given their prior written consent), for a period commencing on the date of the Orderly Marketing Deed it will not, and will procure that persons acting on its behalf will not, (i) offer, sell, contract to sell, grant any option, right or warrant to subscribe or purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares held by the Trustee, or to which the Trustee is entitled, immediately following Admission (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) or any interest (within the meaning of Section 208(2) of the Companies Act) in any such Ordinary Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Ordinary Shares, (iii) deposit any such Ordinary Shares (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) in any depositary receipt facility, or (iv) publicly announce any intention to do any of such things. The undertakings given by the Trustee in the Orderly Marketing Deed shall be released (i) in respect of such Ordinary Shares held by the Trustee as nominee for certain existing and former employees of the Group who acquired those Ordinary Shares in February 2004 in connection with the management buyout, on the date of the announcement by the Company of its interim financial results for the financial year ending 31 May 2006 (the "2006 Interim Results Date") and (ii) in respect of all other relevant Ordinary Shares, on the 2006 Preliminary Results Date except that, at any time after the 2006 Interim Results Date, the Trustee shall be entitled (if requested by any of the B Shareholders) to sell Ordinary Shares up to the maximum amount which that B Shareholder could have required be sold in the Global Offer to the extent it did not exercise this entitlement. The undertakings given by the Trustee in the Orderly Marketing Deed are subject to certain exceptions as are usual in an agreement of this nature which, amongst other things, allow the Trustee to accept a general offer made to all of the holders of Ordinary Shares and allow the Trustee to transfer Ordinary Shares to satisfy awards under the Share Plans.

On 13 April 2005 the Underwriters and the Company entered into a lock-up agreement with Boeing Trading Limited in its capacity as trustee of the Matthew Wilson Family trust. Pursuant to this agreement, Boeing Trading Limited has undertaken with the Underwriters and the Company that (other than in respect of Ordinary Shares being acquired pursuant to the Global Offer or where the Global Coordinator and the Company have given their prior written consent) for a period commencing on the date of the Underwriting Agreement and ending on the 2006 Preliminary Results Date it will not, and will procure that no person acting on its behalf will (i) offer, sell, contract to sell, grant any option, right or warrant to purchase or allow any encumbrance to be created over or otherwise dispose of, directly or indirectly, any Ordinary Shares it holds, or to which it is entitled, immediately following Admission or (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) or any interest (within the meaning of section 208(2) of the Companies Act) in any such Ordinary Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Ordinary Shares, (iii) deposit any such Ordinary Shares (or any securities convertible into or exchangeable for such Ordinary Shares or which carry rights to subscribe or purchase such Ordinary Shares) in any depositary receipt facility or (iv) publicly announce any intention to do any of such things. The undertakings given by Boeing Trading Limited in this agreement are subject to certain exceptions as are usual in an agreement of this nature which, among other things, allow it to accept a general offer made to all the holders of Ordinary Shares.

## **12 MATERIAL CONTRACTS**

The following are the contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group within the two years immediately preceding the date of this document which are, or may be, material or which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

### 12.1 Senior Credit Agreement

On 29 July 2003, the Company entered into a £30,650,000 senior credit agreement (the “Senior Credit Agreement”) dated 29 July 2003 with The Governor and Company of the Bank of Scotland (“Bank of Scotland”) as mandated lead arranger, lender, senior facility agent and security agent. The Senior Credit Agreement comprises a term loan facility in the amount of £250,000 (the “Term Loan Facility”), a bridge facility in the amount of £18,400,000 (the “Bridge Facility”) and a revolving credit facility in the amount of £12,000,000 (the “Revolving Credit Facility”). The advances drawn under the Bridge Facility Agreement were repaid on 20 November 2003 and cannot be redrawn.

The Senior Credit Agreement was amended on 11 February 2004, by which the total amount of the commitment was increased by £241,537 from £30,650,000 to £30,891,537. The increase in the commitment was used to prepay a corresponding amount under the Mezzanine Loan Agreement (as defined below). Intermediate Capital Group PLC acceded to the Senior Credit Agreement as an initial lender in respect of the increased commitment.

(i) *Interest rate and fees*

Advances under the Term Loan Facility and Revolving Credit Facility bear interest at a rate equal to LIBOR (or EURIBOR, as the case may be) plus a margin plus mandatory costs. The margins in respect of the Term Loan Facility and the Revolving Credit Facility are 4 per cent and 2.25 per cent per annum, respectively. Certain agency fees and commitment fees are payable to Bank of Scotland in its capacity as agent.

(ii) *Repayment and prepayment*

The repayment date in respect of the Term Loan Facility and the Revolving Credit Facility is 31 August 2010 (or such other date as may be agreed). Usual mandatory prepayments are required to be made, including: (a) prepayment of all advances and cancellation of all commitments if a change of control of the Company occurs; and (b) prepayment equal to the net proceeds (being the aggregate consideration received in cash or cash equivalents by any company within the Group in relation to the disposal of all or any part of the assets of any company within the Group, but after deducting all taxes and other reasonable costs and expenses incurred by any company within the Group in connection with that disposal) of a listing of the Company (which does not constitute a change of control). Voluntary prepayments are permitted without premium or penalty.

(iii) *Security*

Indebtedness under the Senior Credit Agreement is secured by guarantees and other security interests granted by the Company, material companies and certain other companies in each case within the Group. Following repayment of all outstanding amounts under the Term Loan Facility and the Revolving Credit Facility, the Company and its subsidiaries will be entitled to be released and to have their assets released from any security granted in respect of the Senior Credit Agreement.

(iv) *Covenants*

The Senior Credit Agreement contains a number of operating, financial and various other covenants, including, without limitation, covenants restricting amalgamation, change of business, disposals, creation of security, guarantees, acquisitions and joint ventures. No member of the Group is entitled to issue shares to its management or employees as part of an incentive scheme other than as approved by the majority of lenders under the Senior Credit Agreement.

It is intended that funds raised in the Global Offer will be used to repay all outstanding amounts under the Senior Credit Agreement and that the Senior Credit Agreement will terminate conditional upon, and with effect from, Admission.

### 12.2 Mezzanine Loan Agreement

On 29 July 2003, the Company entered into a £750,000 mezzanine loan agreement (the “Mezzanine Loan Agreement” or the “Mezzanine Term Loan Facility”) with Intermediate Capital Group PLC

(“Intermediate Capital”) as arranger, facility agent and mezzanine lender. The Mezzanine Loan Agreement was amended on 11 February 2004, by which the total amount of the commitment was reduced from £750,000 to £508,463 following a partial prepayment in the amount of £241,537. Intermediate Capital syndicated the Mezzanine Term Loan Facility to a syndicate of banks and funds.

(i) *Interest rate and fees*

Advances under the Mezzanine Term Loan Facility bear interest at a rate equal to LIBOR plus 4 per cent per annum plus an additional cost rate. Certain agency fees and commitment fees are payable to Intermediate Capital in its capacity as agent.

(ii) *Repayment and prepayment*

The repayment date in respect of the Mezzanine Term Loan Facility falls 114 months from (and including) the date of the Mezzanine Loan Agreement, being 29 January 2013. Certain mandatory prepayments are required to be made, including: (a) prepayment of all advances and cancellation of all commitments if a change of control of the Company occurs; and (b) prepayment equal to the net proceeds (being the aggregate consideration received in cash or cash equivalents by any company within the Group in relation to the disposal of all or any part of the assets of any company within the Group, but after deducting all taxes and other reasonable costs and expenses incurred by any company within the Group in connection with that disposal) of a listing of the Company (which does not constitute a change of control). Voluntary prepayments are permitted without premium or penalty.

(iii) *Security*

Indebtedness under the Mezzanine Loan Agreement is secured by guarantees and other security interests granted by the Company, material companies and certain other companies in each case within the Group. Following repayment of all outstanding amounts under the Term Loan Facility, the Company and its subsidiaries will be entitled to be released and to have their assets released from any security granted in respect of the Mezzanine Loan Agreement.

(iv) *Covenants*

The Mezzanine Loan Agreement contains a number of operating, financial and various other covenants, including, without limitation, covenants restricting amalgamation, change of business, disposals, creation of security, guarantees, acquisitions and joint ventures. No member of the Group is entitled to issue shares to its management or employees as part of an incentive scheme other than as approved by the majority of lenders under the Mezzanine Loan Agreement.

It is intended that funds raised in the Global Offer will be used to repay all outstanding amounts under the Mezzanine Loan Agreement and that the Mezzanine Loan Agreement will terminate conditional upon, and with effect from Admission.

### 12.3 Revolving Credit Facility Agreement

On 12 April 2005, the Company and certain of its subsidiaries entered into a £12 million revolving credit facility (the “Revolving Credit Facility”) with an overdraft option (the “Overdraft Facility”) and access to payment systems, together with CREST settlement facilities of £13 million with Bank of Scotland as lender (the “Revolving Credit Facility Agreement”). The facilities under the Revolving Credit Facility Agreement will be available with effect from the repayment of the Group’s existing facilities (as described in paragraph 12 (Material Contracts)).

(i) *Interest rate and fees*

Advances under the Revolving Credit Facility bear interest at a rate equal to LIBOR plus a margin plus mandatory costs. Advances under the Overdraft Facility bear interest at a rate equal to a margin plus Bank of Scotland’s base rate (as such rate fluctuates). The margin in respect of the Revolving Credit Facility and the Overdraft Facility is 0.75 per cent. Certain arrangement, commitment and payment systems fees are payable to Bank of Scotland in its capacity as lender.



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(ii) *Repayment and prepayment*

The final repayment date in respect of the facilities under the Revolving Credit Facility Agreement is the date which is 364 days after the date of the agreement (or such other date as may be agreed). The Overdraft Facility is repayable on demand and in any event on such date.

(iii) *Security*

Indebtedness under the Revolving Credit Facility Agreement is secured by guarantees and other security interests granted by the Company and certain of its subsidiaries in favour of Bank of Scotland. Following repayment of all outstanding amounts owed to Bank of Scotland, the Company and its subsidiaries will be entitled to be released and to have their assets released from any security granted in respect of obligations owed to Bank of Scotland.

(iv) *Covenants*

The Revolving Credit Facility Agreement contains a number of operating, financial and various other covenants, including, without limitation, covenants restricting change of business, borrowings, disposals, creation of security, guarantees and acquisitions.

**12.4 FSA Approved Loan Agreements**

The Company has entered into the following FSA approved loan agreements:

- (i) a £19,750,000 short-term subordinated loan agreement with Bank of Scotland on 29 July 2003. On 11 February 2004, the loan was amended so as to split the facility into a Tranche A in the amount of £13,389,513 and a Tranche B in the amount of £9,381,250;
- (ii) a £19,750,000 short-term subordinated loan agreement with Intermediate Capital Group PLC on 29 July 2003. On 11 February 2004, the facility was redenominated into €28,143,750;
- (iii) on 13 February 2004 the Euro denominated short-term subordinated loans referred to in paragraphs (i) and (ii) above amounting to €37,525,000, were refinanced by way of new FSA approved short-term loan agreements entered into by the Company with each of Blue Eagle CDO ISA (€6,194,828), Promus I BV (€8,383,978), Promus II BV (€5,589,319), Eurocredit CDO I BV (€5,915,362), Eurocredit CDO II BV (€4,657,765) and Eurocredit CDO III BV (€4,657,765);
- (iv) a £1,889,664 long-term subordinated loan agreement with Bank of Scotland on 29 July 2003. On 27 February 2004, the loan was reduced to £1,854,473;
- (v) a £39,500,000 long-term subordinated loan agreement with Intermediate Capital Group PLC on 29 July 2003. On 11 February 2004, the loan was amended so as to increase the facility to £40,168,538 and split it into a Tranche A in the amount of £668,538 and a Tranche B in the amount of £39,500,000. On the same day, the facilities were refinanced by way of new FSA approved long-term loan agreements entered into by the Company with each of Intermediate Finance PLC (£8,033,707), ICG Mezzanine Fund 2003 Luxco No. 1 S.A.R.L (£15,244,265) and ICG Mezzanine Fund 2003 Luxco No. 3 S.A.R.L (£823,150);
- (vi) various FSA long-term subordinated loan agreements with certain of the CVC Shareholders on 29 July 2003 and amended on 27 February 2004. The aggregated funds made available under these loans currently amounts to £18,061,731;
- (vii) two FSA long-term subordinated loan agreements with Hill Samuel Offshore Trust Company Limited, one in the amount of £377,933 on 27 February 2004 and the other in the amount of £11,551 on 15 June 2004. On 12 November 2004, the latter loan agreement was amended in particular to record the repayment of £6,930 of the loan; and
- (viii) the various FSA long-term subordinated loan agreements with the Executive Directors and their spouses as described in paragraph 6.3(b) above.

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The loans summarised in paragraphs 12(d)(iv), (vi), (vii) and (viii) above are repayable if a change of control or listing occurs. In relation to the FSA approved loans summarised in paragraphs 12(d)(i), (ii), (iii) and (v) above, the following repayment rules apply: (a) if a change of control or sale occurs, the advances made will become immediately repayable; and (b) if a listing occurs (which does not constitute a change of control) the advances made will become immediately repayable in an amount equal to the net proceeds of such listing. For these purposes “net proceeds” means the aggregate consideration received in cash or cash equivalents by any company within the Group in relation to the disposal of all or any part of the assets of any company within the Group, but after deducting all taxes and other reasonable costs and expenses incurred by any company within the Group in connection with that disposal.

It is intended that funds raised in the Global Offer will be used to repay all outstanding amounts under the FSA approved loan agreements.

#### 12.5 Intercreditor Deed

On 29 July 2003, the Company entered into an intercreditor deed (the “Intercreditor Deed”) with, among others, the lenders under the Senior Credit Agreement, the Mezzanine Loan Agreement and certain FSA approved loan agreements referred to in paragraph 12(d) above for the purpose of determining the ranking as among themselves of their respective participation in the said financing arrangements. The Intercreditor Deed was amended on 11 February 2004 to reflect, among other things, the accession of (i) Intermediate Capital Group PLC to the Intercreditor Deed in its capacity as a lender and (ii) each of IG Index, IG Markets and IG Group to the Intercreditor Deed in their capacity as obligors, in each case under the Senior Credit Agreement and the Mezzanine Loan Agreement.

#### 12.6 Guarantees

- (i) On 17 November 2004, the Company granted a guarantee in favour of National Westminster Bank Plc in relation to the indebtedness of each of IG Index, IG Markets and Binarybet. The maximum amount recoverable under the guarantee is limited to £7,000,000.
- (ii) On 16 June 2000, IG Group Limited granted an unlimited guarantee in favour of Lloyds TSB Bank plc in relation to the indebtedness of IG Index.

#### 12.7 Other Group Financing Arrangements

- (i) Market Data Limited, an indirect subsidiary of the Company, issued to IG Finance Two on 30 November 2004, which was subsequently transferred to IG Finance Three (on the same day), a £157,706,370 zero coupon loan note due 31 May 2005.
- (ii) Lloyds TSB Bank plc has made available to Binarybet, an indirect subsidiary of the Company, a BACS facility of £500,000 which the bank is intending to keep in place until 31 December 2005. In addition, Lloyds TSB Bank plc has made available to IG Index various facilities, such as a documentary credit facility and a BACS facility, for a total amount of £5,542,000.

#### 12.8 Loan Note Instrument

On 29 July 2003, the Company entered into a Loan Note Instrument (the “Note Instrument”) pursuant to which it issued Floating Rate Unsecured Loan Notes due 2013 (the “Notes”). £289,580 was outstanding by way of principal and interest on the Notes as at 30 November 2004. The Notes rank pari passu and rateably without discrimination or preference and as unsecured obligations of the Company. The Notes become immediately repayable upon a sale or a listing of the Company. The rate of interest on the Notes for each six-month interest period is 1 per cent below six month LIBOR.

#### 12.9 Warrant Instrument

On 29 July 2003, the Company entered into a Warrant Instrument (the “Warrant Instrument”) pursuant to which it issued warrants to subscribe for A Ordinary Shares (subsequently redesignated as Ordinary Shares) in the Company to Intermediate Capital Investments Limited, Intermediate Capital GP 2003 No. 1 Limited and Intermediate Capital GP 2003 Limited (together, “ICG”). The Warrant

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Instrument was amended on 11 February 2004. Under the Warrant Instrument, ICG has the right to subscribe for 17,725,800 Ordinary Shares in cash at a subscription price of 0.005p per Ordinary Share immediately prior to Admission. ICG has confirmed that it intends to exercise its right to acquire these Ordinary Shares pursuant to the Warrant Instrument.

### 12.10 Profit Share Agreements

- (a) On 16 February 2005, Market Data Limited entered into a Share Sale and Purchase Agreement (the “SPA”) with, *inter alia*, PRCC International Limited (“PRCC”) pursuant to which PRCC sold its 16 per cent shareholding in IG Australia Pty Limited (“IGA”) to Market Data Limited. As a result of the sale, Market Data Limited became the sole shareholder of IGA. As consideration for the shares, PRCC received A\$32 and became entitled to an annual cash payment based on a percentage of the annual net profits which the Group derives from its Australian business. For a period of 18 financial years commencing on 1 June 2004 and ending on 31 May 2022, PRCC will be entitled to receive an annual payment equal to 5.1 per cent of the annual net profits which the Group derives from its Australian business.
- (b) On 17 February 2005, IG Markets entered into a Profit Share Agreement (the “PSA”) with PRCC pursuant to which PRCC agreed to introduce prospective business relationships to IG Markets in China. In respect of each introduction agreement into which IG Markets enters with a person introduced to it by PRCC, IG Markets will pay a profit share to PRCC of 2 per cent of the net profits derived by the Group from all introduced Chinese business generated under that introduction agreement for a period of 5 years from the date on which the introduction agreement is entered into. Under the PSA PRCC holds an option to acquire the entitlement to receive a further 2 per cent of the net profits derived by the Group from introduced Chinese business within 5 years of the date of execution of the PSA for an amount of A\$150,000.

### 12.11 Underwriting Agreement

The Underwriting Agreement referred to in paragraph 10 of this Part XI.

### 12.12 Lock-up Agreements

The Orderly Marketing Deed and the lock-up agreement with Boeing Trading Limited referred to in paragraph 11 of Part XI.

### 12.13 Relationship Agreement

On 13 April 2005, the Company and each of the CVC Shareholders entered into a Relationship Agreement (the “Relationship Agreement”) which governs the relationship between the CVC Shareholders and the Company following Admission.

The Relationship Agreement provides that:

- (a) for so long as they hold at least 15 per cent of the Ordinary Shares, the CVC Shareholders shall be entitled to appoint one Director to the Board (the “CVC Director”) and to require such Director to be appointed to certain committees of the Board. If the CVC Shareholders do not require the CVC Director to be appointed to a committee, he shall be entitled to receive all documentation relating to any meeting of that committee and to be able to consult with the members of that committee;
- (b) only independent Directors shall be entitled to vote on the entry into any material agreements by, or any material amendment to any agreements between, or in relation to any

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matter giving rise to a conflict of interest between, a member of the Group and any of the CVC Shareholders;

- (c) the CVC Shareholders undertake (i) not to vote their shares and (ii) to procure that the CVC Director shall not (so far as is consistent with his fiduciary duties) vote upon resolutions of the Board so as to prevent the Company from being capable of carrying on its business independently of the CVC Shareholders;
- (d) the CVC Shareholders shall not vote in favour of or propose any resolution that would prevent the terms of the Relationship Agreement from being implemented or that would amend the memorandum or articles of association in force from time to time in a manner contrary to the principle of independence of the Company;
- (e) where the CVC Director receives information in a capacity other than as a Director of the Company which imposes on him a duty of confidentiality, he shall not be obliged to disclose that information to the Company. This obligation will be reflected in the terms of the letter of appointment of any CVC Director;
- (f) all transactions and relationships between any member of the Group and any of the CVC Shareholders shall be on arm's length terms and on a normal commercial basis; and
- (g) the CVC Shareholders shall, until such time as they cease to have the right to appoint a Director to the Board and subject to the Company's obligations under the Listing Rules, be provided with information reasonably required by them to complete any tax return or filing that they are required by law or regulation to make.

### **13 LITIGATION**

Save as set out below, neither the Company nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position and, so far as the Directors are aware, no such proceedings are pending or threatened by or against the Company or any of its subsidiaries.

In November 2002 the British Horse Racing Board (the "BHB") issued a claim against IG Index and three other sports spread betting companies (which together comprise the members of the Spread Betting Association Limited who offer spread betting on sports, including horse racing), alleging infringement of its database rights by the defendants' use of parts of the data contained in its database without a licence. The BHB claimed that it was entitled to receive 10 per cent of the gross profits received by IG Index from bets on horse racing since 1 April 2001 (which the Directors estimate would have amounted to approximately £0.3 million as at 30 November 2004). The BHB's database includes the list of runners and riders at horse racing meetings in the United Kingdom. The defendants' defence and counterclaim denied the BHB's ownership of the relevant data and alleged a breach of competition law by the BHB. The proceedings were stayed on 19 March 2003 pending resolution of the concurrent Office of Fair Trading ("OFT") enquiry and the Court of Appeal's decision in other proceedings issued by the BHB against William Hill plc in which similar questions relating to database rights had been referred to the European Court of Justice (the "ECJ"). On 11 September 2004 the ECJ issued a ruling favourable to William Hill plc. As a result of the ECJ's ruling the Directors believe that the Court of Appeal is likely to dismiss the BHB's claim against William Hill plc. If this occurs, the Directors believe it is likely that the BHB's claim against the defendants, including IG Index, will fall away and they expect to be able to seek to have the case struck out and recover costs accordingly. The OFT has indicated that its own enquiry will be on hold pending the outcome of the William Hill case. The Directors do not currently believe that the Group will suffer a material liability in connection with this matter.

### **14 SUBSIDIARIES**

The Company is the holding company of the Group. The following table gives details of the subsidiary undertakings of the Company which, with the exception of IG Financial Markets Inc. which is not currently

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trading, are considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position or the profits and losses of the Group. All of these subsidiaries are 100 per cent owned, directly or indirectly, by the Company:

Company name and registered office <sup>(1)</sup>	Principal activity
IG Index	Financial and sports spread betting
IG Markets	CFD and foreign exchange trading
Binarybet	Fixed odds betting
IG Financial Markets, Inc. <sup>(2)</sup> 2711 Centerville Road Suite 400 Wilmington Delaware 19808 USA	Foreign exchange trading
Market Data Limited	Data distribution
Market Risk Management Inc 2711 Centerville Road Suite 400 Wilmington Delaware 19808 USA	Dealing in exchange traded contracts
IG Australia (pty) Limited Level 3, 499 St Kilda Road Melbourne Victoria Australia	Marketing and administration

(1) Unless otherwise stated, each registered office is at Friars House, 157-168 Blackfriars Road, London SE1 8EZ.

(2) IG Financial Markets Inc. currently holds a licence to trade foreign exchange from the National Futures Association of the United States.

### 15 US SELLING RESTRICTIONS

Because of the following restrictions, subscribers and purchasers of Ordinary Shares in the United States are advised to consult legal counsel prior to making any offer for, subscription, resale, pledge or other transfer of, the Ordinary Shares.

The Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State in the United States or other jurisdiction and, accordingly, may not be offered or sold within the United States except under the Global Offer to QIBs in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Ordinary Shares may be sold outside the United States in accordance with Regulation S.

Each purchaser of Ordinary Shares located within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (a) it (i) is a QIB, (ii) is aware, and each beneficial owner of such Ordinary Shares has been advised, that the sale of such Ordinary Shares to it may be being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and (iii) is acquiring such Ordinary Shares for its own account or for the account of a QIB;

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- (b) it acknowledges that the Ordinary Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and understands that such Ordinary Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities law of any State of the United States;
- (c) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Ordinary Shares, such Ordinary Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which such Ordinary Shares, if in certificated form, will bear unless otherwise determined by IG in accordance with applicable law:

THIS SHARE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A OR ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS SHARE. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARE, SO LONG AS IT IS A “RESTRICTED SECURITY” UNDER RULE 144A, MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THIS SHARE ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK;

- (d) any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by IG in respect of the Ordinary Shares;
- (e) notwithstanding anything to the contrary in the foregoing, the Ordinary Shares may not be deposited into any unrestricted depositary receipt facility in respect of the Ordinary Shares established or maintained by a depositary bank;
- (f) if, in the future, it offers, resells, pledges or otherwise transfers such Rule 144A Ordinary Shares, it shall notify such subsequent transferee of the transfer restrictions set out in paragraphs (a) to (e) above; and
- (g) IG, the Registrar, the Global Coordinator and its affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If the purchaser is acquiring any Ordinary Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

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No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of Ordinary Shares.

Prospective purchasers are hereby notified that the Company and sellers of the Ordinary Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from the registration requirements of the Securities Act.

Each purchaser of the Ordinary Shares pursuant to Regulation S, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (i) it (i) is, and the person, if any, for whose account it is acquiring the Ordinary Shares is, or at the time Ordinary Shares are subscribed for or purchased will be, the beneficial owner of such Ordinary Shares, (ii) is acquiring the Ordinary Shares in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act and (iii) is not an affiliate of the Company or a person acting on behalf of such an affiliate;
- (ii) it is aware that the Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States; and
- (iii) IG, the Registrar, the Global Coordinator and its respective affiliates and others will rely upon the truth and accuracy of the foregoing representations, agreements and acknowledgements.

The Underwriters will acknowledge, represent and warrant in the Underwriting Agreement that they will not offer or sell or procure the sale of Ordinary Shares except in accordance with Regulation S or Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the later of the commencement of the Global Offer and the initial issue date of the Ordinary Shares, an offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

**16 OTHER SELLING RESTRICTIONS**

The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

**United Kingdom**

Except pursuant to the Public Offer, no Ordinary Shares have been offered or sold or will be offered or sold to persons in the United Kingdom prior to Admission except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or FSMA.

**Japan**

The Ordinary Shares have not been and will not be registered under the Securities and Exchange Law of Japan. The Ordinary Shares may not be offered, issued or sold and this document is not for delivery to any persons in Japan other than with the prior approval of the Global Coordinator in circumstances which have not resulted and will not result in an offer to the public in Japan.

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### Australia

This document does not constitute a disclosure document under Part 6D.2 of the Australian Corporations Act and will not be lodged with the Australian Securities and Investments Commission. The Ordinary Shares will be offered to persons who receive offers in Australia only to the extent that such offers of Ordinary Shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Australian Corporations Act. Any offer of Ordinary Shares received in Australia is void to the extent that it needs disclosure to investors under the Australian Corporations Act. In particular, offers for the issue or sale of Ordinary Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by Section 708 of the Australian Corporations Act. Any offer of Ordinary Shares received in Australia is void to the extent that it needs disclosure to investors under the Australian Corporations Act. Any person to whom Ordinary Shares are issued or sold pursuant to an exemption provided by Section 708 of the Australian Corporations Act must not, within 12 months after the issue, offer those Ordinary Shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

### Canada

*This document is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.*

The Institutional Offering is being made in Canada only in the Canadian provinces of British Columbia, Ontario and Québec (the “Private Placement Provinces”) by way of a private placement of Ordinary Shares. The Institutional Offering in the Private Placement Provinces is being made pursuant to this document through the Underwriters named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada.

### Agreement by the Underwriters

Each Underwriter has represented and agreed that the Ordinary Shares will only be offered or sold, directly or indirectly, in Canada only in the Canadian provinces of British Columbia, Ontario and Québec and in compliance with applicable Canadian securities laws and accordingly, any sales of Ordinary Shares will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws and (ii) pursuant to an exemption from the prospectus requirements of such laws.

### Representations and Agreements by Purchasers

Confirmations of the acceptance of offers to purchase any Ordinary Shares will be sent to purchasers in the Private Placement Provinces who have not withdrawn their offers to purchase prior to the issuance of such confirmations. Each purchaser of Ordinary Shares in the Private Placement Provinces who receives a purchase confirmation regarding the purchase of Ordinary Shares will, by the purchaser’s receipt thereof, be deemed to have represented to the Company, the Selling Shareholders and the dealer from which such purchase confirmation is received, that such purchaser and any ultimate purchaser for which such initial purchaser is acting as agent (i) is entitled under applicable provincial securities laws to purchase such Ordinary Shares without the benefit of a prospectus qualified under such securities laws and, in the case of purchasers in provinces other than Ontario, without the services of a dealer registered pursuant to such securities laws, (ii) is basing its investment decision solely on this document and not on any other information concerning the Company or the Institutional Offering, (iii) has reviewed the terms referred to below under the heading “Canadian Resale Restrictions” and (iv) is in compliance with the following:

- where the purchaser is purchasing in British Columbia, such purchaser is purchasing Ordinary Shares with the benefit of the prospectus exemption and dealer registration exemption provided by section 5.1 of Multilateral Instrument 45-103 — *Capital Raising Exemptions* (“MI 45-103”) (that is, such purchaser is purchasing as principal and is an “accredited investor” within the meaning of section 1.1 of MI 45-103);
- where the purchaser is purchasing in Ontario, such purchaser is either a “designated institution” within the meaning of section 204 of the Regulation to the *Securities Act* (Ontario) purchasing from a person or company registered as an “international dealer” under the *Securities Act* (Ontario) or is a purchaser



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purchasing from a fully registered dealer and, in either case, is purchasing the Ordinary Shares with the benefit of the prospectus exemption provided by section 2.3 of Ontario Securities Commission Rule 45-501 — *Exempt Distributions* (“Rule 45-501”) (that is, such purchaser is purchasing the Ordinary Shares as a principal and is an “accredited investor” within the meaning of section 1.1 of Rule 45-501);

- ▶ where the purchaser is purchasing in Québec, such purchaser is either a purchaser to which the prospectus exemption in section 43 applies, is a “sophisticated purchaser” within the meaning of section 44 of the *Securities Act* (Québec) purchasing the Ordinary Shares as principal, or is a “sophisticated purchaser” within the meaning of section 45 of the *Securities Act* (Québec) purchasing for the portfolio of a person managed solely by it or is purchasing as principal Ordinary Shares with an aggregate acquisition cost to such purchaser of at least Cdn\$150,000 from a registered dealer with an unrestricted practice;
- ▶ if the purchaser is a person or a company, the purchaser had a pre-existing purpose and was not established solely or primarily for the purpose of acquiring Ordinary Shares in reliance on an exemption from applicable prospectus requirements in the Private Placement Provinces;
- ▶ such purchaser is either purchasing Ordinary Shares as principal for its own account, or is deemed to be purchasing Ordinary Shares as principal for its own account in accordance with the applicable securities laws of the province in which such purchaser is resident, by virtue of being either (a) a designated trust company; (b) a designated insurance company; (c) a portfolio manager; or (d) another entity similarly deemed by those laws to be purchasing as principal for its own account when purchasing on behalf of other beneficial purchasers;
- ▶ such purchaser is purchasing in respect of a trade for which there is an exemption from the registration requirements of applicable Canadian securities laws or which is otherwise in compliance with such laws;
- ▶ such purchaser acknowledges and agrees that the offer and sale of Ordinary Shares was made exclusively through this document and was not made through an advertisement of the Ordinary Shares in any printed media of general and regular paid circulation, radio or television or any other form of advertising; and
- ▶ acknowledges that the Ordinary Shares are being distributed in Canada on a private placement basis only and that any resale of Ordinary Shares must be in accordance with the requirements of applicable securities laws, which will vary depending on the relevant jurisdictions.

### Language of Document

Each purchaser of Ordinary Shares in Canada that receives a purchase confirmation hereby agrees that it is such purchaser’s express wish that all documents evidencing or relating in any way to the sale of such Ordinary Shares be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l’égard de son acquisition reconnaît que c’est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

### Canadian Resale Restrictions

The distribution of the Ordinary Shares in the Private Placement Provinces is being made on a private placement basis. Accordingly, any resale of the Ordinary Shares must be made (i) through an appropriately registered dealer or in accordance with an exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of Ordinary Shares are advised to seek legal advice prior to any resale of Ordinary Shares.

### Statutory Rights of Action (Ontario Purchasers)

Section 4.2 of Rule 45-501 provides that when an offering memorandum, such as this document, is delivered to an investor to whom securities are distributed in reliance upon the “accredited investor” prospectus exemption in section 2.3 of Rule 45-501, the right of action referred to in section 130.1 of the *Securities Act* (Ontario) (“Section 130.1”) is applicable. Section 130.1 provides purchasers who purchase securities offered

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by an offering memorandum with a statutory right of action against the issuer of securities and any selling securityholder for rescission or damages in the event that the offering memorandum and any amendment to it contains a “misrepresentation”. “Misrepresentation” means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made.

Where this document, together with any amendment to it, is delivered to a prospective purchaser of Ordinary Shares in connection with a trade made in reliance on section 2.3 of Rule 45-501, and this document contains a misrepresentation which was a misrepresentation at the time of purchase of the Ordinary Shares, the purchaser will have a statutory right of action against the Company and the Selling Shareholders for damages or, while still the owner of Ordinary Shares, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that the right of action for rescission will be exercisable by the purchaser only if the purchaser gives notice to the defendant, not more than 180 days after the date of the transaction that gave rise to the cause of action, that the purchaser is exercising this right; or, in the case of any action, other than an action for rescission, the earlier of: (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the transaction that gave rise to the cause of action.

The defendant shall not be liable for a misrepresentation if it proves that the purchaser purchased the Ordinary Shares with knowledge of the misrepresentation.

In an action for damages, the defendant shall not be liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the Ordinary Shares as a result of the misrepresentation relied upon.

Subject to the paragraph below, all or any one or more of the Company and any Selling Shareholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the Company shall not be liable where it is not receiving any proceeds from the distribution of the Ordinary Shares being distributed and the misrepresentation was not based on information provided by the Company, unless the misrepresentation,

- (a) was based on information that was previously publicly disclosed by the Company;
- (b) was a misrepresentation at the time of its previous public disclosure; and
- (c) was not subsequently publicly corrected or superseded by the Company prior to the completion of the distribution of the Ordinary Shares.

In no case shall the amount recoverable for the misrepresentation exceed the price at which the Ordinary Shares were offered.

The foregoing statutory right of action for rescission or damages conferred is in addition to and without derogation from any other right the purchaser may have at law.

This summary is subject to the express provisions of the *Securities Act* (Ontario) and the regulations and rules made under it, and you should refer to the complete text of those provisions.

**Enforcement of Legal Rights**

All of the directors and officers (or their equivalents) of the Company and the Selling Shareholders, as well as any experts named herein may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholders or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholders and such experts

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may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company, the Selling Shareholders or such experts in Canada or to enforce a judgment obtained in Canadian courts against the Company, the Selling Shareholders or such experts outside of Canada.

### Canadian Tax Considerations and Eligibility for Investment

This document does not address the Canadian tax consequences of ownership of the Ordinary Shares. Prospective purchasers of Ordinary Shares should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the Ordinary Shares for investment by purchasers under relevant Canadian legislation.

### Currency

**The Offer Price, financial statements and certain other financial information contained in this Prospectus are presented in pounds Sterling.**

The following table sets out for the periods indicated, the period-end, high, low and average Canadian Noon Rates<sup>(1)</sup> between pounds Sterling (“£”) and the Canadian dollar (“Cdn\$”), expressed in Cdn\$ per £1:

Period <sup>(2)</sup>	Period-end	High	Low	Average <sup>(3)</sup>
2005 (to 31 March)	2.285	2.524	2.202	2.331
Six month period ended 30 November 2004	2.270	2.524	2.202	2.337
2004	2.498	2.512	2.168	2.330
Six month period ended 30 November 2003	2.234	2.265	2.168	2.234
2003	2.248	2.543	2.205	2.402
2002	2.234	2.335	2.082	2.253
2001	2.192	2.280	2.076	2.209
2000	2.242	2.500	2.214	2.349

(1) The term “Canadian Noon Rate” means the Bank of Canada noon exchange rate.

(2) Unless otherwise specified, each reference to a year is a year ended May 31.

(3) The average of the Canadian Noon Rate on the last business day of each month in the period.

On 11 April 2005, Cdn\$1.00 was equal to £0.429, based on the Canadian Noon Rate.

No representation is made that pounds Sterling could have been or could be converted into Canadian dollars at the rates set forth above for the periods indicated.

For a discussion of legislation as to withholding taxes, please refer to “UK Taxation — Taxation of Dividends” in paragraph 18.2 of this Part XI.

## 17 SETTLEMENT

It is expected that delivery of the Ordinary Shares pursuant to the Global Offer will be made against payment therefore on or about the date of Admission.

## 18 TAXATION

### 18.1 General

The statements set out below in 18.2 are intended only as a general guide to current UK tax law and practice and apply only to certain categories of person. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under UK and other laws of the acquisition, ownership and disposition of Ordinary Shares. This summary is based upon UK law and UK Inland Revenue practice as in effect as of the date of this document and which may be subject to change, perhaps with retrospective effect.

The statements are not applicable to all categories of Shareholders, and in particular are not addressed to (i) holders who do not hold their Ordinary Shares as capital assets (ii) Shareholders who own (or are

deemed to own) ten per cent or more of the voting stock of the Company, (iii) special classes of Shareholders such as dealers in securities, broker-dealers, insurance companies and investment companies, (iv) Shareholders who hold Ordinary Shares as part of straddles, hedging or conversion transactions, (v) Shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment and (vi) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the United Kingdom (whether through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment or otherwise).

## **18.2 UK Taxation**

The comments set out below are based on existing UK law and what is understood to be current Inland Revenue practice, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide only and apply only to Shareholders of the Company resident for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-UK residents), who hold shares in the Company as an investment and who are the absolute beneficial owners thereof.

### **(a) Taxation of Dividends**

The Company will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the United Kingdom (for tax purposes) and who receives a dividend from the Company will be entitled to a tax credit which may be set off against the Shareholder's total income tax liability on the dividend. The tax credit will be equal to ten per cent of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received. A UK resident individual Shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of ten per cent of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend. A UK resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a UK resident individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but will not fully match the Shareholder's tax liability on the gross dividend and such Shareholder will have to account for additional tax equal to 22.5 per cent of the gross dividend (which is also equal to 25 per cent of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the Shareholder's income falls above the threshold for higher rate income tax.

UK resident taxpayer Shareholders who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

UK resident corporate Shareholders will generally not be subject to corporation tax on dividends paid by the Company. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

Non-UK resident Shareholders will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident in the United Kingdom (for tax purposes) should obtain their own tax advice concerning tax liabilities on dividends received from the Company. Shareholders resident outside the United Kingdom should consult an appropriate professional adviser.

### **(b) UK taxation of capital gains**

#### *(i) UK resident Shareholders*

A disposal of Ordinary Shares by a Shareholder who is resident or ordinarily resident in the United Kingdom for tax purposes may give rise to a gain (or loss) for the purposes of taxation of capital gains (subject to available exemption or relief).

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(ii) *Shareholders temporarily non-resident in the United Kingdom*

A Shareholder who is an individual and who is only temporarily non-resident in the United Kingdom for tax purposes, may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to available exemption or relief).

(iii) *Non-UK resident Shareholders including US resident Shareholders*

Shareholders who are not resident or ordinarily resident for tax purposes in the United Kingdom and who do not return to the United Kingdom within five years of the disposal of their Ordinary Shares will not be liable for UK tax on capital gains realised on the disposal unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the United Kingdom, in the case of an individual shareholder, through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment. Such Shareholders may be subject to foreign taxation on any gain under local law.

(c) UK inheritance and gift taxes

The Ordinary Shares will be assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares bringing them within the charge to inheritance tax. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements.

(d) UK stamp duty and stamp duty reserve tax (“SDRT”)

Holders of Ordinary Shares will be registered on the share register of the Company in the United Kingdom. A person who is a “system member” of CREST (as defined in the Regulations) may elect to hold their Ordinary Shares through CREST for trading on the London Stock Exchange.

(i) *Issue or transfer of the Ordinary Shares pursuant to the Global Offer*

No stamp duty or SDRT will be payable on the issue of Ordinary Shares to persons acquiring Ordinary Shares pursuant to the Global Offer.

The transfer of Existing Ordinary Shares to persons acquiring Ordinary Shares pursuant to the Global Offer will be subject to either stamp duty or SDRT at the rate of 0.5 per cent (in the case of stamp duty, rounded up if necessary to the nearest multiple of £5) of the amount or value of the consideration payable. Both stamp duty and SDRT are normally the liability of the purchaser, however, any stamp duty or SDRT payable in respect of the transfer of the Existing Ordinary Shares to persons acquiring Ordinary Shares pursuant to the Global Offer will be borne by the sellers thereof as provided for in the Underwriting Agreement (further details of which are set out in paragraph 10 of this Part XI).

Where Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares (rounded up to the next £5 in the case of stamp duty). While the Ordinary Shares are held by the clearance service or within the depository receipts no further stamp duty or SDRT is due on any transfer of the Ordinary Shares. This liability for stamp duty or SDRT will strictly be accountable by the depository or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depository receipt scheme. Clearance services may opt, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (0.5 per cent of the consideration paid) to apply to issues or transfers of Ordinary Shares into, and to

transactions within, such services instead of the higher rate of 1.5 per cent generally applying to an issue or transfer of Ordinary Shares into the clearance service and the exemption from stamp duty and SDRT on transfer of Ordinary Shares whilst in the service.

- (ii) *Future transfers of Ordinary Shares registered on the UK share register of the Company*  
Stamp duty at the rate of 0.5 per cent of the amount or value of the actual consideration and (rounded up to the next multiple of £5) is payable on an instrument transferring Ordinary Shares. A charge to SDRT will also arise on an agreement to transfer Ordinary Shares (at the rate of 0.5 per cent of the consideration paid), although the liability will be cancelled and any SDRT already paid will be repaid, generally with interest, provided that the instrument transferring Ordinary Shares is executed and duly stamped within six years of the date on which the liability to SDRT arises. Higher rates may apply in certain circumstances.
- (iii) *Ordinary Shares held through CREST*  
Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

The statements in this paragraph relating to UK stamp duty and SDRT summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries and certain categories of person may be liable to stamp duty or SDRT at higher rates.

**Any person who is in any doubt as to his, her or its taxation position should consult his, her or its professional advisers.**

### **18.3 US Taxation**

The following is a summary of the material US federal income tax consequences of the acquisition, ownership and disposition of Ordinary Shares by a US Holder (as defined below). This summary deals only with initial purchasers of Ordinary Shares that are US Holders and that will hold the Ordinary Shares as capital assets. The discussion does not cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Ordinary Shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes or investors whose functional currency is not the US dollar).

As used herein, the term "US Holder" means a beneficial owner of Ordinary Shares that is, for US federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in a partnership that holds Ordinary Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of Ordinary Shares by the partnership.

## Part XI

### Additional Information

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The summary assumes that the Company is not a passive foreign investment company (a “PFIC”) for US federal income tax purposes, which the Company believes to be the case. The Company’s possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for US Holders. See “Passive Foreign Investment Company Considerations” below.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

#### *Dividends*

*General.* Subject to the PFIC rules discussed below, distributions paid by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes) will generally be taxable to a US Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder’s basis in the Ordinary Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to Ordinary Shares will constitute ordinary dividend income. US Holders should consult their own tax advisors with respect to the appropriate US federal income tax treatment of any distribution received from the Company.

For taxable years that begin before 2009, dividends paid by the Company will be taxable to a non-corporate US Holder at the special reduced rate normally applicable to capital gains, provided the Company qualifies for the benefits of the income tax treaty between the United States and the United Kingdom. A US Holder will be eligible for this reduced rate only if it has held the Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. A US Holder will not be able to claim the reduced rate for any year in which the Company is treated as a PFIC. See “Passive Foreign Investment Company Considerations” below.

Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to dividends on the Ordinary Shares.

*Foreign Currency Dividends.* Dividends paid in Sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the Sterling are converted into US dollars at that time. If dividends received in Sterling are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

#### *Sale or other Disposition*

A US Holder’s tax basis in an Ordinary Share will generally be its US dollar cost. The US dollar cost of an Ordinary Share purchased with foreign currency will generally be the US dollar value of the purchase price on the date of purchase or, in the case of Ordinary Shares traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects), on the settlement date for the purchase. Such an election

by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Subject to the PFIC rules discussed below, upon a sale or other disposition of Ordinary Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the Ordinary Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the Ordinary Shares exceeds one year. However, regardless of a US Holder's actual holding period, any loss may be long-term capital loss to the extent the US Holder receives a dividend that qualifies for the reduced rate described above under "Dividends-General", and exceeds 10 per cent of the US Holder's basis in its Ordinary Shares. Any gain or loss will generally be US source.

The amount realised on a sale or other disposition of Ordinary Shares for an amount in foreign currency will be the US dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Ordinary Shares traded on an established securities market that are sold by a cash basis US Holder (or an accrual basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

#### *Disposition of Foreign Currency*

Foreign currency received on the sale or other disposition of an Ordinary Share will have a tax basis equal to its US dollar value on the settlement date. Foreign currency that is purchased will generally have a tax basis equal to the US dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Ordinary Shares or upon exchange for US dollars) will be US source ordinary income or loss.

#### *Passive Foreign Investment Company Considerations*

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent of its gross income is "passive income" or (ii) at least 50 per cent of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as a PFIC for US federal income tax purposes but there are no regulations, published rulings or judicial decisions addressing the treatment under the PFIC rules of a company with business activities that are substantially the same as those of the Company. The Company has been advised that it should be entitled to treat its spread betting income as active for this purpose, since the Company should be treated as a "dealer" in the products it offers. There can be no assurance that the US Internal Revenue Service will not take a contrary view; moreover, the Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be treated as a PFIC, US Holders of Ordinary Shares would be required (i) to pay a special US addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Ordinary Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by the Company would not be eligible for the special reduced rate of tax described above under "Dividends-General". Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.



*Backup Withholding and Information Reporting*

Payments of dividends and other proceeds with respect to Ordinary Shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

**19 WORKING CAPITAL**

In the opinion of the Company, taking account of the net proceeds receivable by the Company of the Global Offer, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the next 12 months following the date of publication of this document.

This statement of sufficiency of working capital is made on the assumption that the net proceeds raised by the Company in the Global Offer will be approximately £124 million based on the price of 112p per Ordinary Share, the bottom end of the Indicative Offer Price Range. To the extent that the net proceeds raised by the Company in the Global Offer are less than approximately £124 million, a revised unqualified working capital statement will be provided in a supplementary prospectus if the Global Offer is to proceed.

**20 SIGNIFICANT CHANGE**

There has been no significant change in the financial or trading position of the Group since 30 November 2004, being the date to which the Accountants' Report on the Group set out in Part VI has been prepared.

**21 CONSENTS**

- (a) Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this document of its name, reports, letters and references to it in the form and context in which they appear and has authorised the contents of their reports for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.
- (b) UBS, Lexicon Partners Limited, Bridgewell Limited and Numis Securities Limited have given and have not withdrawn their written consent to the inclusion in this document of their names and references to them in the form and context in which they appear.

**22 GENERAL**

- (a) On the basis of the Assumptions, the total costs and expenses of, and incidental to, the Global Offer payable by the Company are estimated to amount to £7.9 million (excluding VAT), of which up to £3.4 million is estimated to be payable to the Underwriters. Lexicon Partners Limited, who has acted as joint financial adviser to the Company in connection with the Global Offer, is expected to receive a fee of up to £2.1 million.
- (b) The Company has taken out key man insurance in respect of Nat le Roux, Tim Howkins and Peter Hetherington for life cover in the amounts of £1,000,000, £500,000 and £500,000, respectively which is due to expire on 1 November 2006.
- (c) The Offer Price represents a premium of 125.495p over the nominal value of each Ordinary Share offered under the Global Offer.
- (d) The financial information contained in this document does not comprise the statutory accounts of any company within the meaning of Section 240 of the Act. The financial statements of the Company for the year ended 31 May 2004 and the six months ended 30 November 2004 and the financial statements of IG Group for financial years 2002 and 2003 were audited by Ernst & Young LLP. All such financial statements received unqualified audit opinions and did not contain a statement under Section 237(2) or (3) of the Act or their equivalent.

**Part XI**  
**Additional Information**

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- (e) There are no arrangements in existence under which future dividends are to be waived or have been agreed to be waived.
- (f) On 8 October 2004, IG Markets entered into a Dealing Brokerage Agreement with UBS AG London Branch (“UBS AG”) pursuant to which IG Markets agreed to provide securities execution and brokerage services in respect of contracts for differences to UBS AG’s employees in the United Kingdom and their related parties. On 8 October 2004, IG Index entered into a Dealing Brokerage Agreement with UBS AG pursuant to which IG Index agreed to provide spread betting services to UBS AG’s employees in the United Kingdom and their related parties. Both of the above agreements continue in force until 8 October 2009 unless terminated earlier by either party giving 6 months’ written notice to the other.
- (g) On 24 January 2001, IG Index entered into an ISDA Master Agreement in the form of the 1992 Multicurrency-Cross Border ISDA Master Agreement (including a 1995 ISDA support credit annex) with UBS AG, pursuant to which the parties agreed the terms on which certain currency exchange transactions would be effected. On 10 September 2001, IG Index novated its rights and obligations under the ISDA Master Agreement and any transactions made thereunder to IG Markets and, on 7 September 2001, IG Group Limited gave a guarantee of all present and future obligations of IG Markets under the ISDA Master Agreement in favour of UBS AG. Each of the above agreements continues indefinitely until terminated in accordance with its terms.

**23 ASSUMPTIONS**

The principal bases and assumptions used in this document are as follows:

- (a) the Offer Price is 125.5p, the mid-point of the Indicative Offer Price Range;
- (b) 105,079,793 New Ordinary Shares are issued by the Company under the Global Offer. The actual number of New Ordinary Shares to be issued by the Company under the Global Offer will depend on the Offer Price and may vary significantly above or below the assumed figures;
- (c) 73,885,035 Existing Ordinary Shares are sold by the Selling Shareholders under the Global Offer. The actual number of Existing Ordinary Shares to be offered under the Global Offer will only be decided by the Selling Shareholders together with the Global Coordinator and the Company at the same time as determination of the Offer Price and may vary significantly above or below the expected figure;
- (d) Admission occurs on 4 May 2005;
- (e) the Overallotment Option is not exercised; and
- (f) the Warrants are exercised by the Warrantholders.

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**Additional Information**

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**24 PRODUCT EXAMPLES**

**1 Financial spread bet**

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Example Market:	FTSE 100
IG Quotes:	4,700 – 4,708
Client Believes:	FTSE will rise
Client Bet:	Buys £20 per point at 4,708
Bet Close:	FTSE at 4,800
Client Result:	4,800 – 4,708 = 92
Client Profit/(Loss):	£20 × 92 = £1,840

**2 Sports spread bet**

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Example Market:	Cricket Match: England 1st Innings
IG Quotes:	380 – 400 runs
Client Believes:	England will score less than 380 runs
Client Bet:	Sells £5 per run at 380
Bet Close:	England score 450 runs
Client Result:	380 – 450 = (70)
Client Profit/(Loss):	£5 × (70) = £(350)

**3 Binary bet**

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Example Market:	FTSE to close down by between 0 and 10 points (at 16.20 hrs when underlying market is 11.6 points above previous close)
IG Quotes:	6.6 – 9.2
Client Believes:	FTSE will finish 0-10 points below previous close
Client Bet:	Buys £20 of FTSE 0/(10) Binary at 9.2
Bet Close:	FTSE drops to 2.4 points down on previous close (i.e. bet settles at 100)
Client Result:	(100 – 9.2) = 90.8
Client Profit/(Loss):	90.8 × £20 = £1,816

**25 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 14 days from the date of this document at the offices of Linklaters at One Silk Street, London EC2Y 8HQ:

- (a) the existing memorandum and articles of association of the Company and the Articles;
- (b) the audited consolidated accounts of IG Group Limited (formerly IG Group plc) for the two financial years ended 31 May 2002 and 2003 and the audited consolidated accounts of IG Group Holdings plc (formerly IG Group Holdings Limited) for financial year ended 31 May 2004;
- (c) the Directors' service agreements and letters of appointment referred to in paragraph 7 above;
- (d) the material contracts referred to in paragraph 12 above;
- (e) the consent letters referred to in paragraph 21 above;
- (f) the reports and letters from Ernst & Young LLP set out in Part VIII and the statement of adjustments relating thereto;
- (g) the trust deed of the ESOT;
- (h) the rules of the Share Plans referred to in paragraph 5 above; and
- (i) this document and the Application Forms.

13 April 2005

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## Definitions

The following definitions apply throughout this document unless the context requires otherwise:

<b>Accountants' Report</b>	the accountants' report relating to IG, including the related notes thereto, set out in Part VI (Accountants' Report on the Group) of this document
<b>Act or Companies Act</b>	the Companies Act 1985, as amended
<b>Admission</b>	admission of the Ordinary Shares to the Official List and to trading on the London Stock Exchange becoming effective in accordance with the Listing Rules and the Admission and Disclosure Standards of the London Stock Exchange
<b>Application Forms</b>	the Client Application Form and the Employee Application Form
<b>Articles</b>	the new articles of association of the Company which will be in force from Admission
<b>Assumptions</b>	the bases and assumptions set out in paragraph 23 (Assumptions) of Part XI (Additional Information) of this document
<b>Audit Committee</b>	a sub-committee of the Board with formally delegated duties and responsibilities for financial reporting, risk reporting and corporate control
<b>Australian Corporations Act</b>	the Corporations Act 2001 of the Commonwealth of Australia
<b>Binarybet</b>	Binarybet Limited or binarybet.com <sup>TM</sup>
<b>B Shares</b>	B Shares of 0.001p each in the capital of the Company
<b>Board</b>	the Board of Directors of the Company from time to time
<b>CESR</b>	Committee of European Securities Regulators
<b>Client Application Form</b>	the application form to be used in the Client Offer, which will be available on the Website
<b>Client Offer</b>	an offer to Qualifying Clients
<b>Combined Code</b>	the principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Roland Hempel, published in June 1998, as amended in July 2003 as a result of the Higgs Report on the role and effectiveness of non-executive directors and the Smith report on company audit committees; and appended to, but not forming part of, the Listing Rules
<b>Company</b>	IG Group Holdings plc
<b>CREST</b>	the system for the paperless settlement of trades in listed securities, of which CRESTCo Limited is the operator
<b>CVC Shareholders</b>	CVC European Equity III LP, CVC European Equity Partners III Parallel Fund A LP, CVC European Equity Partners III Parallel Fund B LP, CVC Europe Enterprise (Domestic) LP, CVC Europe Enterprise (Cayman) LP, Citi-Europe Co-Invest LP, Citicorp Capital Investors Europe Limited and Capital Investors 2002 Limited
<b>Directives</b>	any Directives of the EU which would be implemented pursuant to EU Financial Services Action Plan
<b>Directors</b>	the Directors of the Company from time to time, and Director means any one of them
<b>Employee Application Form</b>	the application form to be used in the Employee Offer, which will be available from the Company

## Definitions

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Employee Offer	an offer made to Qualifying Employees
ESOT	the IG Group Limited Employee Benefit Trust
EU Financial Services Action Plan	the legislative framework for developing a single market in financial services within the European Union
Executive Directors	as at the date of this document Nat le Roux, Tim Howkins, Peter Hetherington and Andrew MacKay
Existing Ordinary Shares	except where the context otherwise requires, the Ordinary Shares to be sold in the Global Offer by the Selling Shareholders
financial year or FY	for a particular year, the financial year of IG ended on 31 May in respect of which audited accounts have been prepared
FSA Rules	the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000
Global Coordinator	UBS Limited
Global Offer	the offer of New Ordinary Shares, Existing Ordinary Shares and, if applicable, the Overallotment Shares to investors as described in Part IX (The Global Offer) of this document
Global Offer Shares	the New Ordinary Shares and the Existing Ordinary Shares
Group	the Company and its subsidiaries from time to time or any one or more of them, as the context may require in this document
IFRS	International Financial Reporting Standards
IG	IG Group Holdings plc and its subsidiaries or any one or more of them, as the context may require in this document
IG Australia	IG Australia (pty) Limited
IG Group	IG Group Limited
IG Index	IG Index plc
IG Markets	IG Markets Limited
Indicative Offer Price Range	the indicative range of prices set out in this document or otherwise published by the Company between which the Offer Price is expected to be set (although the Offer Price may be set above or below this range), as described in Part IX (The Global Offer) of this document
Institutional Investors	the CVC Shareholders, Uberior Investments Plc, Intermediate Capital Investments Limited, Intermediate Capital GP 2003 No 1 Limited, and Intermediate Capital GP 2003 Limited
Institutional Offer	the part of the Global Offer being made to institutional investors in the United Kingdom, the United States and elsewhere
Internet	the publicly available international network of computers communicating using the internet protocol
IPO LTIP Awards	awards granted prior to, and conditional upon, Admission under the terms of the LTIP
Joint Lead Managers	Bridgewell Limited and Numis Securities Limited
Listing Rules	the listing rules of the UK Listing Authority, made under Part VI of the Financial Services and Markets Act 2000
London Stock Exchange	London Stock Exchange plc

## Definitions

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LTIP	Long Term Incentive Plan as more fully described in Part XI (Additional Information)
New Ordinary Shares	new Ordinary Shares to be issued by the Company under the Global Offer
Non-Executive Directors	Sir Alan Budd, Jonathan Davie, Martin Jackson and Robert Lucas
Offer Price	the price at which each New Ordinary Share and each Existing Ordinary Share is to be sold under the Global Offer
Official List	the official list of the UK Listing Authority
Orderly Marketing Deed	the lock-up agreement entered into between the Underwriters, the Company and the Trust on 13 April 2005
Ordinary Shares	ordinary shares of 0.005p each in the capital of the Company
Overallotment Option	the Overallotment Option to be set out in the Underwriting Agreement and described in the paragraph headed Overallotment and stabilisation in Part IX (The Global Offer) of this document
Overallotment Shares	23,358,828 Ordinary Shares which are the subject of the Overallotment Option with the Institutional Investors
Post-IPO LTIP Awards	future awards granted on an annual basis for financial periods subsequent to Admission under the terms of the LTIP
Preference Shares	the preference shares of £1.00 each in the capital of the Company
Prospectus	this document
Public Offer	the Client Offer and the Employee Offer
QIBs	qualified institutional buyers, as defined in Rule 144A
Qualifying Client	an individual who was a client of IG Index, IG Markets or Binarybet as at 11.59p.m. on 28 February 2005 and who has had at least one bet or trade with one of these companies between 1 March 2002 and 28 February 2005 inclusive, is at least 18 years of age and is resident in the United Kingdom, the Isle of Man or the Channel Islands
Qualifying Employee	an employee of the Group who as at 11.59p.m. on 12 April 2005, was aged 18 or over and remains employed by the Group, or a Director
Receiving Agent	Capita Registrars (a trading division of Capita IRG Plc) of Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TH
Registrars	Capita Registrars (a trading division of Capita IRG Plc) of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Regulation S	Regulation S under the Securities Act
Remuneration Committee	a sub-committee of the Board of Directors with responsibility to ensure that the Board of Directors are fairly remunerated
Rule 144A	Rule 144A under the Securities Act
Securities Act	the US Securities Act of 1933
Selling Shareholders	the Institutional Investors and those members of management that are selling Existing Ordinary Shares in the Global Offer
Share Incentive Plan or SIP	the Share Incentive Plan as more fully described in Part XI (Additional Information)
Share Plans	the LTIP and the SIP

## Definitions

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<b>Spread Betting Association</b>	Spread Betting Association Limited, a company whose shareholders comprise certain members of the spread betting industry
<b>Terms and Conditions of Application</b>	the terms and conditions of application under the Public Offer as set out in Part X (Terms and Conditions of Application for the Public Offer) of this document
<b>Trustee</b>	Hill Samuel Offshore Trust Company Limited in its capacity as trustee of the Group's ESOT
<b>UK GAAP</b>	generally accepted accounting principles in the United Kingdom
<b>UK Listing Authority</b>	the Financial Services Authority, in its capacity as the competent authority under the Financial Services and Markets Act 2000 for admission of securities to the Official List
<b>US GAAP</b>	generally accepted accounting principles in the United States
<b>Underwriters</b>	UBS Limited, Bridgewell Limited and Numis Securities Limited
<b>Underwriting Agreement</b>	the Underwriting Agreement entered into between the Company, the Directors, the Underwriters and the Institutional Investors on 13 April 2005, as supplemented by the pricing memorandum on or about the date of announcement of the Offer Price
<b>United Kingdom or UK</b>	the United Kingdom of Great Britain and Northern Ireland
<b>United States or US</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
<b>Warrant holders</b>	Intermediate Capital GP 2003 No. 1 Limited, Intermediate Capital GP 2003 Limited and Intermediate Capital Investment Limited
<b>Warrants</b>	the warrants to subscribe for Ordinary Shares pursuant to the warrant instrument executed by the Company on 29 July 2003
<b>Website</b>	the website at <a href="http://www.igshareoffer.capitaregistrars.com">www.igshareoffer.capitaregistrars.com</a>

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## Glossary

The following definitions apply to terms as they are used in this document and should not be applied generally for any other purpose or to any other document:

<b>active client</b>	a client who has traded within the last six months
<b>average monthly electronic transactions</b>	total number of client transactions conducted electronically for a given period divided by number of months (except where footnoted to the contrary)
<b>average turnover per client</b>	gross turnover divided by total number of clients transacting in a given period
<b>binary bet</b>	a form of fixed odds bet that may be quoted either as a decimal price at which an outcome can be backed or laid for a fixed stake or as a binary price at which an outcome can be bought or sold in an amount per point of movement between 0 and 100
<b>buy</b>	to take a position that the price will move higher than that quoted
<b>close</b>	to close an open position, which may be done by taking an equal position in the same market but in the opposite direction to a previous opening or trade and which has the effect of removing exposure to price movements for the client and crystallising his gain or loss
<b>consolidated supervision</b>	the regulatory regime whereby a regulated firm must ensure that its group (and not just the regulated firm itself) maintains externally generated group financial resources in excess of its group financial resources requirement
<b>contract for differences</b>	a contract in which payments are made between the parties so as to put one of the parties into the economic position he would have been in if he had borrowed money and used it to purchase an underlying product and the other party into the economic position he would have been in if he had sold the underlying product and lent the proceeds
<b>direct market access</b>	allows clients to access exchange order book and view market depth; available through L2™, IG's professional-level CFD dealing platform
<b>electronic</b>	relates to transactions conducted via Internet, mobile or L2™
<b>expiry</b>	the time at which a bet or trade ends if not previously closed
<b>fill</b>	an individual stock exchange transaction; a single client order on L2™ may give rise to one or multiple fills
<b>gearing</b>	the ability to bet or trade on margin without having to deposit the full value of the underlying subject matter
<b>gross profit</b>	turnover or revenue after betting duty
<b>hedge</b>	a bet trade or position that is intended to reduce or eliminate the risk of loss from an adverse price move in a position already held
<b>In-running</b>	Relates to transactions initiated or modified while the event is in progress



## **Glossary**

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<b>LIFFE</b>	The London International Finance Futures and Options Exchange
<b>long</b>	a position in which an increase in price results in a profit. Hence a client who has bought has a long position
<b>sell</b>	to take a position that the price will move lower than that quoted
<b>settlement price</b>	the final price which a bet or trade has when it reaches expiry
<b>settles</b>	to reach expiry and close of the settlement price
<b>short</b>	a position in which a fall in price produces a profit. Hence, a client who has sold has a short position
<b>spread bet</b>	a bet in which the amount that the client can win or lose is calculated by reference to the difference between the settlement price and the price at which the bet is struck, rather than being a fixed amount
<b>stop</b>	an instruction to close a bet or trade if a particular price is reached. A stop loss has the effect of restricting the amount that a client can lose on a bet or trade
<b>transaction</b>	a bet or trade initiated by the client for immediate execution; distinct from automatic closure or rolling of positions or transactions initiated as a result of a stop or limit order
<b>white labelling</b>	the offering of some or all of the Group's products on the Group's platforms which are branded and distributed in the name of third parties

