

# CMC Markets plc

Annual Report and Financial Statements  
For the year ended 31 March 2013

**CMC**  
cmc markets





# Contents

<b>At a glance</b>	<b>4</b>
Highlights	4
CEO review	5
What we do	6
<b>Business review</b>	<b>14</b>
Strategy	14
Operating and financial review	16
Principal risks and uncertainties	21
<b>Governance</b>	<b>26</b>
Directors' report	26
Corporate governance statement	29
<b>Financial statements</b>	<b>33</b>
Independent auditors' report	34
Financial statements	35
Notes to the financial statements	39
<b>Corporate information</b>	<b>78</b>
Global offices	78
Corporate information	79

# Highlights

	2013	2012	Var	Var %
Revenue	£129.1m	£164.0m	−£34.9m	−21%
Net operating income*	£107.0m	£143.6m	−£36.6m	−25%
Operating costs	£92.9m	£121.1m	−£28.2m	−23%
EBITDA	£14.1m	£22.5m	−£8.4m	−37%
EBITDA margin	13.2%	15.7%	−2.5%	
Operating profit before FSCS Levy and restructuring	£2.3m	£9.5m	−£7.2m	−76%
FSCS Levy	£2.3m	£3.7m	£1.4m	−38%
(Loss)/profit after tax	£(2.8)m	£2.5m	−£5.3m	
Active clients**	55,980	75,627	−19,647	−26%
Number of trades	31.8m	33.2m	−1.4m	−4%
Value of trades***	£1,287bn	£1,221bn	+£66bn	+5%

\*Net operating income represents revenue net of rebates payable to introducing partners who are not themselves trading counterparties less spread betting levies

\*\*Active clients represent those individual clients who have traded with or held positions with CMC Markets on at least one occasion during the financial year

\*\*\* Value of client trades represents the notional value of trades

- > The Next Generation trading platform is now operational in 7 countries, including our 4 core markets
- > Reduced revenues and active clients due to low levels of market volatility and the migration of clients from our old trading platform to Next Generation
- > Cost reductions of 23% achieved through operational efficiencies and cost savings
- > Significant improvements in EBITDA margin in Q4 as a result of migration to Next Generation
- > Healthy balance sheet, regulatory capital surplus of £49.4m, own cash of £85.5m and little external borrowings
- > Full segregation of retail client money in all jurisdictions
- > Well placed to return to statutory profit even in challenging markets, as clients fully migrate to Next Generation trading platform



# CEO Review



A lot of time this year has been spent preparing for the roll-out of our Next Generation trading platform (Next Gen) to the remainder of our offices where it has not yet been launched. By August 2013, Next Gen will be operational across all of our offices in Australia and New Zealand, Asia, Continental Europe and the UK, with over 55,000 clients in 86 countries around the world. This has been a long and at times difficult process. However, now our clients can trade across mobile devices, smart phones and tablets as well as from their desktops. The launch of Next Gen has really put us back at the forefront of online trading, and I feel confident that Next Gen is the most exciting trading platform in the industry today. Our clients can now access upgraded charts, client sentiment, client message boards, pattern recognition scanners and many more improved trading tools including depth of markets across all major instruments and boundaries that help our clients control their execution.

Inevitably this big transition year of migrating clients from the old platform to Next Gen and low levels of volatility in the wider market did affect our financial performance. However, we have returned a reasonable level of EBITDA at £14.1m. Once again the FSCS levy was a significant cost at £2.3m. After adjusting for this and restructuring costs of £2.6m the Group returned an operating profit of £2.3m.

This year has really been about building a base for the future of the business and ensuring that the business is consistently profitable even in challenging markets. By completing the Next Gen programme over the last three years expensing most of the costs of development, I believe we now have the best platform in the industry. Our entire retail client funds are held in segregated client trust accounts and as at close of business 31st March 2013 we had a capital ratio of 215% and own funds of £85.5m.

Next Gen is providing the business with scalability and efficiencies, and is making a real difference. During the final quarter of this year we saw significant improvements in our profit margins as a result of Next Gen, the operational cost efficiencies it has delivered and our overall cost reductions.

That is why the team and I are very optimistic about the coming year. We have a great platform, a great team, scalability back in the business and the big transition from old to new is well on its way to completion. With net assets in excess of £100m and surplus excess capital of 115% we also have a strong balance sheet.

All the hard work of the last three years is finally coming through. I would like to thank our staff for a really great effort this year. We have really put ourselves in a strong position for future growth.

**Peter Cruddas**  
CEO

# What we do

CMC Markets is an online retail financial services business which enables our clients to trade contracts for difference (CFD) or financial spread betting on a range of shares, indices, foreign currencies, commodities and treasuries. The Group also provides stockbroking services in Australia.

CMC Markets creates prices on over 6,000 instruments in which clients can trade. Revenues are generated predominantly through transactional spreads, financing income and commissions which arise from our clients' trading activities. Our risk management strategy is based on highly automated flow management which dynamically hedges the majority of net client exposures and risk. The level of revenues is influenced by the number of clients actively trading, the amount of trading each client transacts and the amount of revenue earned from each transaction.

## Our products

### CFD

CFD provides economic benefits similar to an investment in an underlying asset without the costs and limitations associated with physical ownership. A CFD is a cash-settled investment in products which are based on currencies, commodities, indices and shares. A CFD tracks the price movement of the chosen product, including dividend on stocks, interest on positive carry currency positions, and coupon on interest bearing instruments.

A CFD is a leveraged product which has the potential to magnify profits as well as losses.

### Spread bet

Spread betting allows clients to trade on the price movements of financial markets, including currencies, commodities, indices and shares. Spread betting with CMC Markets provides similar economic benefits to those experienced when investing in an underlying asset, but without the costs and limitations associated with physical ownership. Spread bets are cash-settled investments in financial products that offer a number of benefits, including dividend on stocks, interest on positive carry currency positions, and coupon on interest bearing instruments.

Spread betting has many of the same benefits as a CFD with one important difference; you are betting a specific stake size per point movement of a product rather than trading a specific number of shares or units.

Ordinarily, profits from spread betting are free from capital gains tax and stamp duty in the UK and Ireland, although tax laws are subject to change.

### Stockbroking

CMC Markets also offers Australian clients the ability to buy and sell ASX-listed equities as well as listed funds, with clients having access to live market data and research from some of Australia's most respected stock market analysts.

## Our geographical reach

CMC Markets is a global business with a significant presence in its main hubs in the UK, Germany, Australia and Singapore but also operating across 4 continents with clients located in 86 countries around the globe.

# CMC Markets: Home of the active trader



## Client Service

- > Client Managers supporting clients to be the best traders they can be
- > Global research services through our Market Analysts
- > Exclusive traders events and education including access to industry experts



## Security

- > Over 20 years' experience in the industry
- > Global experts and leaders in spread betting and CFDs
- > Full segregation of retail client funds in line with FCA requirements
- > Significant capital and liquidity surpluses



## Product Innovation

- > Award winning platform
- > Competitive pricing
- > Reliable systems
- > Charting tools
- > Premium content, news and features

# Client Service

This year has seen a huge effort in ensuring the transformation of our client experience and the realignment of our client proposition to meet the requirements of the active trader community. Our client programme has allowed us to focus on forming stronger, real connections with our clients, driving quality interactions and building trust in our brand. Our objective continues to be to provide our clients with a superior trading experience and help them to be the best traders they can be.

Our aim is for CMC Markets to become the home of the active trader. We believe that it is important to listen to our clients' needs, be consistent, collaborate, keep our pricing competitive and deliver through a reliable and exceptional service. We make every effort to ensure that our clients receive the service they expect whilst cementing our position as the brand they trust and rely on for our security and expertise.

CMC Markets is recognised as a market leader in spread betting and CFDs in all of the global regions in which we operate as measured through the numerous industry awards we have received year after year. However, we are not complacent as we know that this is not enough to sustain a true market leadership position in the future given the need to continually raise the standards of our service setting new benchmarks for the industry. As well as offering great products and trading

capabilities that our clients have requested, we will continue to ensure that our clients see us as a trusted and recommended provider in the industry through excellence in client services.

## Client Management

CMC Markets' clients have access to a dedicated Client Management Team which is responsible for ensuring that we meet all of their requirements, including client service, personalised trading support, event and education management and tailored content, news and market insights. The Client Managers are trained on all aspects of our trading, products and services. We believe that our client managers deliver an exceptional service as they are trained to understand advanced trading support and put our clients at the centre of everything they do.

## Global research services

CMC Markets provides access to a comprehensive range of research whereby our experienced market analysts across the globe provide 24 hour, five days per week content including market updates, commentary, webinars and special event presentations. These are provided through all forms of media including web and social media channels such as Twitter and Facebook.

## Traders' events and education

CMC Markets is a recognised leader of education within the industry through innovation as we believe this support is fundamental to sustainable trading and long term client relationships. We ask all of our clients for feedback on what events and education would be of most benefit to their individual circumstances and our Client Managers then tailor relevant programmes. These are wide ranging including networking events with other traders, special interest trading sessions, 'Trader Master Classes' with well-known analysts and one-to-one tuition. These are all provided through our education and product development teams as well as industry experts in specialised fields (for instance FX or commodities trading).





# Product innovation

## The on-going evolution of Next Generation technology

There has been a considerable amount of development to the Next Generation trading platforms over the past year. Client Sentiment, multiple trade layouts, Pattern Recognition Scanner, Chart Message Boards, Price Depth Ladder, Android mobile apps, Forward contracts, over 2,000 new tradable products and numerous chart enhancements are just a few of the updates our clients were able to take advantage of during the last 12 months.

Since launching our Next Generation trading platform in July 2010, our Product Development department, in conjunction with our front end development teams, have completed over eight major platform releases providing new functionality and usability improvements. Many of the features added have come about as a direct response to client feedback and we will continue to evolve the platform to meet the increasing requirements of our active traders.

## Global rollout

The 2013/14 financial year promises to be another exciting one as our Next Generation technology will be available to our global client base. We recently launched the web and mobile trading platforms to our remaining European offices, and later in 2013 the Canadian office will also come into the Next Generation fold, completing our platform migration.

## Award-winning platform

The CMC Markets CFD app was voted 'Best CFD Mobile Trading App', according to the latest results from the *2012 Investment Trends UK CFD, FX & Financial Spread Betting Report*. This was based on ratings given by 23,000 investors and was a huge endorsement of our technology.

CMC Markets continues to understand the importance of mobile trading and we've dedicated a considerable amount of our development resources towards this area. The investment has certainly paid off – as of April 2013 well over 70% of our clients had accessed the platform via a mobile device and over 30% of all trades are transacted through these apps. Considering the strength of our mobile platform offering, we certainly expect to see an even greater influx of mobile trading transactions throughout 2013 and beyond.

With the continued advancement of mobile hardware, coupled with a more sophisticated user experience, our focus over this financial year will be to further enhance our mobile apps and to solidify our position as an innovator and leader in the industry within this area.

## Premium service

To complement the platform enhancements, 2012 saw the introduction of our Client Management Team. CMC Markets has recruited some of the best talent from within the industry, with over 40 years of experience between them, to ensure our clients receive industry leading levels of service. We continue to hold a range of support sessions that target frequent traders. These include our Active Trader Network events, numerous webinars on key market events and weekly market updates. Our overall service proposition helped us to win a number of industry awards in 2012, including the Shares Award for Best Investor Education, the MoneyAM Award for Best Online Education and the MoneyAM Award for Best Online Spread Betting Service.

We will continue to invest heavily in the development of our Next Generation technology and our Client Management teams to ensure CMC Markets remains at the forefront of the industry.





# Security

CMC Markets has been an established player in the spread betting, CFD and FX market for 23 years. Our history and experience has enabled us to build a market leading position, providing our clients with the best products and support.

Our geographical reach and Next Generation trading platform has enabled us to build a global brand. As a result, we are instantly recognised as a leading industry player in all of our markets, where we continue to build upon this leadership by providing the best products and services to our clients.

The significant size and scale of our business has enabled us to compete on a global scale, whilst maintaining a local and personalised service. With over 400 staff centred mainly in our core hubs we are able to provide access to clients in 86 countries. With over 31m trades, at a value of £1,287bn, our business remains stable in all of our key regions.

Despite the continued economic uncertainty throughout the year and low levels of volatility, the business returned an EBITDA of £14.1m.

With net assets in excess of £100m, this strong balance sheet positions us well for the future.

Healthy cash levels and surplus consolidated regulatory capital of more than 200% of UK Financial Conduct Authority (FCA) capital resource requirements enables CMC Markets to maintain our objective of a very secure capital and liquidity structure, which is appropriate for the success and future growth of our business. We believe this to be a significant buffer, enabling us to withstand fluctuations within the financial markets and take advantage of growth opportunities which may exist in the future.

As a company that is authorised and regulated in the period under review by the FCA, CMC Markets is required to ensure that, for UK Entities and Branches, all retail client money is fully segregated from our own funds. In other jurisdictions we continue to adhere to the regulatory demands set out by the local regulators, including the Australian Securities and Investments Commission (ASIC) and the Monetary Authority of Singapore (MAS). Whilst retail client money is not required to be

segregated in all jurisdictions in which we operate, we continue to ensure that full segregation is applied to all such amounts, even where local regulations do not require this level of protection. Globally, we continue to work closely with other top tier CFD providers via CFD forums to push best practice in this area which in some cases significantly exceeds regulatory requirements.

As a business regulated in all the markets that we operate, the Board has maintained a governance structure which it believes is appropriate to the operations of an online financial services trading group and reflects the size and nature of the business. We have independent Non-Executive Directors who ensure that appropriate governance principles are applied and independence maintained. They are supported by an internal audit function that follows a programme of work under the supervision of the Audit and Risk Committee.





# Strategy

## Vision

To be a market leader in global online multi asset trading.

## Strategic objectives

Our aim is to provide superior shareholder returns through:

Objective	Measures	2013	2012	2011	Performance
Consistent and sustainable delivery of growth in revenues by increasing our share of global flow and liquidity both from our existing client base and through the acquisition of new clients in current and new markets.	Net operating income	£107.0m	£143.6m	£136.9m	Benign market conditions have impacted revenue and active client numbers; however, underlying activity remains robust.
	Active clients	55,980	75,627	75,922	
	Number of trades	31.8m	33.2m	22.9m	
	Value of trades	£1,287bn	£1,221bn	£749bn	
Improvement to operating margins through operational excellence.	EBITDA	£14.1m	£22.5m	£18.7m	Significant operational efficiencies and cost savings delivered throughout the year.
	EBITDA Margin	13.2%	15.7%	13.7%	
	Operating profit before FSCS Levy and restructuring	£2.3m	£9.5m	£(3.3)m	
	FSCS Levy	£2.3m	£3.7m	£3.9m	
	(Loss)/Profit after tax	£(2.8)m	£2.5m	£(19.4)m	
	EPS	(1.0)p	0.9p	(6.9)p	
Creating a secure capital and liquidity structure that will be appropriate for the future growth and success of the business.	Surplus regulatory capital	115%	62%	56%	Significant surpluses maintained in regulatory capital and liquidity
	Surplus liquidity	£57.0m	£88.6m	£35.1m	

## Strategic enablers

CMC Markets has identified six core strategic enablers that are fundamental to the achievement of our strategic objectives. These enablers will be the core factors that differentiate us in the future and which will create long term sustainable competitive advantage in our chosen markets:



Client  
championship



Product innovation



Trading risk  
management



Technology and  
operations



Financial strength



People



### Client championship

Our ambition is to be the client champion through delivering an unparalleled client experience to the active trader. This will help maintain a loyal trading community, provide optimal returns for our shareholders and increase long-term value for the business.

As well as offering great pricing, products and trading capabilities that we know our clients want, we will continue to strive to ensure that our clients see us as the most trusted and recommended provider in the industry through excellence in client service.

CMC Markets continues to place the utmost importance on client championship and the continuous delivery of fair outcomes to our clients through our behaviour, image, product innovation and internal culture. With this client-centric vision at the core of our business we continue to strive to ensure that CMC Markets will become the undisputed brand of choice in all of our key global markets.



### Product innovation

Innovation is at the centre of everything we do. We constantly change, challenge and innovate.

We aim to provide our active trading clients with global access to investment opportunities anywhere, anytime to create a self-directed investment community that manages markets on its own terms. We constantly seek to provide better pricing, unique features, content and tools and present real time trading options. We will continue to redefine 'real-time' for clients not just in terms of trading execution but also up to the second market intelligence. We are constantly innovating to make our content, services and products stand out from the rest.



### Trading risk management

Key to the success of CMC Markets is our global trading risk management capability, dealing with high volumes of sophisticated multi-asset retail flow benefiting from a significant proportion of natural aggregation. Our healthy capital and liquidity balances allow us to retain an element of net client portfolio risk, transferring the remaining risk through hedging to our external counterparties. This delivers a highly automated transactional based risk management strategy, allowing the business to deliver consistent and sustainable returns irrespective of underlying client performance and driving long term client engagement.

We aspire to be a global leader in providing pricing, execution and liquidity to retail clients and this is enabled through fully automated execution and dynamic risk management which is scalable far beyond our current levels of trading activity. Clients are required to place margin in advance of entering into any transaction with CMC Markets, and positions are automatically closed if these margins are materially eroded. We have significant expertise in retail flow and risk management across multi-asset classes and will continue to lead and innovate as we expand our products and services into the future.

Risk appetite is controlled via strong governance and real time controls and oversight, within tightly defined risk parameters approved by the Board.



### Technology and operations

Technology and operations have always been key to the success of CMC Markets and this has won us outstanding recognition as the leader in our industry for innovation and service. Our aim is to provide our clients with the ability to take ownership of their personal financial investments. Our platform has been built to provide complete control and flexibility. We are investing in technology and operational processes which will allow us to expand with ease in the future, providing scalability, combined with exceptional dependability and speed, while driving down marginal costs as volumes grow.



### Financial strength

We aim to maintain our very secure capital and liquidity structure that is appropriate for the future growth and success of the business. This includes a long term level of capital to withstand the demands of the financial fluctuations in the markets and access to a healthy level of surplus liquid resources commensurate with the size of our business and the growth opportunities which exist in the future.



### People

CMC Markets is committed to recruiting, developing, retaining and motivating exceptional people who are smart, innovative and determined to deliver on our promise to our clients. Through our in-house programme of continued development we aim to maximise potential and enhance the experience we provide to our clients. Our team has the passion and determination to make this happen.

# Operating and financial review

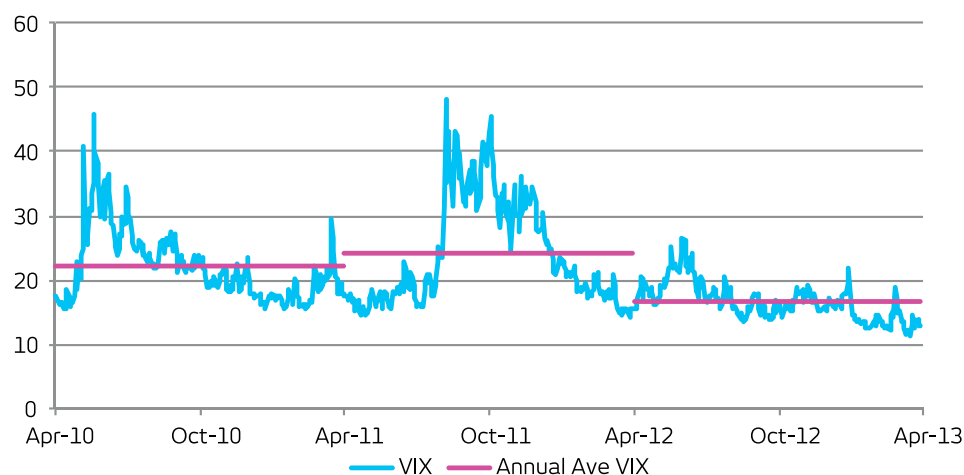
## Environmental factors

### Competitive environment

CMC Markets is a global organisation operating across 4 continents and with clients located in 86 countries around the globe. Competition in our core markets of the UK, Germany, Australia and Singapore has remained intense over the last year. These regions account for 60% of our active client base and CMC Markets remains a leading player in each of these markets. Our Next Generation trading platform and continued focus on client service demonstrates to our existing and potential clients our drive to be the home of the active trader..

### Macroeconomic environment

Volatility is a key influencing factor driving the propensity for new and existing clients to trade. Volatility, already at low levels by historical standards, declined further throughout the year, with the exception of some short term spikes in volatility through Q4.



\* VIX: The Chicago Board of Options Exchange Market Volatility Index measure of the implied volatility of the S&P 500



## Regulatory environment

For the period under review, CMC Markets was regulated on a consolidated supervision basis by the Financial Conduct Authority (FCA) in the UK. The Group takes regulation in all of our jurisdictions very seriously and has the appropriate regulatory authorisation to conduct business in all the locations in which it operates. In addition to its global and local regulatory requirements, the Group invests significant resources in a programme of active monitoring and works closely with all regulators to ensure that we remain fully compliant.

The Group offers its retail client base the ability to actively trade CFD, FX and, in the UK, spread bet products. For the retail market these represent high risk products; they are leveraged derivatives, not listed on any exchange and not tradable with any third parties. Retail client protection will therefore continue to be the primary focus for all regulators in all of the jurisdictions in which CMC Markets operates, including focus on increased product transparency and better investor protection, increased competition, efficiency and innovation, and proactive regulatory intervention ensuring market integrity.

Recent developments and the outlook in our major regions are summarised below:

### United Kingdom and Europe

As in recent years, client money has continued to be a focus, with efforts directed at producing the CASS Resolution Pack intended to assist with the return of client money in the event of insolvency, as well as continued emphasis placed on protecting the retail investor. This theme was echoed in Europe at a local level, with changes required to our handling of non-appropriate clients in Spain to reflect additional obligations stipulated by the Comision Nacional del Mercado de Valores (CNMV), and at an international level, with the European Securities and Markets

Authority (ESMA) issuing a warning to retail investors on the risks of trading contracts for difference (CFDs). In addition, regulatory concerns around short selling were addressed with ESMA introducing the Short Selling Regulation reporting requirements.

2013 has seen the restructure of financial services regulation in the UK taking effect from 1 April where responsibilities have been split between the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); supervision of the business has been transferred from the Financial Services Authority (FSA) to the Financial Conduct Authority (FCA). As a result, we are governed by a new regulator establishing its own identity and implementing a different supervisory methodology from before. It is expected that key thematic areas of relevance on the FCA agenda for the coming year will be financial promotions (with it ready to use its new power to ban them where appropriate), complaints handling and again client money. Significant elements of the European Market Infrastructure Regulation (EMIR) on over-the-counter derivatives, central counterparties and trade repositories are scheduled to commence this year, with our own preparations for reporting to trade repositories well under way. We will continue to monitor developments and assess the impact of various European initiatives such as Capital Requirements Directive IV, MiFID II and the Financial Transaction Tax (FTT) as more detailed information becomes available.

### Australia and New Zealand

As in the UK, regulatory focus in Australia and New Zealand has been on the safety and security of client money, capital adequacy, investor education, client suitability and disclosure to retail clients. CMC Markets is proud to be a founding member of the Australian CFD Forum, a self-regulating industry body which aims to foster greater investor confidence by setting best practise standards. The Forum is also

pushing for tighter regulation in the CFD industry, particularly law reform in respect of full client money segregation.

In 2013 we will work towards the implementation of 'Future of Financial Advice' reforms, Anti-money Laundering legislation in New Zealand and stockbroking cash margining initiatives, while ensuring 'best execution' for our clients. Further regulatory change is also expected in the area of trade reporting and financial reporting requirements.

### Asia

The Monetary Authority of Singapore (MAS) is set to propose regulations over OTC derivatives that include, amongst other things, the introduction of mandatory clearing, reporting of all trades and streamlining the regulatory framework on unlisted margined derivatives traded in the financial industry.

Furthermore, MAS has enacted legislations on the sale of complex Specified Investment Products (SIPs). Financial institutions are required to complete additional client suitability assessments as to whether retail investors possess the necessary knowledge and experience to understand the risks and features before allowing them to transact in such products.

Regulatory change has driven a strategic review of business within this region. Regulatory changes in Japan significantly influenced the Groups decision to exit Japan, whilst further proposed changes in Singapore are being closely monitored.

2013 will see continued focus on OTC derivatives reform, including alignment to and enhancing global directives in areas such as client money, clearing, reporting and trade repositories.

# Operating and financial review

## Financial review

### Revenue and net operating income

Total revenue for the year decreased by 21% to £129.1m against the same period last year. This fall in revenue reflects the migration of clients from the old trading platform to Next Generation, a sustained period of low volatility, low trading volumes in the underlying markets and significant pressure on pricing. In contrast 2012 was characterised by a much higher level of volatility. These conditions have also resulted in a reduction of active client numbers year on year.

However, as market conditions began to improve during the first quarter of 2013, combined with the improvements in the trading platform and reduced pressure on pricing, client trading numbers and revenues also increased significantly.

In line with the reduction in revenues, net operating income decreased by 25% to £107.0m.

### Operating expenses

Operating expenses during the year continued to be closely controlled and have decreased by 23% to £92.9m. The reduction in costs has been achieved by utilising the on-going operational efficiencies of the Next Generation technology, and focussing on cost savings in a number of areas as the business moves towards its target operating model.

Against this backdrop, the business has continued to invest in improving its technology and client offering.

Staff-related costs make up 51% of the Group's total operating expenses. The Group has invested significantly over the last four years in building its Next Generation trading platform and accompanying technology to support first class pricing, auto execution and client management.

	2013 £m	2012 £m	Var %
<b>Staff costs</b>			
Total employee costs	40.7	49.9	-18%
Contract staff costs	7.2	10.3	-30%
Total staff costs	47.9	60.2	-20%
Capitalised as part of software development costs	(0.3)	(1.2)	-75%
Net staff costs within operating costs	47.6	59.0	-19%

With this investment now delivering results, the on-going staffing requirements have been reduced and further savings have been achieved. As a result staff related costs (before capitalised software development costs) reduced by 20%.

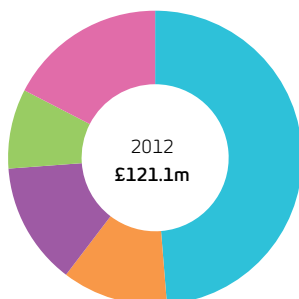
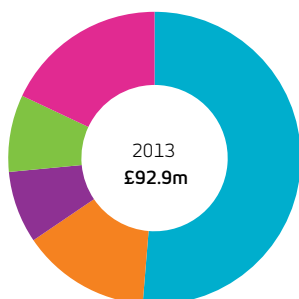
IT costs includes the cost of maintenance of the Group systems, connectivity and market data costs. A decrease of 6% from £14.1m in the prior year to £13.2m this year reflects the efficiencies derived from moving to our Next Generation technology.

Sales and marketing spend reduced in the year by 55% to £7.4m, in response to lower revenue levels and deferring expenditure until Next Generation is fully rolled out. The Group remains committed to supporting the launch and improvements to the trading platform as well as investment in the brand. In the coming year it is expected that our targeted marketing will increase.

Premises costs reduced by 25% to £7.9m this year from £10.6m last year. This reflects savings due to the Group operating from one London Head Office rather than two as in the previous year in combination with the release of lease incentives realised as a result of the vacation of part of the floor space. Savings have been made in other locations, including the closure of our Japan office.

Operating expenses were also impacted for a third successive year by significant levies from the Financial Services Compensation Scheme (FSCS) for business failures within the investment intermediaries sector. The overall FSCS levy costs for the year were £2.3m (2012: £3.7m).

Other costs decreased by 20% to £16.8m as a result of improved utilisation of external professional services and lower consultancy costs.



■ STAFF RELATED ■ IT COSTS ■ SALES & MARKETING  
■ PREMISES ■ OTHER

**EBITDA**

EBITDA for the Group was £14.1m (2012: £22.5m) and EBITDA margin was 13.2% (2012: 15.7%).

**Taxation**

For the year ended 31 March 2013 the Group taxation credit was £1.2m (2012: charge £0.2m). Full details of the tax credit are set out in note 11 of the financial statements.

**Loss for the year**

There was a retained loss for the year ended 31 March 2013 of £2.8m (2012: profit of £2.5m). The loss is disappointing and driven primarily by the adverse revenue performance mentioned above. No dividend is paid or proposed in respect of the current financial year (2012: £nil).

**Balance sheet**

The Group had capitalised a substantial portion of the investment in its Next Generation trading platform, pricing engine and client service systems within intangibles on the balance sheet over recent years. The Group continues to invest in further innovative enhancements to the client experience and improve the reliability of the trading platform which has been expensed through operating expenses. Intangibles balance has reduced during 2013 as the assets are amortised over their useful lives. Capitalised development costs were £0.3m (2012: £1.2m).

Amounts due from brokers are broadly the same as prior year end, although this fluctuates with the level of client exposures.

Current liabilities have reduced due to lower trade payables and year end accruals. Borrowings under the bank facility were zero at 31 March 2013.

Net equity of the business has decreased to £102.5m due to the 2013 statutory loss.

**Regulatory capital**

For the year under review, CMC Markets was supervised on a consolidated basis by the UK's FCA. The Group has increased its regulatory capital resources over the year by 10% and maintained a significant surplus capital over the regulatory requirement.

Total capital resources have increased due to the lower level of intangible assets at the year end. The capital resources requirement has decreased, primarily due to the strategic decision to reduce overnight market risk appetite, providing additional opportunity for intraday active risk management and cost capture. At 31 March 2013, the capital resources represented 215% (2012: 162%) of the capital resources requirement. The following table summarises the Group's capital adequacy position at the year end.

Regulatory capital	2013 £m	2012 £m
Total capital resources	92.4	84.3
Capital resources requirement	43.0	51.9
Surplus	49.4	32.4
%CR to CRR	215%	162%

# Operating and financial review

## Liquidity

At 31 March 2013, the Group held cash balances of £49.1m (2012: £52.1m). In addition, £225.5m (2012: £252.1m) was held in segregated client money accounts for clients. The movement in Group cash and cash equivalents is set out in the Consolidated Cash Flow Statement.

Liquidity risk management remains an integral part of CMC Markets' long term enterprise strategy. Due to the effective management of own liquidity resources the firm has reduced its reliance on external debt, but maintains sufficient available committed facilities to mitigate risk surrounding any unforeseen liquidity stress events.

With the exception of the reduction in the committed facility, the liquidity position has not changed materially. Own funds have increased to £85.5m (2012: £85.2m) with the overall net own cash decreasing slightly due to higher year-end broker margin requirements.

The Group has access to the following sources of liquidity:

**Own funds:** this is the primary source of liquidity for the Group. It represents the cash that the business has generated historically excluding all cash held on behalf of clients.

**Committed banking facilities:** the Group has reviewed the level of banking facility required to manage exposures within the boundaries of our risk management strategy and support business growth. As at 31 March the Group had access to a £20m facility, which rose to £25m from June 2013, in order to finance any potential fluctuations in margins required to be posted at our brokers to support our hedging programme or any unforeseen market wide stresses.

**Non-segregated client cash:** this represents funds received from clients which are held under a Title Transfer Collateral Agreement (TTCA) by which professional or corporate clients agree that full ownership of such monies is unconditionally transferred to the Group. In previous years this figure also included funds from retail clients in jurisdictions that did not require segregation of client money. Retail client money is now fully segregated in all regions. The Group sees the remaining cash as an ancillary source of liquidity and places no reliance on its stability.

The Group's liquidity profile means that it is well financed to support its business growth ambitions.

Liquidity	2013 £m	2012 £m
Cash	49.1	52.1
Due from brokers	48.8	47.6
<b>Available cash resources</b>	<b>97.9</b>	<b>99.7</b>
<b>Comprising:</b>		
Own funds	85.5	85.2
Non-segregated client funds	12.4	14.5
Available cash resources	97.9	99.7
Less Broker Margin requirement	(48.5)	(46.6)
Net available cash	49.4	53.1
Less Non-segregated client funds	(12.4)	(14.5)
Net own cash available	37.0	38.6
Committed undrawn facilities	20.0	50.0
<b>Available liquidity</b>	<b>57.0</b>	<b>88.6</b>



# Principal risks and uncertainties

The Group's day-to-day business activities expose it to strategic, financial and operational risks. The Board accepts that it cannot place a cap or limit on all of the risks to which the group is exposed, however effective risk management ensures that risks, including the risk of failure to achieve objectives and implement strategy and the risk of material financial misstatement or loss, are managed to an acceptable level. The Board, through its Audit and Risk Committee, is ultimately responsible for the implementation of an appropriate risk strategy, defining and communicating the Group's risk appetite, the establishment and maintenance of effective systems and controls, and continued monitoring of the adherence to Group policies. CMC Markets has adopted a standard risk process, with defined risk appetite parameters, that is widely promoted by various standards and industry bodies (including the Institute of Risk Management). This implements a five step approach to risk management: Risk Identification; Risk Assessment; Risk Management; Risk Reporting and Risk Monitoring.

The Board has put in place a governance structure which it believes is appropriate for the operations of an online retail financial services group and is aligned to the delivery of the Groups' strategic aims. The structure is regularly reviewed and monitored and any changes are subject to Board approval. Furthermore, management regularly considers updates to the processes and procedures to embed good corporate governance throughout CMC Markets.

The Board is supported by the Executive Management and Committees who are responsible for the execution of the Board's risk strategy, including the management of risk appetite, and to supervise, monitor and support the various Risk and Control functions.

It is the aim of the Risk and Control functions to co-ordinate management and reporting of the Groups' risks, ensuring that risk

management is fully integrated into the day-to-day activities of the business. Our approach to managing risk within the business is governed by the Board approved risk appetite statement and our Risk Management Framework. We have designed and implemented a system of operational monitoring and internal controls to monitor and manage business risk. At the operational level, it is the responsibility of each business function to adhere to and effectively manage all Group mandated risk management processes and standards including:

- > owning business risks and controls;
- > identifying, assessing and managing risks;
- > designing, implementing and monitoring suitable controls;
- > risk reporting including specifically defined KRI metrics to measure the level of risk we are taking in reference to the Board's approved appetite and to identify where risk-taking needs to be modified ; and
- > issue management

The business provides periodic feedback to Group Risk functions on the adequacy of risk management processes and standards in relation to their particular business function.

As part of the Group Risk Management Framework, the business is subject to independent assurance by external and internal audit. The use of independent compliance monitoring and risk reviews provide additional support to the integrated assurance programme and ensures that the Group is effectively identifying, managing and reporting its risks.

The methods of assurance are summarised as follows:

- > **Self review:** line management periodically review processes, systems and activities to ensure that all risk management processes continue to be effective and appropriate;
- > **Risk review and compliance monitoring:** the purpose is to confirm the continued effectiveness of the management of

risk within the business. This includes identification of potential control failures;

- > **Internal audit:** as part of an agreed audit programme, internal audit provides the Group with risk based and timely assurance on important aspects of the Group's risk management control frameworks and practices. It is the responsibility of all business heads to provide responses to audit findings that focus on addressing root causes within the agreed timescales; and
- > **External audit:** external audit reviews provide stakeholders, the Board, the Audit and Risk Committee, business heads, staff and Risk functions with an independent assurance over financial reporting. As with internal audit reviews, any findings must be resolved by business heads within the agreed timescales.

The main risks associated with the Group's financial activities and the key operational risks faced by the Group are outlined below and details of financial risks and their management are set out in note X to the financial statements.

Further information on the structure and workings of Board and Management committees is included in the Corporate Governance Statement on pages 29 to 31.



# Principal risks and uncertainties

Category	Risk	CMC Markets Impact	Management and Mitigation
Strategic risk	Strategic risk	The risk of an adverse impact resulting from the Group's strategic decision-making as well as failure to exploit strengths or to take opportunities. It is a risk which may cause damage or loss, financial or otherwise to the Group as a whole.	The Board has the responsibility for setting Group strategy and maintaining oversight of strategic risks. It has established a governance framework as set out in the Corporate Governance Statement on pages 29 to 31 including the appointment of two independent Non-Executive Directors, to ensure adherence to the strategy.
Financial risks	Market risk	The value of the Group's net trading position may change over any given period in such a way that it negatively impacts trading revenue. This change will generally be due to factors outside of the control of the business such as client behaviour, economic or financial change, natural disaster or terrorist attack.	<p>CMC Markets monitors and manages its exposures on a real time basis. Client positions are hedged based on a number of internally agreed metrics to manage its net exposure against Board approved limits, as defined in the Group's risk appetite.</p> <p>These positions are monitored on a global basis; all open positions held by CMC Markets' clients are combined to calculate CMC Markets' total net client exposure to ensure optimal hedging decisions are made.</p> <p>The diversity of the product range and global distribution of the client base, combined with our conservative risk management strategies and the fact that we do not take proprietary positions based on market expectations significantly reduces CMC Markets' revenue sensitivity to individual asset classes and instruments.</p> <p>Stress scenarios are applied to the portfolio, comprising a number of single and combined, company specific and market-wide events in order to assess potential financial and capital adequacy impact. Risk limits are continuously assessed against the results of these scenarios.</p>
	Credit risk	Financial losses may be incurred as a result of a CMC Markets' client defaulting against their contractual obligations or a counterparty failing to meet their obligations in accordance with agreed terms.	<p>Client Credit Risk:</p> <p>CMC Markets' management of client credit risk is significantly aided by automatic liquidation functionality on CMC Markets' trading platforms. Instrument margin levels are continuously reviewed against concentration limits and market environment.</p> <p>The Next Generation platform and applications offer clients significant improvements in the tools at their disposal to manage their exposures, including: access to their trades on the move, real time through our mobile applications; the ability to place stop losses (trailing or fixed); the ability to vary their margins to align to their risk appetite and risk management tools including education, alerts and economic calendars.</p> <p>Stresses are applied at a portfolio, client and product level to assess the impact of potential and extreme market moves against our client portfolio. This information provides challenge to and drives change of margin and liquidation requirements and is regularly submitted to the risk committees and to the Board.</p> <p>Counterparty Credit Risk:</p> <p>It is CMC Markets' policy that institutional counterparties must have pre-defined minimum short-term and long-term ratings. Furthermore we seek to limit our concentration risk to individual counterparties through diversification of our counterparties for both our banking and broker relationships.</p> <p>Our regulatory and best practice requirements surrounding client monies require us to perform periodic on-going review of all institutions where we deposit client monies.</p>

Category	Risk	CMC Markets Impact	Management and Mitigation
Financial risks	Liquidity risk	The risk that there is insufficient available liquidity to meet on-going obligations of the Group as they fall due.	<p>The Group's policy is to utilise a combination of liquidity forecasting and stress testing to ensure that the Group retains access to sufficient liquidity in both normal and stressed conditions. Liquidity forecasting fully incorporates both the impact of liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group, including the Group's own policies on minimum liquidity to be retained by individual trading entities.</p> <p>The Group has access to a credit line to meet short term liquidity obligations to broker counterparties in the event that it does not have sufficient access to its own cash. During the year we performed an Individual Liquidity Adequacy Assessment (ILAA), providing an assessment of how liquidity is managed throughout the business and designating liquidity buffers in excess of our normal operating requirements.</p> <p>Global regulatory requirements for the management of client monies require that each regulated entity within the Group maintains at least the same level of liquid assets as that entity holds in client liabilities. Operating within client money regulations further ensures that sufficient liquidity is always available to meet client liabilities.</p>
Operational risks	Business continuity risk	Business continuity risks include the unavailability of employees, premises or services due to a variety of possible events, some of which are outside the Group's control.	<p>Business continuity risk is managed through a continuing programme of review and enhancement including:</p> <ul style="list-style-type: none"> <li>&gt; testing of business recovery and IT systems recovery plans through walkthroughs and exercising;</li> <li>&gt; training and awareness;</li> <li>&gt; regular business impact analysis and key risk assessment process;</li> <li>&gt; review of lessons learned following significant events</li> <li>&gt; independent monitoring including internal audit; and</li> <li>&gt; placement of insurance cover for both the business and employees, including property damage and business interruption insurance, 24 hour personal accident cover, healthcare insurance, income protection and life assurance.</li> </ul>
	Financial crime risk	As a provider of financial services to retail markets, CMC Markets is exposed to the threat of abuse of its services in the form of financial crime including but not limited to fraud, bribery, market abuse and money laundering.	<p>CMC Markets adopts a risk based approach to financial crime, undertaking formal and regular risk assessments across its global operations. Oversight arrangements include the Compliance and Financial Crime Group teams who report ultimately to the Group Director of Risk and Compliance and Group Board. The Group maintains global reporting procedures and surveillance processes and makes use of local compliance and legal expertise on the development of suitable procedures and system controls.</p> <p>CMC Markets Group is committed to the highest possible standards of openness, integrity and accountability and encourages individuals working at all levels of the organisation, who has a concern about any form of malpractice or unethical behaviour occurring within the Company to raise those concerns immediately. The Group Whistleblowing policy provides a clear framework for escalation of issues through:</p> <ul style="list-style-type: none"> <li>&gt; encouraging individuals with genuine concerns about any form of malpractice or unethical behaviour in the organisation to raise these concerns at an early stage;</li> <li>&gt; setting out a procedure for raising concerns; and</li> <li>&gt; providing individuals with protection from suffering detriment, reprisals or victimisation for raising concerns in good faith under the procedure.</li> </ul>

# Principal risks and uncertainties

Category	Risk	CMC Markets Impact	Management and Mitigation
Operational risks	Information risk	Information risk is the threat to the confidentiality, integrity and availability of information held by the Group. Protection of personal information provided by clients and employees is also a key concern.	The Group's Information Security Framework provides policies, standards and acceptable usage guidelines to manage information risk across the Group. Technical and procedural controls are implemented to minimise the occurrence of information security and data protection breaches. Access to information is provided on a "need to know" basis consistent with the user's role. All requests for access require appropriate authorisation. Key data loss prevention initiatives implemented include restricted USB access, laptop encryption and web filtering. CMC Markets also conducts regular reviews of system access and compliance with the Group's information security framework.
	Technology risk	<p>Technology is a critical part of the Group's business. The operation, maintenance and upgrade of systems to facilitate the constantly changing requirements of its clients are an essential process.</p> <p>System failures would expose the Group to significant commercial, financial, regulatory or reputational risk. Additionally, the impact on competitive advantage through inadequate systems development and implementation is a continuing operational risk.</p>	<p>The Group continues to invest in increased functionality, capacity and responsiveness of its systems infrastructure. It employs rigorous software design methodologies, project management and testing regimes to minimise implementation and operational risks. CMC Markets constantly monitor systems performance and in the event of any operational breaches, changes to processes are implemented to mitigate future issues.</p> <p>CMC Markets operates two data centres in the UK. Systems and data centres are designed for high availability and data integrity, ensuring continued service to clients in the event of individual equipment failures or major disaster recovery events.</p> <p>The co-sourced internal audit function is able to call on significant IT expertise to independently assess IT processes and developments, whilst further assurance is gained through reliance and capacity planning and infrastructure management.</p>
	People risk	<p>People risk includes the loss of key skills, the impact of business restructuring on employees, the risk of loss of key individuals and inadequate development, succession or resource planning.</p> <p>The risk that people do not follow the organisation's procedures, practices and/or rules is also identified.</p>	<p>The Group Human Resources function takes the lead in the identification and management of these risks to ensure that a talented and motivated workforce is maintained. Initiatives include retention programmes and succession planning, as well as practical training and skills transfer programmes. Whilst CMC Markets realises that staff turnover will always occur within such a competitive market, performance management and associated remuneration policies aim to mitigate this risk for key and high performing individuals.</p> <p>Education and training, backed up by management oversight and a regular employee review programme, ensures that deviation from policy and procedures is kept to a minimum.</p>



Category	Risk	CMC Markets Impact	Management and Mitigation
Operational risks	Regulatory and compliance risk	<p>The Group must satisfy regulatory requirements in many jurisdictions and maintains a programme of active monitoring to ensure that those requirements are met consistently. This is an integral part of the Group's overall risk management approach.</p>	<p>The Group Compliance function operates a risk based approach to manage compliance risk across all regions. This includes the on-going identification, monitoring and adoption of relevant principles and standards that are consistent with CMC Markets' values and industry defined guidelines. The compliance function is supported in its role by in-house legal resources and dedicated compliance resources located in key regional offices.</p> <p>The global regulatory environment is monitored closely. CMC Markets recognises the risk of changes in regulation affecting the products it offers and works closely with regulators in all regions to maintain the reputation of, and confidence in, both CMC Markets and its products. CMC Markets also seeks to be proactive in its interaction with Regulators and drive change where it is deemed necessary. To this end CMC Markets has been integral in the formation of a number of CFD forums globally, with the objective of raising the bar on standards and best practice.</p> <p>Key areas of regulatory focus over the coming year are set out in more detail in section 3 above, and one thing that is certain over the coming periods is that regulations of OTC derivatives will continue to evolve at pace, with areas of focus including transaction taxes on OTC derivatives, mandatory clearing of OTC derivatives (as proposed by the European Market Infrastructure Regulation (EMIR)) and mandatory exchange trading of OTC derivatives (as proposed by the Market in Financial Instruments Directive (MiFID II)).</p> <p>Finally, 2013 sees the anticipated restructure of financial services regulation in the UK taking effect from 1 April. With supervision of the business transferred from the Financial Services Authority (FSA) to the Financial Conduct Authority (FCA), we are governed by a new regulator establishing its own identity and implementing a different supervisory methodology from before.</p>
	Other operational risks	<p>Other operational risks include the Group's exposure to legal and litigation risks, the failure of counterparties, manual errors and any other action or occurrence over which it has little or no control but which may have financial impact or affect its reputation with clients and the business community.</p>	<p>The Group defends its business reputation through legal process when necessary and monitors key third party and supplier relationships. The Group has implemented a number of initiatives including the Business Change Control Framework, incident management processes, risk monitoring and control policies to ensure adherence to the Group's Risk Appetite as defined in the Risk Appetite Statement. All key processes operate under a framework of control that incorporates proper segregation of duties, review and sign off.</p>

# 26 Directors' report

The Directors of CMC Markets plc present their report together with the audited financial statements of the Group for the year ended 31 March 2013.

## Principal activities

CMC Markets is an online retail financial services business and, through its principal subsidiaries and their branches as set out in the Corporate Governance Statement and note 15 to the financial statements (the Group), provides its clients the ability to trade contracts for difference (CFD) or financial spread betting on a range of shares, indices, foreign currencies, commodities and treasuries. The Group also provides stock broking services in Australia.

## Business review

A detailed review of the business during the financial year and anticipated future developments is contained in the Business Review on pages 14 to 20. The Directors consider the financial key performance indicators (KPI's) to be revenue, net operating income and EBITDA. These are set out in the Consolidated Income Statement on page 35 and are discussed in the Business Review. Non-financial KPIs are considered to be the number of active clients, number of trades and value of trades and these are set out in the Business Review. Principal risks and uncertainties faced by the business together with an assessment of these risks and how they are reported on and monitored is set out on pages 21 to 25. The use of financial instruments is also included on these pages and further covered under note 21 to the consolidated financial statements on page 69.

## Objective and strategy

The Group's vision is to be market leader in global online multi-asset trading. Its strategic objective is to provide superior shareholder returns through the consistent and sustainable delivery of growth in revenue and improvement to operating margins through operational excellence including product innovation, technology and service. The strategic enablers to achieve this are set out in the Business Review on pages 14 and 15.

## Summary of results

The results for the financial year are shown in the Consolidated Income Statement on page 35. The details of dividends are set out in Note 31.

## General

### Capital structure

The Company's share capital comprises ordinary shares of 25 pence each and deferred shares of 25 pence each. At 31 March 2013 there were 280,397,178 ordinary and 2,377,770 deferred shares in issue. Each ordinary share carries one vote. Deferred shares have no voting rights.

### During the year:

1. under the CMC Markets Management Equity Plan 2009 ("the MEP") 50,000 ordinary shares were allocated to one employee by the Employee Benefit Trust (EBT) due to exercise of vested share options. Similarly, 83,333 ordinary shares were acquired by the EBT from one employee who left the employ of the Group. These transactions resulted in 1,069,282 ordinary shares – 0.38% of total issued ordinary shares – being retained by the EBT at the date of this report which are treated as own shares held in trust for the future benefit of employees of CMC Markets UK plc;

2. under the MEP 1,255,300 options over ordinary shares were granted without charge to one Director and eight employees. These are subject to the conditions of the awards which include the requirement that these options may only vest subject to the Company meeting certain performance targets within defined time scales and/or continued employment in the Group following which they become exercisable at the employee's option;
3. 6,136,508 options previously granted under the MEP lapsed resulting in 1,520,867 remaining outstanding at the year-end; and
4. 44,322 ordinary shares were converted to deferred shares

At the date of this report an aggregate of 1,520,867 options over ordinary shares in the Company remain outstanding subject to the rules of the MEP.

Further details of the authorised and issued capital are disclosed in note 24.

## Directors and their responsibilities

Details of the Directors who served throughout or for part of the year and up to the date of signing the financial statements and their executive positions are set out below.

**Peter Cruddas** Executive Chairman to 27 March 2013, Chief Executive Officer thereafter

**John Jackson** Non-executive

**Doug Richards** Chief Executive Officer (resigned 27 March 2013)

**Simon Waugh** Non-executive, Deputy Chairman to 27 March 2013, Chairman thereafter

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgments and accounting estimates that are reasonable and prudent;
- > state whether applicable IFRS's as adopted by the European Union have been followed,

subject to any material departures disclosed and explained in the financial statements; and

- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors in office on 27 June 2013 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Further information on the Board's activities, powers and responsibilities is included in the Corporate Governance Statement on pages 29 to 31.

## Corporate governance

The Company's statement on corporate governance which forms part of this Directors' Report is covered on pages 29 to 31.

## Research and development

The Group has continued to invest significantly in the development of the CFD and spread bet Next Generation platform in addition to maintaining existing infrastructure with considerable effort applied by the technical and software development teams. £0.7m of development expenditure has been capitalised during the year (2012: £2.4m).

## Going concern

Having given due consideration to the nature of the Group's business, the Directors consider that the Company and the Group are going concerns and the financial statements are prepared on that basis. This treatment reflects the reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future and the consideration of the various risks set out on pages 21 to 25 and financial risks described in note 4 to the financial statements.

## Policy on payment of creditors

It is the policy of the Company, and each company within the CMC Markets Group, to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on timely receipt of an accurate invoice. The Company had no amounts overdue to trade creditors during the current or previous financial years. Trade creditor days for the Group, based on creditors as at 31 March 2013, were 6 days (2012: 15 days).

# Directors' report

## Employee information

### Collaboration

CMC Markets actively encourages its employees to contribute pioneering and innovative ideas. The Group strongly believe that the contribution of a talented and passionate team is vital for continued success.

The Group has a policy of keeping employees informed and engaged in its business strategy, performance, key projects and initiatives via regular meetings and team briefings and the use of our Company intranet.

### Equal opportunities and diversity

CMC Markets is committed to developing and supporting a diverse workforce. The Group highly values the differences and creativity that a diverse workforce brings and is committed to recruiting, developing and retaining a world class team irrespective of ethnicities, nationalities, sexual orientation, gender identity, beliefs, religions, cultures, and physical abilities. CMC Markets seeks to establish a culture that values meritocracy, openness, fairness and transparency.

CMC Markets affirms that it will not tolerate any form of unlawful and unfair discrimination. In searching for talent the commitment is always to recruit the best from the broadest applicant pool. All candidates have the right to expect that they will be respected and valued for the richness of ideas which they will bring to the Group.

## Health and safety

The health and safety of the Group's employees and visitors is of primary importance. The Group is committed to creating and maintaining a safe and healthy working environment. Health and safety audits and risk assessments are carried out regularly.

## Corporate social responsibility

The Group believes that high standards of corporate social responsibility make good business sense and have the potential to enhance returns. The nature of its business means that the Group's main impact on the environment is energy consumption and travel, both on third party related business and by staff visiting Group's offices other than their base. Energy saving measures are included in the considerations of systems design and in office practices across the Group. Greater use of email and electronic documentation rather than paper based correspondence is encouraged and efforts are made to recycle waste such as paper and IT hardware where appropriate.

Acting responsibly extends to the Group's treatment of customers, suppliers, staff and third parties.

### Charitable and political donations

Charitable donations of £22,000 (2012: £25,000) were made during the year. Political donations of £nil (2012: £100,000) were made during the year.

## AGM

The 2013 Annual General Meeting of CMC Markets plc (the "2013 AGM") is to be held at 133 Houndsditch, London, EC3A 7BX at 12.00 noon on Thursday 26 September 2013. The Notice of the 2013 AGM and related papers are sent to shareholders at least 21 clear days before the meeting.

In addition to the ordinary business it is proposed that a resolution will be put to the meeting to approve the conversion of 85,042 ordinary shares to deferred shares in accordance with the terms of grant to employees who have now left the Group and to authorise the purchase of those shares and others previously converted to deferred shares by the Company.

Resolutions are included in the notice of meeting to give Directors the authority for the maximum statutory period of five years to allot the unissued shares of the Company and, subject to the foregoing authority being provided, to permit the Directors to issue such shares wholly for cash on a non pre-emptive basis. These resolutions seek to renew similar authorities given to the Directors by shareholders at the 2012 Annual General Meeting.

## Independent auditors

PricewaterhouseCoopers LLP acted as auditors throughout the year. In accordance with s489 and s492 of the Companies Act 2006, resolutions proposing the re-appointment of PricewaterhouseCoopers LLP as the Company's auditors and authorising the Directors to determine the auditors' remuneration will be put to the 2013 AGM.

By order of the Board



**Jonathan Bradshaw**

### Company Secretary

CMC Markets plc, Registered number 5145017  
**10 July 2013**

# Corporate governance statement

The Directors and senior management of CMC Markets are fully aware of the benefits of robust and effective Corporate Governance. Apart from the evident advantages that clarity and accountability bring to management, the value it adds to commercial activities is acknowledged.

The Board has put in place a governance structure which it believes is appropriate to the operations of an online retail financial services trading group and reflects the size and stage of development of the business. CMC Markets plc is an unlisted public company and is not required to meet the provisions of the Listing Rules of the UK Listing Authority or the Financial Reporting Council's UK Corporate Governance Code. However, the Board is aware of the relevance of these and the Directors support best corporate governance practice and its practical application as considered suitable with regard to the Group's operations. The structure is regularly reviewed and monitored by the Board for effectiveness and adapted as required to fit the needs of the Group's businesses and their management.

The objectives of the governance structure are:

- > to satisfy the needs of the business for proper consideration and decision making;
- > to provide a clear management support and monitoring framework to add value to the business and identify and control risks;
- > to ensure good governance principles are followed including;

- > clear remits and definitions of responsibility, authority, accountability and lines of report;
- > provision of appropriate delegated authority;
- > a framework to facilitate effective checks and balances in management and oversight processes;
- > to allow and encourage effective constructive challenge of the executive; and;
- > to apply best practice governance principles appropriate to the business

The governance structure is regularly reviewed for effectiveness and adapted as required to fit the needs of the Group's businesses and their management.

## Board responsibilities

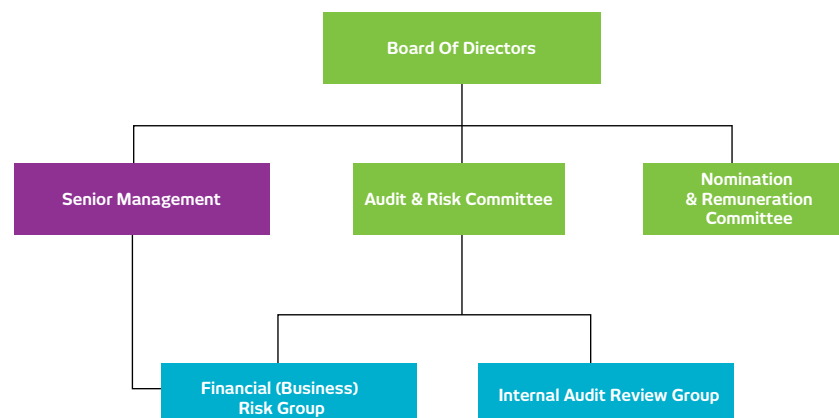
The Group Board has overall responsibility for the Group's affairs. It comprises one executive and two independent Non-executive Directors. The calibre of both the Non-executive Directors is regarded as more than capable of carrying sufficient weight in the Board's decision-making and to challenge the executive. The Directors believe that the Board has a balance of skills, experience and service to provide effective strategic leadership and proper governance of the Company and Group. The current composition of the Board is considered appropriate for the full and proper discharge of its responsibilities. The Articles of Association of the Company do not require the Directors to retire by rotation.

The Board is responsible for the management and oversight of the Group, setting strategic aims and determining policy. Changes to the roles of some of the Directors during the year and since the year end are set out in the Directors' Report. The role of the CEO is defined in writing and has been approved by the Board. The effectiveness of the Board is the responsibility of the Non-executive Chairman. Supported by senior management the CEO is responsible for the implementation and execution of strategy and policy. The CEO manages the Group's operations on a day-to-day basis and is in frequent contact with the senior management in addition to attending formal Board meetings. Key performance indicators are included in the performance evaluation process for CEO and other senior management and are used in determining their remuneration.

A statement of the Directors' responsibilities in respect of the financial statements, the statement regarding the use of the going concern basis for preparation of the financial statements and the disclosure of information to the auditors are included in the Directors' Report on page 27.

The Board has a formal schedule of matters specifically reserved to it which includes:

- > setting strategic aims, values and standards to promote the Group's best interests;
- > control and oversight of business management;





## 30 Corporate governance statement

- > setting risk parameters and final overall risk management;
- > ensuring adequate financial and human resources;
- > meeting obligations to shareholders and stakeholders;
- > providing guidance and direction to subsidiaries' managements;
- > establishment, maintenance and review of effective systems and controls for:
  - > compliance with applicable requirements of regulatory systems
  - > countering the risk of use of the Group to further financial crime
  - > identifying, measuring, managing and controlling risks
  - > ensuring business continuity
  - > ensuring adequate records are maintained;
- > delegation of authority where appropriate, receiving reports and recommendations from Board Committees and monitoring the discharge of delegated authorities; and
- > the review of policies, procedures, frameworks, standards and controls required for business operations.

All the Directors regularly receive full and timely information required to enable them to perform their role. The Board held seven scheduled meetings during the year and also held five ad-hoc meetings when there was business which could not wait until the next scheduled meeting. Board papers, which are distributed to all directors in advance of each meeting, follow a set agenda although further subjects are added for discussion as the need arises. In the months when no Board meeting is scheduled, the Directors receive a Board pack containing updated reports from each function to ensure consistent oversight. In addition to the scheduled Board meetings, Directors' workshops and briefings were also held on particular issues requiring their

attention. Directors receive appropriate training on appointment and as necessary during their service and also receive regular briefings on proposed developments or changes to the law or regulations that affect the Group. Each Director has access to the advice and services of the Company Secretary. The Directors may take independent professional advice at the Group's expense and Directors and Officers liability insurance is in place as permitted under the 2006 Companies Act.

### Board committees

The Board Audit and Risk and the Nomination and Remuneration Committees carry out duties delegated to them by the Board and set out in written terms of reference.

### Audit and Risk Committee

The Audit and Risk Committee comprising the two independent Non-executive directors (Simon Waugh (Chairman) and John Jackson) meets at least two times a year. It may invite attendance by senior management and attendees include the CEO, the Group Head of Finance, the Group Head of Risk and Compliance and the Head of Internal Audit. An invitation is also extended to the representatives of the external auditors to attend meetings when financial results are under consideration and to discuss issues relating to the audit and financial control of the Group. The external auditors also have direct access, should they so require, to the Audit and Risk Committee. The Audit and Risk Committee's authority extends to seeking information from any employee, all of whom are required to cooperate with any request from the committee.

The duties of the committee are set out in written terms of reference approved by the Board which include:

- > the review of the annual report and financial statements including the going concern assumption;

- > evaluation of the nature and scope of the external audit, the external auditor's plan for the audit of the financial statements, its management letter, fee, independence, quality controls and consideration of its major findings and management's response to those;
- > consideration of the appointment, re-appointment or removal of the external auditor and its terms of engagement and remuneration including reviewing the engagement letter at the start of each audit;
- > review of the internal audit programme and key material outcomes and to ensure that the function is properly resourced, directed and supported and to monitor management's response to internal audit findings and recommendations; and
- > the review of policies and procedures relating to financial management and the effectiveness of systems for internal financial control and reporting.
- > the review of policies and processes for identifying, assessing and managing risk;
- > the oversight of financial, operational and reputational risks and monitoring their management and control. These include market, credit, capital adequacy and liquidity risks and operational risks such as information technology, business continuity, financial crime, legal and regulatory issues;
- > review of the effectiveness of systems for internal controls and reporting on financial (business), operational and reputational risk management;
- > the review and recommendation of statements included in the annual report in relation to the internal control and management of risk.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprising the two independent Non-executive Directors (John Jackson (Chairman) and Simon Waugh) meets at least two times a year. Attendance may be invited from senior executive management and regular attendees include the Group Head of HR. The duties of the committee are set out in written terms of reference approved by the Board which include:

- > the regular review of the structure of the Board; to lead the process for making Board appointments and to ensure plans are in place for orderly succession;
- > participation with the Board in its periodic review of the performance of Directors and to make recommendations arising from such review;
- > consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Company's performance measured, amongst other things, by financial results adjusted for risks) relating to the executive Directors and other senior executive managers that it is designated to consider and ensuring that such policy attracts and retains high calibre Directors and senior executive management; and
- > the review of Group wide annual salary arrangements, performance related pay schemes and incentive plans and to consider and make recommendations in respect of their rationale, structure and aggregate cost.

### Working groups

The corporate governance structure also includes working groups which together provide a framework to support and monitor the management of the Group.

Two working groups report to the Audit and Risk Committee and the Board (through the risk function) to ensure that the oversight and challenge obligations can more directly be discharged. These monitor and supervise the critical areas of financial (business) risks, compliance and financial crime, and internal audit. These are chaired by the functional heads and staffed by senior managers and specialists in each field they cover.

Each of the working groups outlined above has terms of reference approved by the Audit and Risk Committee. Meetings are formally scheduled at least once a month although should a particular matter require immediate consideration they can be convened quickly to determine any necessary action.

In addition, management meetings are held once a month attended by senior managers from each function across the business and chaired by the CEO. The meetings allow for the communication and discussion of any business developments, on-going projects and new issues that have arisen.

### Risks

The on-going process of identifying, assessing and treating the significant risks facing the Group is coordinated by the risk function. This process has been in place for the full year under review and to the date of the approval of the Annual Report and accounts. The principal risks and uncertainties affecting the Group and the responsibilities for the management of the key risks are set out on pages 21 to 25.

### Regulation

CMC Markets' worldwide regulated entities and the relevant regulatory authorities are set out on page 32. In order to meet regulatory requirements, they are monitored by specialist executives in the finance, risk, legal and compliance functions globally, supported by the governance structure and processes.

### Company meetings

The Executive Directors and the Chairmen of the Audit and Risk and Nomination and Remuneration Committees of the Board will be available to answer questions at the 2013 AGM. Information on the 2013 AGM can be found in the Directors' Report on page 28.

# Regulated Entities

CMC Markets entity	Financial services regulator(s)
<b>CMC Markets UK plc</b>	Financial Conduct Authority (FCA), UK
<b>CMC Markets UK plc – European branches</b>	FCA, UK; and
<b>Austria</b> CMC Markets UK plc Zweigniederlassung Wien	Finanzmarktaufsichtsbehörde (FMA), Austria
<b>Italy</b> CMC Markets UK plc Succursale di Milano	Commissione Nazionale per le Società e la Borsa (CONSOB), Italy
<b>France</b> CMC Markets UK plc, France	Autorité des Marchés Financiers (AMF); and Autorité de Contrôle Prudentiel (ACP)
<b>Germany</b> Niederlassung Frankfurt am Main der CMC Markets UK plc Niederlassung München der CMC Markets UK plc	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany
<b>Norway</b> CMC Markets UK plc Filial Oslo	Finanstilsynet (The Financial Supervisory Authority of Norway)
<b>Spain</b> CMC Markets UK plc, Sucursal en España	Comisión Nacional del Mercado de Valores (CNMV), Spain
<b>Sweden</b> CMC Markets UK plc Filial Stockholm	Finansinspektionen (Financial Supervisory Authority Sweden)
<b>CMC Markets UK plc – Representative Office:</b> Beijing Representative Office of CMC Markets UK plc	China Banking and Regulatory Commission
<b>CMC Spreadbet plc</b>	FCA, UK
<b>CMC Markets Asia Pacific Pty Ltd</b>	Australian Securities and Investments Commission (ASIC)
<b>CMC Markets Pty Ltd</b>	ASIC
<b>CMC Markets Stockbroking Ltd</b>	ASIC; and Australia Stock Exchange (ASX)
<b>CMC Markets Canada Inc.</b> (Operating as Marches CMC Canada in Quebec)	Investment Industry Regulatory Organization of Canada (IIROC); Autorité des Marchés Financiers (AMF) Ontario Securities Commission; and British Columbia Securities Commission
<b>CMC Markets Japan Kabushiki Kaisha</b>	Financial Services Agency (JFSA), Japan; Ministry of Economy, Trade and Industry (METI); and Ministry of Agriculture, Forestry and Fisheries (MAFF)
<b>CMC Markets NZ Ltd</b>	Financial Markets Authority (New Zealand)
<b>CMC Markets Singapore Pte Ltd</b>	Monetary Authority of Singapore (MAS)
<b>CMC Markets UK plc (South Africa)</b>	Financial Services Board (FSB), South Africa

At a glance	
Business review	
Governance	
Financial statements	33
Corporate information	

Financial Statements  
For the year ended 31 March 2013

# Independent auditors' report for the members of CMC Markets plc

We have audited the group and parent company financial statements of CMC Markets plc for the year ended 31 March 2013, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the balance sheets, the Group and Parent Company statements of changes in equity, the Group and Parent Company cash flow statement, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

### In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2013 and of the Group's loss and Group and Parent Company's cash flows for the year then ended;
- > the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- > the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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



**Hemione Hudson (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
**10 July 2013**



# Financial statements

## Consolidated income statement For the year ended 31 March 2013

GROUP		2013	2012
	Notes	£m	£m
<b>Revenue</b>		<b>127.2</b>	<b>162.2</b>
Net interest income	6	1.9	1.8
<b>Total revenue</b>	<b>5</b>	<b>129.1</b>	<b>164.0</b>
Rebates and levies		(22.1)	(20.4)
<b>Net operating income</b>	<b>5</b>	<b>107.0</b>	<b>143.6</b>
Operating expenses	7	(92.9)	(121.1)
<b>EBITDA (1)</b>		<b>14.1</b>	<b>22.5</b>
Depreciation and amortisation		(16.7)	(18.6)
<b>Operating (loss) / profit</b>		<b>(2.6)</b>	<b>3.9</b>
Finance costs	9	(1.4)	(1.2)
<b>(Loss) / Profit before taxation</b>	<b>10</b>	<b>(4.0)</b>	<b>2.7</b>
Taxation	11	1.2	(0.2)
<b>(Loss) / Profit for the year attributable to owners of the Company</b>		<b>(2.8)</b>	<b>2.5</b>
<b>Earnings per share</b>			
<b>Basic (p)</b>	<b>12</b>	<b>(1.0)p</b>	<b>0.9p</b>
<b>Diluted (p)</b>	<b>12</b>	<b>(1.0)p</b>	<b>0.9p</b>

(1) EBITDA represents earnings before interest, tax, depreciation and amortisation and impairment of intangible assets, but includes interest income classified as trading revenue..

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income. The profit for the year ended 31 March 2013 dealt within the financial statements of the Company was £0.1m (2012: £0.3m). The Company had no other comprehensive income.

## Consolidated statement of comprehensive income For the year ended 31 March 2013

GROUP	2013	2012
	£m	£m
<b>(Loss) / Profit for the year</b>	<b>(2.8)</b>	<b>2.5</b>
<b>Other comprehensive income:</b>		
Loss on net investment hedges net of tax	(1.5)	(0.2)
Currency translation differences	1.3	(0.1)
<b>Other comprehensive losses for the year</b>	<b>(0.2)</b>	<b>(0.3)</b>
<b>Total comprehensive (losses) / income for the year attributable to owners of the Company</b>	<b>(3.0)</b>	<b>2.2</b>

## Balance sheets

### As at 31 March 2013

		GROUP		COMPANY	
	Notes	2013 £m	2012 £m	2013 £m	2012 £m
ASSETS					
Non-current assets					
Intangible assets	13	10.7	21.2	-	-
Property, plant and equipment	14	16.1	18.4	-	-
Investment in subsidiary undertakings	15	-	-	163.7	163.7
Deferred tax assets	23	13.9	13.3	-	-
Total non-current assets		40.7	52.9	163.7	163.7
Current assets					
Trade and other receivables	16	22.5	22.8	37.1	35.9
Financial assets	17	0.6	1.3	-	-
Current tax recoverable		0.4	-	-	-
Amounts due from brokers		48.8	47.6	-	-
Cash and cash equivalents	18	49.1	52.1	-	-
Total current assets		121.4	123.8	37.1	35.9
Total assets		162.1	176.7	200.8	199.6
LIABILITIES					
Current liabilities					
Trade and other payables	19	46.9	56.0	39.5	38.4
Financial liabilities	20	2.9	2.1	-	-
Current tax payable		-	0.6	-	-
Provisions	22	3.8	3.0	-	-
Total current liabilities		53.6	61.7	39.5	38.4
Non-current liabilities					
Trade and other payables	19	4.4	7.1	-	-
Deferred tax liabilities	23	0.6	1.8	-	-
Financial liabilities	20	1.0	0.6	-	-
Total non-current liabilities		6.0	9.5	-	-
Total liabilities		59.6	71.2	39.5	38.4
EQUITY					
Equity attributable to owners of the Company					
Share capital	24	70.7	70.7	70.7	70.7
Share premium	24	33.3	33.3	33.3	33.3
Own shares held in trust	25	(2.0)	(2.0)	-	-
Other reserves	27	(46.4)	(46.2)	-	-
Retained earnings		46.9	49.7	57.3	57.2
Total equity		102.5	105.5	161.3	161.2
Total equity and liabilities		162.1	176.7	200.8	199.6

The Financial Statements on pages 35 to 77 were approved and authorised for issue by the Board of Directors on 10 July 2013 and signed on its behalf by:

**Peter Cruddas**, CEO

## Statement of changes in equity

### For the year ended 31 March 2013

#### GROUP

	Share capital £m	Share premium £m	Own shares held in trust £m	Other reserves £m	Retained earnings £m	Total Equity £m
Balance at 1 April 2011	70.7	33.3	(1.6)	(45.9)	47.0	103.5
Total comprehensive (losses) / income for the year	-	-	-	(0.3)	2.5	2.2
Share-based payments	-	-	-	-	0.2	0.2
Acquisition of own shares held in trust	-	-	(0.4)	-	-	(0.4)
<b>Balance at 31 March 2012</b>	<b>70.7</b>	<b>33.3</b>	<b>(2.0)</b>	<b>(46.2)</b>	<b>49.7</b>	<b>105.5</b>
Total comprehensive losses for the year	-	-	-	(0.2)	(2.8)	(3.0)
<b>Balance at 31 March 2013</b>	<b>70.7</b>	<b>33.3</b>	<b>(2.0)</b>	<b>(46.4)</b>	<b>46.9</b>	<b>102.5</b>

Total equity is attributable to owners of the Company.

#### COMPANY

	Share capital £m	Share Premium £m	Retained earnings £m	Total equity £m
Balance at 1 April 2011	70.7	33.3	56.7	160.7
Total comprehensive income for the year	-	-	0.3	0.3
Share-based payments	-	-	0.2	0.2
<b>Balance at 31 March 2012</b>	<b>70.7</b>	<b>33.3</b>	<b>57.2</b>	<b>161.2</b>
Total comprehensive income for the year	-	-	0.1	0.1
<b>Balance at 31 March 2013</b>	<b>70.7</b>	<b>33.3</b>	<b>57.3</b>	<b>161.3</b>

**Consolidated statement of cash flows**  
**For the year ended 31 March 2013**

		GROUP		COMPANY	
	Notes	2013 £m	2012 £m	2013 £m	2012 £m
<b>Cash flows from operating activities</b>					
Cash generated from / (used in) operations	29	1.7	15.2	(0.1)	(1.3)
Net interest income		1.9	1.8	-	-
Tax recovered / (paid)		(1.1)	0.1	-	-
<b>Net cash generated from / (used in) operating activities</b>		<b>2.5</b>	<b>17.1</b>	<b>(0.1)</b>	<b>(1.3)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(3.3)	(1.4)	-	-
Proceeds from disposal of property, plant and equipment		0.2	-	-	-
Investment in intangible assets		(0.7)	(2.4)	-	-
Proceeds from disposal of subsidiary		0.1	1.3	0.1	1.3
<b>Net cash (used in) / generated from investment activities</b>		<b>(3.7)</b>	<b>(2.5)</b>	<b>0.1</b>	<b>1.3</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(1.7)	(24.1)	-	-
Proceeds from borrowings		2.1	-	-	-
Acquisition of own shares held in trust		-	(0.4)	-	-
Finance costs		(1.4)	(1.2)	-	-
<b>Net cash (used in) / from financing activities</b>		<b>(1.0)</b>	<b>(25.7)</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2.2)</b>	<b>(11.1)</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		52.1	63.6	-	-
Effect of foreign exchange rate changes		(0.8)	(0.4)	-	-
<b>Cash and cash equivalents at the end of the year</b>	18	<b>49.1</b>	<b>52.1</b>	<b>-</b>	<b>-</b>

# Notes to the financial statements

## Index to notes

1. General information
2. Basis of preparation
3. Summary of significant accounting policies
4. Financial risk management
5. Segmental analysis
6. Net interest income
7. Operating expenses
8. Employee information
9. Finance costs
10. (Loss) / Profit before taxation
11. Taxation
12. Earnings per share (EPS)
13. Intangible assets
14. Property, plant and equipment
15. Investment in subsidiary undertakings
16. Trade and other receivables
17. Financial assets
18. Cash and cash equivalents
19. Trade and other payables
20. Financial liabilities
21. Derivative financial instruments
22. Provisions
23. Deferred tax
24. Share capital and premium
25. Own shares held in trust
26. Share-based payment
27. Other reserves
28. Operating lease commitments
29. Cash generated from / (used in) operations
30. Retirement benefit plans
31. Dividend per share
32. Related party transactions
33. Contingent liabilities
34. Ultimate controlling party



## Notes to the financial statements

### 1. General information

#### Corporate information

CMC Markets plc (the Company) is a company incorporated and domiciled in England and Wales under the Companies Act 2006. The nature of the operations and principal activities of the CMC Markets plc group (the Group) are set out in note 5.

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling (GBP) which is the Company's functional and the Group's presentation currency. Foreign operations are included in accordance with the policies set out in note 3.

### 2. Basis of preparation

#### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information has been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the going concern basis. The financial information is rounded to the nearest hundred thousand (expressed as millions to one decimal place - £m), except where otherwise indicated. The principal accounting policies adopted in the preparation of these financial statements are set out in note 3 below. These policies have been consistently applied to all periods presented, unless otherwise stated.

#### Changes in accounting policy and disclosures

##### New accounting standards

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that would be expected to have a material impact on the Group.

At the date of authorisation of these Financial Statements, the following new Standards and Interpretations relevant to the Group were in issue but not yet effective and have not been applied to these Financial Statements:

- > An amendment to IAS 1, 'Financial statement presentation,' regarding other comprehensive income, is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss subsequently. The Group is yet to assess the full impact of the amendment to IAS 1, but intends to adopt the Standard no later than the accounting period beginning 1 April 2013.
- > An amendment to IAS 19, 'Employee benefits,' eliminates the corridor approach and calculates finance costs on a net funding basis. The Group is yet to assess the full impact of the amendment to IAS 19, but intends to adopt the Standard no later than the accounting period beginning 1 April 2013.
- > An amendment to IAS 32, 'Financial instruments: Presentation,' in respect of offsetting financial assets and financial liabilities, updates the application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess the full impact of IAS 32, but intends to adopt the Standard no later than the accounting period beginning 1 April 2013.
- > IFRS 9, 'Financial instruments: classification and measurement,' will replace IAS 39, 'Financial instruments: Recognition and measurement.' IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of IFRS 9, but intends to adopt the Standard no later than the accounting period beginning 1 April 2015, subject to endorsement by the EU.
- > IFRS 10, 'Consolidated financial statements,' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The Standard provides additional guidance to assist in determining control where this is difficult to assess. The Group is yet to assess the full impact of IFRS 10, but intends to adopt the Standard no later than the accounting period beginning 1 April 2014.

- > IFRS 12, 'Disclosures of interests in other entities,' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group is yet to assess the full impact of IFRS 12, but intends to adopt the Standard no later than the accounting period beginning 1 April 2014, subject to endorsement by the EU.
- > IFRS 13, 'Fair value measurement,' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Group is yet to assess the full impact of IFRS 13, but intends to adopt the Standard no later than the accounting period beginning 1 April 2013.

### Basis of consolidation

The consolidated financial information incorporates the financial information of the Company and its subsidiaries made up to 31 March each year. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally determined by the ownership of more than 50% of the voting rights of an investee enterprise, so as to obtain benefits from its activities.

CMC Markets plc became the ultimate holding company of the Group under a group reorganisation in 2006. The pooling of interests method of accounting was applied to the Group reorganisation as it fell outside the scope of IFRS 3: Business Combinations. The Directors adopted the pooling of interests as they believed it best reflected the true nature of the Group. All other business combinations have been accounted for by the purchase method of accounting.

Under the purchase method of accounting, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Acquisition related costs are expensed as incurred.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those adopted by the Group.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

#### Acquisitions

When acquiring a business, the Directors have to make judgements and best estimates about the fair value allocation of the purchase price and assets and liabilities acquired. Where necessary, the Directors will seek appropriate competent and professional advice before making any such allocations. There were no businesses acquired in the current financial year.

#### Impairment reviews

The Group tests annually whether goodwill and other intangibles have suffered any impairment in accordance with the accounting policy for "impairment of assets" described in note 3. The recoverable amounts of cash-generating units (CGUs) are determined using value-in-use calculations. These calculations are based on management assumptions and require the use of estimates. Details of the impairment of intangibles calculation and assumptions made are provided in note 13.

#### Fair value of derivatives and other financial instruments

Details of derivative financial instruments held by the Group and their valuation is provided in note 4.

#### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## Notes to the financial statements

### 3. Summary of significant accounting policies

#### Revenue

Revenue comprises the fair value of the consideration received from the provision of on-line financial services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, client rebates and discounts and after eliminating sales within the Group. Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Group and the revenue can be reliably measured.

The Group generates revenue principally from flow management, commissions and financing income associated with acting as a market maker to its clients to trade contracts for difference (CFD) and financial spread betting.

CFD and spread betting revenue represents profits and losses, including commissions and financing income, from client trading activity and the transactions undertaken to hedge these revenue flows. Gains and losses arising on the valuation of open positions to fair market value are recognised in revenue, as well as the gains and losses realised on positions which have closed. Revenue from the provision of financial information and stockbroking services to third parties is recognised at the later of the rendering of the service or the point at which the revenue can be reliably measured.

Revenue also includes interest receivable on clients' money and broker trading deposits net of interest payable to clients and brokers. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable..

#### Rebates and levies

Revenue rebates payable to introducing partners, who are not themselves trading counterparties, and spread betting levies are charged to the income statement when the associated revenue is recognised and are disclosed as a deduction from total revenue in deriving net operating income.

#### Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the CMC Markets Board.

#### Share-based payment

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at date of grant. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

#### Retirement benefit costs

Pension scheme contributions to the Group's defined contributions scheme are charged to the income statement in the period to which they relate.

#### Leases commitments

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. The rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are accounted for in accordance with SIC 15 as lease incentives. These are included within deferred income and amortised to the income statement so as to spread the benefit on a straight-line basis over the lease term.

Where a leasehold property becomes surplus to the Group's foreseeable business requirements, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable through subletting.

## Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

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

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

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Foreign currencies

Transactions denominated in currencies, other than the functional currency, are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates applicable to the relevant period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

Such translation differences are recognised as income or expense in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Intangible assets

### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities of a subsidiary, at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is included within 'intangible assets' at cost less accumulated impairment losses.

Goodwill is tested for impairment annually. Any impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed. On disposal of a subsidiary, the attributed amount of goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units for purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination, identified according to business segment.

## Notes to the financial statements

### Computer software (purchased and developed)

Purchased software is recognised as an intangible asset at cost when acquired. Costs associated with maintaining computer software are recognised as an expense as incurred. Costs directly attributable to internally developed software are recognised as an intangible asset only if all of the following conditions are met:

- > an asset is created that can be identified;
- > it is probable that the asset created will generate future economic benefits;
- > the development costs of the asset can be measured reliably;
- > sufficient resources are available to complete the development; and
- > it is the Group's intention to complete the asset and use or sell it.

Where the above conditions are not met, costs are expensed as incurred. Directly attributable costs that are capitalised include software development employee costs and an appropriate portion of relevant overheads. Costs which have been recognised as an asset are amortised on a straight line basis over their estimated useful lives.

### Trademarks and trading licences

Trademarks and trading licences that are separately acquired are capitalised at cost and those acquired from a business combination are capitalised at the fair value at the date of acquisition. Amortisation is charged to the income statement on a straight line basis over their estimated useful lives.

### Client relationships

The fair value attributable to client relationships acquired through a business combination is included as an intangible asset and amortised over the estimated useful life on a straight line basis. The fair value of client relations is calculated at the date of acquisition on the basis of the expected future cash flows to be generated from that asset. Separate values are not attributed to internally generated client relationships.

Following initial recognition, Computer software, Trademarks and trading licences and Client relationships are carried at cost or initial fair value less accumulated amortisation. A summary of the amortisation policies applied to the Group's intangible assets is as follows:

Item	Amortisation Policy
Computer software (purchased or developed)	3 years or life of licence
Trademarks and trading licences	10 - 20 years
Client relationships	14 years

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

### Property, plant and equipment

Property, plant and equipment (PPE) is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all PPE at rates calculated to write-off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset on a straight-line basis over its expected useful life as follows:

Item	Depreciation Policy
Furniture, fixtures and equipment	5 years
Computer hardware	5 years

The useful lives and residual values of the assets are assessed annually and may be adjusted depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Income statement.



## Investment in subsidiary undertakings

Investments in subsidiaries are stated at cost less provision for impairment.

## Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation or depreciation are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less cost to sell and value-in-use. Net realisable value is the estimated amount at which an asset can be disposed of, less any direct selling costs. Value-in-use is the estimated discounted future cash flows generated from the asset's continued use, including those from its ultimate disposal. For the purpose of assessing value in use, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

To the extent that the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. For assets other than goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lower of its original carrying amount and the revised estimate of its recoverable amount.

## Financial assets

Regular purchases and sales of financial assets are recognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are recognised initially at cost, being the fair value of the consideration together with any associated issue costs. After initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group's loans and receivables comprise 'trade and other receivables', 'amounts due from brokers' and 'cash and cash equivalents' in the balance sheet (notes 16 and 18).

## Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group designates certain derivatives as either hedges of recognised assets and liabilities that are highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

## Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised in the income statement on disposal of the foreign operation.

## Economic hedges

Economic hedges are held for the purpose of mitigating currency risk relating to transactional currency flows arising from earnings in foreign currencies but do not meet the criteria for designation as either cash flow hedges or hedges of net investments in foreign operations. Economic hedges are measured at fair value with any resulting gains or losses recognised in the income statement in the period in which they arise.

## Notes to the financial statements

### Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. CMC Markets does not offer credit facilities to clients undertaking foreign exchange, derivative and financial spread betting activities therefore any trade receivable arising is considered for impairment. For trade receivables relating to financial information and stockbroking services, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs' in the income statement.

### Amounts due from brokers

All derivatives used for hedging are margin-traded therefore amounts due from brokers represent funds placed with hedging counterparties. Assets or liabilities resulting from profits or losses on open positions are recognised separately as derivative financial instruments.

### Cash and cash equivalents

Cash and cash equivalents comprise current account balances, bank deposits and other short-term highly liquid investments with maturity dates of less than three months.

### Client money

The Group holds money on behalf of clients in accordance with the Client Asset (CASS) rules of the Financial Conduct Authority and other financial markets regulators in the countries in which the Group operates. Client monies are classified as either client money or cash and cash equivalents in accordance with the relevant regulatory agency's requirements. The amounts held on behalf of clients at the balance sheet date are stated in notes 18 and 19.

### Trade payables

Trade payables are not interest-bearing and are stated at fair value on initial recognition and subsequently at amortised cost.

### Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

### Provisions

Provisions for property and employee benefit trust commitments are recognised when the Group has a present obligation (legal or constructive) as a result of a past event where it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. The increase in the provision due to the unwind of the discount to present value over time is recognised as an interest expense.

### Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Employee benefit trusts

Assets held in employee benefit trusts are recognised as assets of the Group until these vest unconditionally to identified employees. A full provision is made in respect of assets held by the trust as there is an obligation to distribute these assets to the beneficiaries of the employee benefit trust.

The employee benefit trusts own equity shares in the Company. These investments in the Company's own shares ('treasury shares') are held at cost and are included as a deduction from equity attributable to the Company's equity owners until such time as the shares are cancelled or transferred. Where such shares are subsequently transferred, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity owners.

#### 4. Financial risk management

The Group's Internal Capital Adequacy Assessment Process (ICAAP), prepared under the requirements of the UK's Financial Conduct Authority and the Capital Requirements Directive (effective from 1 January 2009), is an on-going assessment of CMC Markets' risks and how CMC Markets manages these risks, subject to the Group's risk appetite.

The Board sets the strategy and policies for managing these risks and delegates the monitoring and management of these risks to various committees including the Board Audit and Risk Committee, Operations and Risk Group and the Financial (Business) Risk Group. We have designed and implemented a system of operational monitoring and internal controls to monitor and manage financial risk.

Financial risks arising from financial instruments are categorised into market, credit and liquidity risks which, together with how CMC Markets categorises and manages these risks, are described below.

Management considers the carrying value of all financial assets and liabilities to be the approximate equivalent of the fair value.

##### Market risk

CMC Markets does not enter into proprietary trading positions based on expectations of future market movements. Market risk is analysed as market price risk, interest rate risk and foreign exchange risk

##### Market price risk

This is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices other than due to currency or interest rate risk.

Market price risk arises from CMC Markets' clients spread betting and trading contracts for difference (CFDs), which are based on underlying equities and indices on world stock markets, foreign currencies, commodities and government bonds and the derivative (OTC and exchange-traded) or broker trades CMC Markets takes to hedge these client positions. Client positions are monitored at a Group level so all open positions held by CMC Markets' clients are combined to calculate CMC Markets' total net client exposure to ensure optimal hedging decisions are made. All derivatives used to hedge client positions are margin-traded so the profit or loss arising on the position is settled on a daily basis. The use of derivative financial instruments is governed by Group policies approved by the Board which provide written principles on their use consistent with the Group's risk management strategy.

##### Mitigation of market price risk

CMC Markets benefits from a number of factors which also reduce the volatility of its revenue and protect it from market shocks as follows:

##### > Diversification and liquidity of its product range

CMC Markets acts as a market maker in over 5,000 cross asset products – specifically, equities, equity 'sectors', indices, commodities, treasuries (solely government bonds) and foreign exchange. This high level of diversification tends to result in minimal concentration risk within the market risk portfolio.

Additionally, CMC Markets predominantly acts as a market maker in highly liquid financial instruments it can actively hedge.

##### > Diversification of client base

In the year ending 31 March 2013, CMC Markets traded with over 55,000 clients (in line with the prior year) from over 80 countries. This large international client base has a range of diverse trading strategies resulting in CMC Markets enjoying a high degree of natural hedging between clients. This 'portfolio effect' leads to a significant reduction in CMC Markets' net market exposure.

##### > Residual risk - flow driven revenue model

The flow driven revenue strategy describes the management of market price risk resulting from client trading activity through active hedging in the markets. Any residual risk remaining after the natural market price risk mitigates noted above is managed as per internally approved limits and guidelines.

## Notes to the financial statements

### Market risk limits

Market risk positions are managed in accordance with CMC Markets' Risk Appetite Statement and Group Market Risk Management Framework so the Group has sufficient capital resources to support the calculated Market Risk Capital Requirement as well as staying within the Risk Appetite. The Group manages this crucial component of capital adequacy with 'risk zones' from green through amber, red and black, which are internally set limits in order to mitigate the risk of breaching Capital Adequacy requirements. The Market Risk policy requires that the Group's market price risk exposure, calculated under the FCA's 'position risk requirement' (PRR) methodology, should not hit the red zone, which is set at the Group's Individual Capital Guidance (ICG) level including a Capital Planning Buffer that is required by the FCA. To reduce the chances of the Group entering into the red zone, significant and sufficient buffers are in place whilst immediate remedial action must be taken to hedge client exposure and reduce the Group's overall market price risk exposure if the Group is in the amber zone.

Overall client exposures can vary significantly over a short period of time and are highly dependent on underlying market conditions. Under the residual risk flow model the Group's PRR has fallen at the overall level against the prior year end and remains well within the board approved risk appetite.

GROUP	2013			2012		
	Net PRR exposure £m	Gross exposure £m	PRR £m	Net PRR exposure £m	Gross exposure £m	PRR £m
<b>Asset class</b>						
Consolidated equities	48.1	47.8	11.1	31.9	25.1	11.8
Commodities	(2.2)	6.7	1.2	(6.5)	10.1	1.8
Treasuries	32.0	35.3	0.9	4.9	11.8	0.3
Foreign exchange	39.3	39.3	3.1	111.9	111.9	9.0
	<b>117.2</b>	<b>129.1</b>	<b>16.3</b>	<b>142.2</b>	<b>158.9</b>	<b>22.9</b>

### Revenue Analysis

The diversity of the product range and global distribution, as well as the diverse client base, significantly reduces CMC Markets' revenue sensitivity to individual asset classes and instruments. This can be quantified by analysing the five-day moving daily average of daily net trading income.

For the year ended 31 March 2013, there have been 9 occurrences (2012: 31) of the five-day daily moving average of trading profit exceeding £1.0m, compared to 23 occurrences (2012: 27) of a five-day trading loss occurring. The largest five-day daily average trading profit over this period was £1.6m (2012: £2.5m) and the highest five-day average trading loss was £0.8m (2012: £0.4m).

### Market price risk - stress testing

Group Financial Risk conducts market price risk stress testing on a daily basis. The approach to this stress testing is taking volatility stress factors and applying them to net market price risk exposures in order to assess the market price risk impact. Volatility stresses are derived from actual market price histories for 12 months up to 31 March 2013 (31 March 2012 for the previous financial year). In order to make the model more reliable, stress factors are defined for each asset class (consolidated equities, commodities, treasuries and foreign exchange). Furthermore, volatility stress factors for consolidated equities are defined per region and for commodities they are split between bullion, oil and other. Volatility stress factors for foreign exchange are split between major currency pairs and all other currency pairs. Applying regional as well as asset class based stress factors to exposures ensures that the results are a fair representation of the potential market price risk the Group faces. These stress factors and scenarios are updated quarterly by Group Financial Risk. The Group also runs extreme case stress scenarios on a daily basis, where the stress factors are broken down as mentioned above.

The table below shows example results from 31 March 2013 and 2012. The stress factors were applied to each asset class or asset sub-class market price risk exposure (client exposure net of CMC Markets' hedging) at the reporting date.

In 2013, CMC Markets was net long against un-hedged client positions, the positive volatility stress resulted in a positive trading revenue impact, and the negative volatility stress resulted in a positive trading revenue impact. In 2012, the position was net long, resulting in revenue impacts moving in opposition to the volatility stresses. The pre-tax trading revenue impact was +/- £0.7m (2012: +/- £0.5m). The Group's annual average pre-tax revenue impact was +/- £4.0m (2012: +/- £1.5m).

GROUP				Increase		Decrease
	Stress factor range %	Net exposure £m	Net exposure £m	Change in revenue £m	Net exposure £m	Change in revenue £m
2013						
<b>Asset class</b>						
Consolidated equities	1.95% - 3.13%	48.1	49.0	0.9	47.1	(0.9)
Commodities	2.84% - 4.10%	(19.2)	(19.7)	(0.5)	(18.7)	0.5
Treasuries	0.46%	32.0	32.1	0.1	31.9	(0.1)
Foreign exchange	1.46% - 1.51%	15.1	15.4	0.2	14.9	(0.2)
		<b>76.0</b>	<b>76.8</b>	<b>0.7</b>	<b>75.2</b>	<b>(0.7)</b>

GROUP				Increase		Decrease
	Stress factor range %	Net exposure £m	Net exposure £m	Change in revenue £m	Net exposure £m	Change in revenue £m
2012						
<b>Asset class</b>						
Consolidated equities	2.96% - 4.12%	31.9	33.3	1.4	30.5	(1.4)
Commodities	5.06% - 5.14%	(25.2)	(26.5)	(1.3)	(23.9)	1.3
Treasuries	0.59%	4.9	4.9	-	4.9	-
Foreign exchange	1.76% - 1.92%	21.5	21.9	0.4	21.1	(0.4)
		<b>33.1</b>	<b>33.6</b>	<b>0.5</b>	<b>32.6</b>	<b>(0.5)</b>

### Interest-rate risk

Interest rate risk arises from the re-pricing of Group assets and liabilities.

CMC Markets pays interest on client liabilities, represented by trade payables, once certain threshold balance levels are met. The Group receives interest from financial institutions on client funds held based on short term interest rates in the relevant currency. The Group is therefore a net recipient of interest income and is negatively exposed to falling interest rates across the currencies in which it transacts. Total client liabilities and the cash received from clients represent on-demand liabilities and assets. Given the on-demand nature of these items, it is not considered appropriate to hedge net interest income resulting from these balances.

Borrowings are used to finance broker trade receivables and are priced at short term floating rates plus a credit margin. The broker trade receivable asset earns interest at floating rates. Net interest cost is therefore fixed and does not represent an interest rate risk.

Net corporate cash is invested in short term assets with financial institutions and is priced from short term rates. Falling interest rates will reduce the interest income earned on these balances. The need to maintain access to these funds to meet short term liabilities means that it is not appropriate to hedge the medium term income earned on these balances.

The table below shows the impact of changes in interest rates on profit after tax and equity on a net basis including the impact on both interest income and finance costs. The Group has used a 1% interest rate movement as a benchmark for its impact analysis, and reflects its view that in the current economic environment, interest rate volatility is unlikely to have a significant impact on the profits of the Group.



## Notes to the financial statements

GROUP	2013		2012	
	Absolute increase £m	Absolute decrease £m	Absolute increase £m	Absolute decrease £m
<b>Impact of 1% absolute change</b>				
Profit after tax	2.0	(1.0)	3.1	(1.7)
Equity	2.0	(1.0)	3.1	(1.7)

## Foreign exchange risk

Foreign exchange risk is the risk that the Group's results are impacted by movements in foreign exchange rates.

Balance sheet foreign exchange risk arises from the revaluation of net, non-functional currency assets and liabilities of individual trading entities of the Group. Group policy is to ensure that net currency exposures of individual entities within the Group are hedged to minimise the impact of currency exchange rate fluctuations on the income statement.

Cashflow foreign exchange risk arises from Group operating profit arising in currencies other than the functional or presentation currency. The Group earns revenue in a number of currencies but also incurs significant operating costs arising from offices in those jurisdictions and therefore foreign exchange rate risk is not material.

Foreign exchange risk within the Group is managed through a hedging program designed to minimise the impact of currency volatility in the income statement.

The effect on profit and equity of fluctuations in short-term foreign exchange rates is shown in the table below. A positive value in these tables represents an increase in profit or equity where the relevant currency strengthens against Sterling. A negative value represents a decrease in profit or equity where the relevant currency weakens against Sterling.

The 3% movement used as a benchmark for the impact analysis is based on the average movement of the principal foreign currencies, of which the Group's assets and liabilities are denominated, against GBP during the last financial year. The maximum movement against GBP observed was 8%.

GROUP	2013		2012	
	Depreciation against GBP £m	Appreciation against GBP £m	Depreciation against GBP £m	Appreciation against GBP £m
<b>Impact of 3% movement against sterling</b>				
Profit after tax	(0.4)	0.4	(3.3)	4.4
Equity	(0.4)	0.4	(3.3)	4.4

## Credit risk

The Group's principal financial assets are deposits and other cash balances held with banks and other financial institutions, trade and other receivables and amounts due from brokers. The maximum credit risk is considered to be the carrying value of these financial assets at the balance sheet date.

Credit risk is actively managed and controlled at CMC Markets by Group Financial Risk and Group Treasury. Group Financial Risk is responsible for monitoring and controlling client credit risk which results from client trading activity. Client credit risk is managed in accordance with the Group Client Credit and Liquidity Risk Management Framework. Group Treasury is responsible for managing and controlling corporate credit risk.

### Financial institution credit risk

Credit risk arises from the banks and other financial institutions with whom the Group deposits funds and from trade receivables with brokers arising from underlying hedging activity.

Credit risk is managed on a Group basis with overall group-wide limits allocated to individual entities. Credit exposures to these counterparties are monitored on a monthly basis against approved credit and concentration limits.

Credit limits are approved by the Board on the basis of an assessment of credit quality utilising credit ratings, credit default swaps and other appropriate measures. The Group's credit risk appetite is to hold 95% of all funds with institutions with a minimum long-term rating of A (Standard and Poor's) recognising that in some jurisdictions, sovereign ratings place a cap on the maximum rating attainable by a financial institution.

Management does not expect any losses from non-performance by these counterparties.

The tables below present CMC Markets' exposure to financial institutions based on their long-term credit rating

GROUP	2013	2012
	£m	£m
<b>Long-term rating</b>		
AA to AA-	20.6	22.7
A+ to A-	81.6	77.2
BBB+ to BBB-	3.5	0.2
	<b>105.7</b>	<b>100.1</b>

No cash balances or deposits with institutions were considered past due but not impaired or impaired (2012: £nil).

## Notes to the financial statements

### Client and other credit risk

CMC Markets operates a real-time mark-to-market trading platform with client profits and losses being credited and debited automatically to their account. The Group does not provide credit facilities to its clients therefore all client debt is considered past due.

Client credit risk arises where client funds deposited with CMC Markets (margin and free equity) are insufficient to cover losses incurred upon liquidation. In particular, client credit risk can arise where there are significant, sudden movements in the market i.e. due to high general market volatility or specific volatility relating to an individual underlying financial instrument.

CMC Markets management of client credit risk is significantly aided by automatic liquidation on its trading platform. In addition, the Group Client Liquidation Policy and Procedure clarifies the Group's approach to liquidation management, and has resulted in significantly improved client liquidation times and ultimately reduced credit risk exposure.

If a client's free equity (total equity less total margin requirement) becomes negative, the client is requested to deposit additional funds and is restricted from increasing their position. If the client's intra-day losses increase such that their total equity then falls below their liquidation level amount, as specified by CMC Markets, a liquidation order is automatically generated.

Credit risk is reported to CMC Markets' senior management on a daily basis, as well as intraday reporting in exceptional circumstances.

Group Financial Risk measures and reports the Potential Credit Risk Exposure (PCRE) for end of day positions through asset liquidity, negative free equity and instrument concentration reporting. As at 31 March 2013, Group PCRE was £0.30m (2012: £0.09m). Average daily PCRE for the year ending 31 March 2013 was £0.22m (2012: £0.29m).

### Credit Risk Stress Testing

CMC Markets stress tests its potential credit risk exposures at least on a monthly basis. The key variables in the model (volatilities and probability of default) are stressed within four different stress scenarios. The results of these stress tests are used to reach the Client Credit Risk element of the Group's Counterparty Credit Risk Requirement (CRCR). The Group stresses the exposures using the same volatility methodology as market price risk. In addition, the probability of default is stressed for the most material client positions. These stress factors and scenarios are reviewed monthly by Group Financial Risk.

### Client debt history

For the financial year to 31 March 2013, new debt arising was £2.0m (2012: £4.5m). This constituted 1.6% of total trading revenue (2012: 3.0%). The Group establishes specific provisions against debts due from clients where the Group determines that it is probable that it will be unable to collect all amounts owed in accordance with contractual terms of the clients agreement. Doubtful debt provisions for the financial year to 31 March 2013 amounted to £1.1m (2012: £1.4m), representing 0.9% of total trading revenue (2012: 1.0%). Bad debt written off in the financial year to 31 March 2013 was £0.2m or 0.2% of revenue (2012: £0.7m; 0.6% of revenue).

The table below details the movement on the Group provision for impairment of trade receivables:

GROUP	2013	2012
	£m	£m
Opening provision	2.2	1.5
New debt provided for	1.1	1.4
Debt written off	(0.2)	(0.7)
<b>Closing provision</b>	<b>3.1</b>	<b>2.2</b>

### Debt ageing analysis

Group Credit Control works efficiently to minimise the effects of client debts on the Company's profit and loss. Client debts are managed very early in their life cycle in order to minimise the likelihood of them becoming doubtful debts or of being written off. The following table sets out aging of debts that are past due and the provisions charged against them:

GROUP	2013		2012	
	Debt £m	Provision £m	Debt £m	Provision £m
Less than one month	0.1	-	0.1	0.1
One to three months	0.1	0.1	0.1	0.1
Three to 12 months	0.6	0.6	1.0	0.8
Over 12 months	2.4	2.4	1.4	1.2
	<b>3.2</b>	<b>3.1</b>	<b>2.6</b>	<b>2.2</b>

### Liquidity Risk

Liquidity risk is recognised as an inherent component of the business model that the Group operates and is defined as the risk that CMC Markets has insufficient liquid assets to meet financial liabilities as they become due. Group trading companies typically fall within specific regulatory liquidity regimes in each domicile.

The Group's policy is to utilise a combination of liquidity forecasting and stress testing to ensure that the Group retains access to sufficient liquidity resources in both normal and stressed conditions. Liquidity forecasting fully incorporates the impact of liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group, including its own policies on minimum liquidity to be retained by trading entities. Stress testing is undertaken on a monthly basis upon a range of individual and combined, firm-specific and market-wide, short and long term scenarios that represent plausible but severe stress events to ensure the Group has appropriate sources of liquidity in place to meet such events.

The Group does not engage in maturity transformation as part of its underlying business and therefore maturity mismatch of assets and liabilities does not represent a liquidity risk to the Group.

The key liquidity risk to the Group arises from working capital, represented by the interaction of trade receivables from brokers, cash and trade payables to clients. Business growth typically requires a temporary outflow of liquidity to brokers as margin which needs to be met from the firm's own cash resources from access to client funds under the various regulatory regimes or from committed debt facilities available to the Group.

Trade receivables can be realised on-demand by closing of hedge positions with brokers. Similarly, trade payables to clients can become due immediately if clients close open trading positions.

The Group has arranged a committed credit line to meet short term liquidity obligations to broker counterparties in the event that it does not have sufficient access to own cash or funds from clients and to leave a sufficient liquidity buffer to cope with stress events.

## Notes to the financial statements

FX derivatives are settled gross therefore the gross receivable and payable balances are shown in the liquidity analysis below.

GROUP					2013
	On demand £m	Less than three months £m	Three months to one year £m	After one year £m	Total £m
<b>Maturity analysis</b>					
<b>Financial assets</b>					
Cash	18.4	30.7	-	-	49.1
Gross derivatives	-	41.3	-	-	41.3
Amounts due from brokers	48.8	-	-	-	48.8
Trade and other receivables	19.0	-	-	-	19.0
	86.2	72.0	-	-	158.2
<b>Financial liabilities</b>					
Trade and other payables	45.8	-	-	-	45.8
Gross derivatives	-	42.4	-	-	42.4
Borrowings	-	0.3	0.3	-	0.6
Finance lease liabilities	-	0.1	0.5	1.0	1.6
	45.8	42.8	0.8	1.0	90.4
<b>Net liquidity gap</b>	<b>40.4</b>	<b>29.2</b>	<b>(0.8)</b>	<b>(1.0)</b>	<b>67.8</b>

GROUP					2012
	On demand £m	Less than three months £m	Three months to one year £m	After one year £m	Total £m
<b>Maturity analysis</b>					
<b>Financial assets</b>					
Cash	37.6	14.5	-	-	52.1
Gross derivatives	-	55.0	-	-	55.0
Amounts due from brokers	47.6	-	-	-	47.6
Trade and other receivables	18.6	-	-	-	18.6
	103.8	69.5	-	-	173.3
<b>Financial liabilities</b>					
Trade and other payables	54.5	-	-	-	54.5
Gross derivatives	-	54.6	-	-	54.6
Borrowings	-	0.3	0.9	0.6	1.8
	54.5	54.9	0.9	0.6	110.9
<b>Net liquidity gap</b>	<b>49.3</b>	<b>14.6</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>62.4</b>



### Analysis of financial instruments by category

Financial assets and liabilities as determined by IAS 39, 'Financial Instruments: Recognition and Measurement', are categorised as follows:

GROUP				2013
	Derivatives held for trading £m	Derivatives held for hedging £m	Loans and receivables £m	Total £m
<b>Financial assets</b>				
Cash and cash equivalents	-	-	49.1	49.1
Derivatives	0.4	0.2	-	0.6
Amounts due from brokers	-	-	48.8	48.8
Trade and other receivables	-	-	19.0	19.0
	<b>0.4</b>	<b>0.2</b>	<b>116.9</b>	<b>117.5</b>
	Derivatives held for trading £m	Derivatives held for hedging £m	Financial liabilities at amortised cost £m	Total £m
<b>Financial liabilities</b>				
Trade and other payables	-	-	51.2	51.2
Derivatives	1.6	0.1	-	1.7
Borrowings	-	-	0.6	0.6
Finance lease liabilities	-	-	1.6	1.6
	<b>1.6</b>	<b>0.1</b>	<b>53.4</b>	<b>55.1</b>

GROUP				2012
	Derivatives held for trading £m	Derivatives held for hedging £m	Loans and receivables £m	Total £m
<b>Financial assets</b>				
Cash and cash equivalents	-	-	52.1	52.1
Derivatives	0.5	0.8	-	1.3
Amounts due from brokers	-	-	47.6	47.6
Trade and other receivables	-	-	18.6	18.6
	<b>0.5</b>	<b>0.8</b>	<b>118.3</b>	<b>119.6</b>
	Derivatives held for trading £m	Derivatives held for hedging £m	Financial liabilities at amortised cost £m	Total £m
<b>Financial liabilities</b>				
Trade and other payables	-	-	62.2	62.2
Derivatives	0.8	0.1	-	0.9
Borrowings	-	-	1.8	1.8
	<b>0.8</b>	<b>0.1</b>	<b>64.0</b>	<b>64.9</b>

## Notes to the financial statements

### Fair value estimation

The Group's assets and liabilities that are measured at fair value are derivative financial instruments. The table below categorises those financial instruments measured at fair value based on the following fair value measurement hierarchy::

- > Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- > Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- > Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

GROUP	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Derivative financial instruments</b>								
Financial assets	-	0.6	-	0.6	-	1.3	-	1.3
Financial liabilities	-	(1.7)	-	(1.7)	-	(0.9)	-	(0.9)
	-	<b>(1.1)</b>	-	<b>(1.1)</b>	-	<b>0.4</b>	-	<b>0.4</b>

### Capital management

The Group's objectives for managing capital are as follows:

- > to comply with the capital requirements set by the financial market regulators to which the Group is subject;
- > to ensure that all Group entities are able to operate as going concerns and satisfy any minimum externally imposed capital requirements; and
- > to ensure that the Group maintains a strong capital base to support the development of its business.

The capital resources of the Group consists of equity being share capital, share premium, other reserves and retained earnings, which at 31 March 2013 totalled £102.5m (2012: £105.5m).

CMC Markets is supervised on a consolidated basis by the UK's Financial Conduct Authority (FCA).

The Group's Internal Capital Adequacy Assessment Process (ICAAP), prepared under the requirements of the FCA and the Capital Requirements Directive, is an on-going assessment of CMC Markets' risks and risk mitigation strategies, to ensure that adequate capital is maintained against risks that the Group wishes to take to achieve its business objectives.

The outcome of the ICAAP is presented as an Internal Capital Assessment (ICA) document covering CMC Markets. The ICA covers all material risks to determine the capital requirement over a three year horizon and includes stressed scenarios to satisfy regulatory requirements. The ICA is reviewed and approved by the Board on an annual basis.

The Group had significant surplus regulatory capital over the regulatory capital requirements throughout the year. At year end, under FCA rules, consolidated capital resources exceeded the consolidated capital resources requirement by 113% (2012: 54%). In addition at 31 March 2013, the Group exceeded its ICG capital requirement as set by the FCA.

Further information on the Group's management of regulatory capital is provided in the 'Pillar 3 Disclosure' report, which is available on the CMC Markets plc website ([www.cmcmarketsplc.com](http://www.cmcmarketsplc.com)).

## 5. Segmental analysis

### Division structure

The Group's principal business is online retail financial services and provides its clients with the ability to trade contracts for difference (CFD) and financial spread betting on a range of underlying shares, indices, foreign currencies, commodities and treasuries. CMC Markets also makes these services available to institutional partners through white label and introducing broker arrangements. The Group also provides stock broking services in Australia. The Group's core business is generally managed on a geographical basis and for management purposes, the Group is organised into four divisions:

- > Europe;
- > Australia and New Zealand;
- > Asia; and
- > Canada.

Revenues and costs are allocated to the divisions that originated the transaction. Costs generated centrally are allocated to divisions on an equitable basis, based on revenue or headcount.

Divisional assets and liabilities consist of operating assets and liabilities.

### Division results analysis

GROUP	2013			2012		
	Total revenue £m	Net operating income £m	EBITDA £m	Total revenue £m	Net operating income £m	EBITDA £m
Europe	86.0	66.2	11.7	114.7	96.9	23.1
Australia and New Zealand	29.6	27.8	2.9	38.8	36.3	7.2
Asia	12.2	11.7	0.5	7.4	7.3	(8.0)
Canada	1.3	1.3	(1.0)	3.1	3.1	0.2
	<b>129.1</b>	<b>107.0</b>	<b>14.1</b>	<b>164.0</b>	<b>143.6</b>	<b>22.5</b>

A reconciliation of EBITDA to (loss) / profit before tax is provided as follows::

GROUP	2013	2012
	£m	£m
EBITDA	14.1	22.5
Depreciation and amortisation	(16.7)	(18.6)
Finance costs	(1.4)	(1.2)
<b>(Loss) / Profit before tax</b>	<b>(4.0)</b>	<b>2.7</b>

## Notes to the financial statements

The measurement of net operating income for divisional analysis is consistent with that in the income statement

The Group uses 'EBITDA' to assess the financial performance of each division. EBITDA comprises operating profit for the year before interest expense, taxation, depreciation of property, plant and equipment and amortisation and impairment of intangibles. Interest expense is not allocated to divisions as liquidity and capital resources are managed by the Group's central treasury function.

Interest income, which is included within total revenue, and depreciation and amortisation are allocated to the divisions as follows:

GROUP	2013		2012	
	Interest income £m	Depreciation and amortisation £m	Interest income £m	Depreciation and amortisation £m
Europe	(0.8)	15.6	(1.4)	16.9
Australia and New Zealand	2.2	0.7	2.8	1.4
Asia	0.3	0.4	0.3	0.2
Canada	0.2	-	0.1	0.1
	<b>1.9</b>	<b>16.7</b>	<b>1.8</b>	<b>18.6</b>

### Division assets analysis

GROUP	2013	2012
	£m	£m
Europe	92.7	107.8
Australia and New Zealand	41.9	36.9
Asia	11.6	14.6
Canada	1.6	4.1
	<b>147.8</b>	<b>163.4</b>

A reconciliation of Divisional total assets is provided as follows:

GROUP	2013	2012
	£m	£m
Divisional total assets	147.8	163.4
Unallocated assets:		
Deferred tax assets	13.9	13.3
Current tax recoverable	0.4	-
<b>Total assets</b>	<b>162.1</b>	<b>176.7</b>

The measurement of total assets for division analysis is consistent with that in the Group balance sheet. Assets are allocated based on the operations of the Division.

### Geographical analysis

The Company is domiciled in the UK however the customer base is international. The revenue and non-current assets are allocated to the division that originated the transaction rather than being based on the client's location. Information based on client location is not readily available and the cost of preparation is considered to be excessive. Therefore in accordance with IFRS 8 the Geographical analysis is not presented.

**6. Net interest income**

GROUP	2013	2012
	£m	£m
Bank interest	3.0	4.5
Interest paid to brokers	(1.3)	(2.6)
Interest from / (to) clients	0.2	(0.1)
	<b>1.9</b>	<b>1.8</b>

The Group earns interest income from its own corporate funds and from segregated client funds.

**7. Operating expenses**

GROUP	2013	2012
	£m	£m
Net staff costs (note 8)	47.6	59.0
IT costs	13.2	14.1
Sales and marketing	7.4	16.3
Premises	7.9	10.6
Other	16.8	21.1
	<b>92.9</b>	<b>121.1</b>

## Notes to the financial statements

## 8. Employee information

The aggregate employment costs of staff and Directors were:

GROUP	2013	2012
	£m	£m
Wages and salaries	35.0	42.7
Social security costs	4.4	5.3
Other pension costs	1.3	1.5
Share-based payments (note 26)	-	0.4
Total director and employee costs	40.7	49.9
Contract staff costs	7.2	10.3
Total staff costs	47.9	60.2
Capitalised software development costs	(0.3)	(1.2)
<b>Net staff costs</b>	<b>47.6</b>	<b>59.0</b>

Compensation of key management personnel is disclosed in note 31.

The monthly average number of Directors and employees of the Group during the year is set out below:

GROUP	2013	2012
	Number	Number
<b>By activity:</b>		
Key management	4	6
Client acquisition and maintenance	236	293
IT development and support	111	133
Global support functions	144	190
Total directors and employees	495	622
Contract staff	94	148
<b>Total staff</b>	<b>589</b>	<b>770</b>



## 9. Finance costs

GROUP	2013	2012
	£m	£m
Interest on bank borrowings	1.4	1.1
Unwind of discount on provisions	-	0.1
	<b>1.4</b>	<b>1.2</b>

## 10. (Loss) / Profit before taxation

GROUP	2013	2012
	£m	£m
<b>(Loss) / Profit before tax is stated after charging:</b>		
Depreciation	5.4	6.5
Amortisation of intangible assets	11.3	12.1
Gain on disposal of subsidiary	(0.1)	(0.5)
Net foreign exchange loss	0.7	0.7
Operating lease rentals	4.4	6.3
Auditor's remuneration for audit and other services (see below)	1.0	1.0

Fees payable to the Company's auditors, PricewaterhouseCoopers LLP were as follows:

GROUP	2013	2012
	£m	£m
<b>Audit services</b>		
Statutory audit of Parent and consolidation	0.3	0.2
Statutory audit of subsidiaries	0.1	0.3
	<b>0.4</b>	<b>0.5</b>
<b>Other services</b>		
Tax services	0.5	0.4
Other services	0.1	0.1
	<b>0.6</b>	<b>0.5</b>
<b>Total</b>	<b>1.0</b>	<b>1.0</b>

## Notes to the financial statements

## 11. Taxation

GROUP	2013	2012
	£m	£m
<b>Analysis of charge for the year:</b>		
<b>Current tax</b>		
Current tax on (loss) / profit for the year	-	1.9
Adjustment in respect of previous periods	(0.1)	-
Total current tax	(0.1)	1.9
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1.5)	(0.8)
Adjustment in respect of previous periods	0.1	(1.4)
Impact of change in tax rate	0.3	0.5
Total deferred tax	(1.1)	(1.7)
<b>Tax (credit) / charge</b>	<b>(1.2)</b>	<b>0.2</b>

The tax for the year differs from the standard rate of UK Corporation Tax of 24% (2012: 26%). The differences are explained below:

GROUP	2013	2012
	£m	£m
(Loss) / profit before taxation	(4.0)	2.7
(Loss) / profit multiplied by the standard rate of corporation tax in the UK of 24% (2012: 26%)	(1.0)	0.7
Irrecoverable foreign tax	-	0.6
Expenses that are not recognised for tax purposes	0.4	0.6
Recognition of previously unrecognised tax losses	(0.8)	(1.0)
Tax losses for which no deferred tax asset has been recognised	0.1	0.4
Income not subject to tax	(0.2)	-
Exchange rate differences	(0.1)	-
Adjustment in respect of foreign tax rates	0.1	(0.1)
Effect of research and development tax concession	-	(0.1)
Adjustments in respect of previous periods	-	(1.4)
Change in tax rate	0.3	0.5
<b>Tax (credit) / charge</b>	<b>(1.2)</b>	<b>0.2</b>

The tax credited directly to equity during the year is as follows:

GROUP	2013	2012
	£m	£m
Deferred tax on loss on net investment hedges	0.5	0.1

## 12. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to the equity owners of the Company by the weighted average number of ordinary shares in issue during the year excluding those held in employee share trusts which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding those held in employee share trusts, is adjusted to assume conversion of all dilutive potential ordinary shares, which consists of share options granted to employees during the year ended 31 March 2013. .

GROUP	2013			2012		
	Earnings £m	Shares Millions	Earnings per share Pence	Earnings £m	Shares Millions	Earnings per share Pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	(2.8)	281.8	(1.0)	2.5	281.8	0.9
Dilutive effect of share options	-	-	-	-	6.5	-
<b>Diluted EPS</b>	<b>(2.8)</b>	<b>281.8</b>	<b>(1.0)</b>	<b>2.5</b>	<b>288.3</b>	<b>0.9</b>

For the year to 31 March 2013, 1.0m potentially dilutive ordinary shares have not been included in the calculation of diluted EPS because their inclusion would be anti-dilutive. For the year to 31 March 2012, 6.5m potentially dilutive ordinary shares in respect of share options in issue were included in the calculation of diluted EPS for that year.

## Notes to the financial statements

## 13. Intangible assets

## GROUP

	Goodwill £m	Computer software £m	Trademarks and trading licenses £m	Customer relationships £m	Assets under development £m	Total £m
<b>Cost</b>						
At 1 April 2011	11.5	113.6	3.1	4.4	0.9	133.5
Additions	-	1.5	-	-	0.9	2.4
Disposals	-	(0.1)	-	-	(0.1)	(0.2)
Foreign currency translation	-	0.1	-	-	-	0.1
At 31 March 2012	11.5	115.1	3.1	4.4	1.7	135.8
Additions	-	0.4	-	-	0.3	0.7
Disposals	-	(0.1)	-	-	-	(0.1)
Reclassification	-	2.0	-	-	(2.0)	-
Foreign currency translation	-	1.4	-	0.2	-	1.6
<b>At 31 March 2013</b>	<b>11.5</b>	<b>118.8</b>	<b>3.1</b>	<b>4.6</b>	<b>-</b>	<b>138.0</b>
<b>Accumulated amortisation</b>						
At 1 April 2011	(11.5)	(86.1)	(2.5)	(2.4)	-	(102.5)
Charge for the year	-	(11.6)	(0.1)	(0.4)	-	(12.1)
Disposals	-	0.1	-	-	-	0.1
Foreign currency translation	-	(0.1)	-	-	-	(0.1)
At 31 March 2012	(11.5)	(97.7)	(2.6)	(2.8)	-	(114.6)
Charge for the year	-	(10.9)	-	(0.4)	-	(11.3)
Disposals	-	0.1	-	-	-	0.1
Foreign currency translation	-	(1.4)	-	(0.1)	-	(1.5)
<b>At 31 March 2013</b>	<b>(11.5)</b>	<b>(109.9)</b>	<b>(2.6)</b>	<b>(3.3)</b>	<b>-</b>	<b>(127.3)</b>
<b>Carrying amount</b>						
<b>At 31 March 2013</b>	<b>-</b>	<b>8.9</b>	<b>0.5</b>	<b>1.3</b>	<b>-</b>	<b>10.7</b>
At 31 March 2012	-	17.4	0.5	1.6	1.7	21.2
At 1 April 2011	-	27.5	0.6	2.0	0.9	31.0

Additions to software development were made predominantly in relation to the Group's next generation trading platform, pricing engine and client service systems. The amount of additions arising from internal development amounted to £0.3m (2012: £1.2m).

## Impairment

## Goodwill

During the year ended 31 March 2009, impairment tests carried out resulted in the carrying value of goodwill being fully written down to £nil. There have been no subsequent acquisitions therefore no additional goodwill has been recognised.

## Other intangibles

Other intangibles are tested for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. There was no impairment identified in the year to 31 March 2013.

## 14. Property, plant and equipment

## GROUP

	Furniture, fixtures and equipment £m	Computer hardware £m	Total £m
<b>Cost</b>			
At 1 April 2011	23.9	17.6	41.5
Additions	0.6	0.8	1.4
Disposals	(1.7)	(0.2)	(1.9)
Foreign currency translation	(0.1)	-	(0.1)
At 31 March 2012	22.7	18.2	40.9
Additions	0.7	2.6	3.3
Disposals	(2.1)	(0.3)	(2.4)
Foreign currency translation	0.3	0.1	0.4
<b>At 31 March 2013</b>	<b>21.6</b>	<b>20.6</b>	<b>42.2</b>
<b>Accumulated depreciation</b>			
At 1 April 2011	(7.6)	(10.2)	(17.8)
Charge for the year	(3.3)	(3.2)	(6.5)
Disposals	1.7	-	1.7
Foreign currency translation	0.1	-	0.1
At 31 March 2012	(9.1)	(13.4)	(22.5)
Charge for the year	(2.7)	(2.7)	(5.4)
Disposals	1.9	0.3	2.2
Foreign currency translation	(0.3)	(0.1)	(0.4)
<b>At 31 March 2013</b>	<b>(10.2)</b>	<b>(15.9)</b>	<b>(26.1)</b>
<b>Carrying amount</b>			
<b>At 31 March 2013</b>	<b>11.4</b>	<b>4.7</b>	<b>16.1</b>
At 31 March 2012	13.6	4.8	18.4
At 1 April 2011	16.3	7.4	23.7

At 31 March 2013, the Group had no material capital commitments in respect of property, plant and equipment (2012: £nil). The net book value amount of property, plant and equipment includes £2.0m (2012: £nil) in respect of computer hardware held under finance leases.

## Notes to the financial statements

## 15. Investment in subsidiary undertakings

COMPANY	2013	2012
	£m	£m
At 1 April	163.7	163.3
Capital contribution relating to share based payments	-	0.4
<b>At 31 March</b>	<b>163.7</b>	<b>163.3</b>

The capital contribution relating to share based payments relates to share options granted by the Company to employees of subsidiary undertakings in the Group, reduced by distributions received from those subsidiaries in respect of those share options.

On 24 January 2011, the Company sold its wholly owned subsidiary, Digital Look Limited for an initial cash consideration of £1.4m resulting in a gain of £1.0m for the Company. The net assets of Digital Look Limited on disposal were zero resulting in a gain of £1.4m for the Group. Of the initial consideration, £0.2m was received by 31 March 2011 with the remainder received in June 2012. During the year ended 31 March 2013 a further £0.1m (2012: £0.5m) was recognised in relation to previously unrecognised deferred contingent consideration.

## Principal subsidiary undertakings

At 31 March 2013, the following companies were CMC Markets plc's principal trading subsidiary undertakings and principal intermediate holding companies:

	Country of Incorporation	Principal activities	Held
CMC Markets UK Holdings Limited	England	Holding company	Directly
CMC Markets UK plc	England	Online trading	Indirectly
Information Internet Limited	England	IT development	Indirectly
CMC Spreadbet plc	England	Financial spread betting	Indirectly
CMC Markets Overseas Holdings Limited	England	Holding company	Directly
CMC Markets Asia Pacific Pty Limited	Australia	Online trading	Indirectly
CMC Markets Pty Limited	Australia	Trading and education	Indirectly
CMC Markets Group Australia Pty Limited	Australia	Holding company	Indirectly
CMC Markets Stockbroking Limited	Australia	Stockbroking	Indirectly
CMC Markets Canada Inc.	Canada	Client introducing office	Indirectly
CMC International Financial Consulting (Beijing) Co. Limited	China	Trading and education	Indirectly
CMC Markets Japan Kabushiki Kaisha	Japan	Online trading	Indirectly
CMC Markets NZ Limited	New Zealand	Online trading	Indirectly
CMC Markets Singapore Pte Limited	Singapore	Online trading	Indirectly

All shareholdings are of ordinary shares. The issued share capital of all subsidiary undertakings is 100% owned, which also represents the proportion of the voting rights in the subsidiary undertakings.



**16. Trade and other receivables**

	GROUP		COMPANY	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade receivables	3.3	2.7	-	-
Less: provision for impairment of trade receivables	(3.1)	(2.2)	-	-
Trade receivables - net	0.2	0.5	-	-
Amounts due from Group companies	-	-	37.1	35.4
Prepayments and accrued income	3.5	4.2	-	-
Stock broking debtors	17.2	16.4	-	-
Other debtors	1.6	1.7	-	0.5
	<b>22.5</b>	<b>22.8</b>	<b>37.1</b>	<b>35.9</b>

Stock broking debtors represent the amount receivable in respect of equity security transactions executed on behalf of clients with a corresponding balance included within trade and other payables (note 19).

**17. Financial assets**

GROUP	2013 £m	2012 £m
Derivative financial instruments (note 21)	0.6	1.3

**18. Cash and cash equivalents**

GROUP	2013 £m	2012 £m
Gross cash and cash equivalents	274.6	304.2
Less: Client monies	(225.5)	(252.1)
Own cash and cash equivalents	<b>49.1</b>	<b>52.1</b>
Analysed as:		
Cash at bank	18.4	46.9
Short-term deposits	30.7	5.2

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments, with typical maturities of three months or less. Cash at bank earns interest at floating rates, based on daily bank deposit rates.

## Notes to the financial statements

## 19. Trade and other payables

	GROUP		COMPANY	
	2013 £m	2012 £m	2013 £m	2012 £m
<b>Current</b>				
Trade payables	238.9	269.9	-	-
Less: Client monies	(225.5)	(252.1)	-	-
Trade payables - net	13.4	17.8	-	-
Amount owing to Group companies	-	-	39.5	39.4
Tax and social security	0.1	0.9	-	-
Stock broking creditors	18.2	16.5	-	-
Accruals and deferred income	15.2	20.8	-	-
	46.9	56.0	39.5	39.4
<b>Non-current</b>				
Accruals and deferred income	4.4	7.1	-	-
	51.3	63.1	39.5	39.4

## 20. Financial liabilities

GROUP	2013 £m	2012 £m
<b>Current</b>		
Derivative financial instruments (note 21)	1.7	0.9
Finance lease liabilities	0.6	-
Chattel mortgage	0.6	1.2
	2.9	2.1
<b>Non-current</b>		
Finance lease liabilities	1.0	-
Chattel mortgage	-	0.6
	1.0	0.6
	3.9	2.7

## Finance lease liabilities

Amounts Payable under finance lease		
Within one year	0.7	-
In the second to fifth years inclusive	1.1	-
After five years	-	-
	1.8	-
Less: future finance charges	(0.2)	-
<b>Present value of lease obligations</b>	<b>1.6</b>	<b>-</b>

The present value of finance lease liabilities is repayable as follows

Within one year	0.6	-
In the second to fifth years inclusive	1.0	-
After five years	-	-
<b>Present value of lease obligations</b>	<b>1.6</b>	<b>-</b>

The weighted average interest rates paid were as follows:

GROUP	2013	2012
	%	%
Finance Leases	10.49%	-
Chattel mortgage	6.82%	6.82%

The fair value of financial liabilities is approximate to the book value shown above. The carrying amounts of the bank loan and loan notes are both wholly denominated in sterling.

#### Bank loans

In December 2011, the 364 day £50.0m revolving credit facility was extended by six months to June 2012 and was subsequently renewed with a new maturity date of June 2013. After review of the Group's strategy the facility was renewed at a revised level of £25m in June 2013 with a maturity date of June 2014. This facility can only be used to meet broker margin requirements of the Group. The rate of interest payable on any loans is the aggregate of the applicable margin, LIBOR; and mandatory cost.

#### Chattel mortgage

In October 2010, the Group arranged a fixed rate three year amortising chattel mortgage of £3.4m secured over certain IT assets of CMC Markets UK plc. At 31 March 2013, £0.6m was outstanding on this facility. Interest is payable at a fixed rate of 6.82%.

The fair value of chattel mortgage reflects the loan principals drawn at 31 March 2013 (£0.6m) and 31st March 2012 (£1.8m) adjusted for any accrued interest and unamortised arrangement fees.

#### Undrawn borrowing facilities

The Group has an undrawn multi-currency overdraft facility with NatWest Bank plc of £7.5m, which is repayable on demand. The facility is available in Sterling, Canadian Dollars, Euros, Japanese Yen, Swedish Kronor, Swiss Francs, US Dollars, Australian Dollars and Hong Kong Dollars. The interest rate for the Sterling overdraft is NatWest Bank's Base Rate plus 2% per annum and, for all other currencies, the relevant NatWest Bank currency lending rate.

## 21. Derivative financial instruments

GROUP	2013			2012		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
<b>Held for trading</b>						
Equity CFDs	-	-	-	-	(0.2)	(0.2)
ICT futures	0.4	(1.6)	(1.2)	0.5	(0.6)	(0.1)
<b>Held for hedging</b>						
Forward foreign exchange contracts – economic hedges	-	(0.1)	(0.1)	0.6	(0.1)	0.5
Forward foreign exchange contracts – net investment hedges	0.2	-	0.2	0.2	-	0.2
	<b>0.6</b>	<b>(1.7)</b>	<b>(1.1)</b>	<b>1.3</b>	<b>(0.9)</b>	<b>0.4</b>

## Notes to the financial statements

The fair value of derivative contracts is based on the market price of comparable instruments at the balance sheet date. All derivative financial instruments have a maturity date of less than one year.

### Held for trading

As described in note 4, the Group enters derivative contracts in order to hedge its market price risk exposure arising from clients trading and spread betting.

### Held for hedging

The Group's forward foreign exchange contracts are designated as either economic or net investment hedges. Economic hedges are held for the purpose of mitigating currency risk relating to transactional currency flows arising from earnings in foreign currencies but do not meet the criteria for designation as cash flow hedges in accordance with the Group's accounting policies (note 3). The Group has designated a number of foreign exchange derivative contracts as hedges of the net investment in the Group's non-UK subsidiaries. At 31 March 2013, £13.6m of fair value losses were recorded in other reserves within equity (2012: £12.3m).

The notional principal amounts of all outstanding forward foreign exchange contracts at 31 March 2013 were £41.1m (2012: £54.5m). During the year £0.9m of losses (2012: £1.9m loss) relating to economic hedges were recognised in the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets at the balance sheet date.

## 22. Provisions

GROUP			
	EBT commitments £m	Property related £m	Total £m
At 1 April 2012	0.2	2.8	3.0
Additional provision	-	1.6	1.6
Utilisation of provision	-	(0.8)	(0.8)
<b>At 31 March 2013</b>	<b>0.2</b>	<b>3.6</b>	<b>3.8</b>

The provision relating to employee benefit trusts (EBT) represents the obligation to distribute assets held in employee benefit trusts to beneficiaries.

The property related provision represents discounted obligations under onerous lease contracts less any amounts considered recoverable by management..

## 23. Deferred tax

	GROUP		COMPANY	
	2013 £m	2012 £m	2013 £m	2012 £m
Deferred tax assets to be recovered within 12 months	8.9	3.0	-	-
Deferred tax assets to be recovered after 12 months	5.0	10.3	-	-
	13.9	13.3	-	-
Deferred tax liabilities to be settled within 12 months	-	(0.5)	-	-
Deferred tax liabilities to be settled after 12 months	(0.6)	(1.3)	-	-
	(0.6)	(1.8)	-	-
<b>Net deferred tax asset/(liability)</b>	<b>13.3</b>	<b>11.5</b>	<b>-</b>	<b>-</b>

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 23% (2012: 24%). The gross movement on deferred tax is as follows:

	GROUP		COMPANY	
	2013 £m	2012 £m	2013 £m	2012 £m
At 1 April	11.5	10.4	-	0.2
Credit/(Charge) to income for the year	1.1	1.7	-	(0.2)
Credit to equity for the year	0.5	0.1	-	-
Change in tax rate	-	(0.7)	-	-
Foreign currency translation	0.2	-	-	-
<b>At 31 March</b>	<b>13.3</b>	<b>11.5</b>	<b>-</b>	<b>-</b>

The following table details the deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

GROUP				
	Tax losses £m	Accelerated capital allowances £m	Other timing differences £m	Total £m
At 1 April 2011	6.7	2.7	1.0	10.4
Credit to income for the year	1.4	0.1	0.2	1.7
Credit to equity for the year	-	-	0.1	0.1
Reclassified from current tax recoverable	(0.7)	-	-	(0.7)
At 31 March 2012	7.4	2.8	1.3	11.5
Credit to income for the year	0.5	1.4	(0.8)	1.1
Credit to equity for the year	-	-	0.5	0.5
Foreign currency translation	0.1	-	0.1	0.2
<b>At 31 March 2013</b>	<b>8.0</b>	<b>4.2</b>	<b>1.1</b>	<b>13.3</b>

COMPANY	
	Tax losses £m
At 1 April 2011	0.2
Charged to income for the year	(0.2)
At 31 March 2012	-
Charged to income for the year	-
<b>At 31 March 2013</b>	<b>-</b>

## Notes to the financial statements

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of the temporary differences can be deducted. The recoverability of the group's deferred tax asset in respect of carry forward losses is based on an assessment of the future levels of taxable profit expected to arise that can be offset against these losses. The group's expectations as to the level of future taxable profits take into account the group's long term financial and strategic plans and anticipated future tax adjusting items. In making this assessment account is taken of business plans including the board approved group profit forecast.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £26.0m in respect of losses amounting to £86.3m and share options of £0.3m that can be carried forward against future taxable income. In respect of these losses, there is no time limit on their utilisation.

The change in the main rate of corporation tax from 24 per cent to 23 per cent passed into legislation on 3 July 2012 and was effective from 1 April 2013. The effect of this reduction in the rate of UK Corporation tax was to decrease the group's deferred tax asset as at 31 March 2013 by £0.3m

A number of further changes to the UK Corporation tax system were published in March 2013 as part of Finance Bill 2013 including plans to enact a reduction in the main rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015. These rates are expected to become substantively enacted in July 2013 and accordingly are not included in these financial statements but would have reduced the group's deferred tax asset as at 31 March 2013 by an additional £0.3m.

### 24. Share capital and premium

GROUP AND COMPANY	2013	2012	2013	2012
	Number	Number	£m	£m
<b>Authorised</b>				
Ordinary shares of 25p	400,000,000	400,000,000	100.0	100.0
<b>Allotted, issued and fully paid</b>				
Ordinary shares of 25p	280,397,178	280,441,500	70.1	70.1
Deferred shares of 25p	2,377,770	2,333,448	0.6	0.6
	<b>282,774,948</b>	<b>282,774,948</b>	<b>70.7</b>	<b>70.7</b>

### Share class rights

The Company has two classes of shares, Ordinary and Deferred, neither of which carries a right to fixed income. Deferred shares have no voting rights. In the event of a winding-up, ordinary shares shall be repaid at nominal value plus £0.5m each in priority to deferred shares.

GROUP AND COMPANY	Ordinary shares Number	Deferred shares Number	Total Number
At 1 April 2011	280,684,777	2,090,171	282,774,948
Conversion of ordinary shares to deferred shares	(243,277)	243,277	-
At 31 March 2012	280,441,500	2,333,448	282,774,948
Conversion of ordinary shares to deferred shares	(44,322)	44,322	-
<b>At 31 March 2013</b>	<b>280,397,178</b>	<b>2,377,770</b>	<b>282,774,948</b>

## GROUP AND COMPANY

	Ordinary shares £m	Deferred shares £m	Share Premium £m	Total £m
At 1 April 2011	70.2	0.5	33.3	104.0
Conversion of ordinary shares to deferred shares	(0.1)	0.1	-	-
At 31 March 2012	70.1	0.6	33.3	104.0
Conversion of ordinary shares to deferred shares	-	-	-	-
<b>At 31 March 2013</b>	<b>70.1</b>	<b>0.6</b>	<b>33.3</b>	<b>104.0</b>

## Movements in share capital and premium

During the year 44,322 (2012: 243,277) ordinary shares were converted to deferred shares in accordance with the terms of grant to employees who have now left the Group.

## 25. Own shares held in trust

GROUP	2013 Number	2012 Number	2013 £m	2012 £m
<b>Ordinary shares of 25p</b>				
At 1 April	1,035,949	585,949	2.0	1.6
Additions	83,333	450,000	-	0.4
Shares transferred to employees	(50,000)	-	-	-
<b>At 31 March</b>	<b>1,069,282</b>	<b>1,035,949</b>	<b>2.0</b>	<b>2.0</b>

The shares are held by the CMC Markets 2007 Employee Benefit Trust for the purpose of encouraging or facilitating the holding of shares in the Company for the benefit of employees and the trustees will apply the whole or part of the trust's funds to facilitate dealing in shares by such beneficiaries.

## 26. Share-based payment

The total charge for the year relating to employee share-based payment plans was £nil (2012: £0.4m). A £0.1m (2012: £0.2m) charge relates to equity-settled share-based payments and a £0.1m credit (2012: £0.2m charge) relates to cash-settled share-based payments.

The CMC Markets plc Management Equity Plan 2009 ('2009 MEP') was the only share scheme available to the Group's employees during the current year and no shares were gifted to employees during the year.

## Share options

Share options granted under the 2009 MEP have been in the form of 'market performance' and 'non-market performance' based awards.

Market performance based options are exercisable at nil cost subject to the Group achieving certain market valuation targets within defined time scales. There are no individually based performance criteria attached to these awards, other than continued employment within the Group. The fair value of awards made during the year has been calculated using a Monte Carlo option pricing model. The significant inputs into the model were the share price of £0.80 (2012: £0.80) at the grant date, volatility of 30% (2012: 30%), dividend yield of 3% (2012: 3%), and the annual risk-free interest rate of 1.7% (2012: 1.7%), which resulted in a weighted average fair value per award granted of £0.02 (2012: £0.12). Volatility was calculated by reference to a number of comparable quoted companies. The target market valuation condition is incorporated into the fair value calculations by factoring in the varying level of options vesting at each projected share price to calculate total return (share price multiplied by the number of options vesting).

Non-market performance based options are exercisable at nil cost subject to the Group achieving certain profit targets. There are no individually based performance criteria attached to these awards, other than continued employment within the Group. The fair value of options granted during the year was calculated by reference to a share price of £0.80 and an expected dividend yield of 3%, which resulted in a weighted average fair value per award granted of £0.77.



## Notes to the financial statements

Movements in the number of share options outstanding are as follows:

GROUP	2013	2012
	Number	Number
At 1 April	6,027,075	8,114,672
Granted	1,255,300	1,825,218
Lapsed	(6,136,508)	(3,912,815)
<b>At 31 March</b>	<b>1,145,867</b>	<b>6,027,075</b>

The vesting and expiry dates of outstanding options are shown below. To the extent that any option does not vest on 1 October 2012, it will lapse immediately.

GROUP			2013	2012
Year of grant	Exercise period commencing	Exercise period ending	Number	Number
2010	30 September 2013	22 December 2019	631,727	1,923,919
2010	30 September 2014	22 December 2019	313,840	1,681,437
2010	30 September 2015	22 December 2019	-	796,501
2012	2 April 2013	30 April 2016	62,500	1,427,500
2012	30 September 2013	22 December 2019	-	104,034
2012	30 September 2014	22 December 2019	-	46,748
2012	30 September 2015	22 December 2019	-	46,936
2013	2 April 2014	30 September 2017	137,800	-
			<b>1,145,867</b>	<b>6,027,075</b>

### Matched options

Under the terms of the 2009 MEP, certain employees were able to invest up to a specified amount to purchase ordinary shares in the Company (the 'bought' shares) in order to receive a further 1 ½ free 'matched' options on the 'matching' date, being 1 October 2011. There are no performance conditions attached to the matched options other than continued employment within the Group and ownership of the bought shares. There were no new bought shares in the year (2012: Nil).

The respective matched options for the bought shares are as follows:

GROUP	2013	2012
	Number	Number
At 1 April	425,000	775,000
Exercised	(50,000)	-
Lapsed	-	(350,000)
<b>At 31 March</b>	<b>375,000</b>	<b>425,000</b>

## 27. Other reserves

### GROUP

	Translation reserve £m	Net investment hedging reserve £m	Merger reserve £m	Total £m
Balance at 1 April 2011	12.4	(10.5)	(47.8)	(45.9)
Currency translation differences	(0.1)	-	-	(0.1)
Loss on net investment hedges	-	(0.3)	-	(0.3)
Tax on loss on net investment hedges	-	0.1	-	0.1
Balance at 31 March 2012	12.3	(10.7)	(47.8)	(46.2)
Currency translation differences	1.3	-	-	1.3
Loss on net investment hedges	-	(2.0)	-	(2.0)
Tax on loss on net investment hedges	-	0.5	-	0.5
<b>Balance at 31 March 2013</b>	<b>13.6</b>	<b>(12.2)</b>	<b>(47.8)</b>	<b>(46.4)</b>

#### Translation reserve

The translation reserve is comprised of translation differences on foreign currency net investments held by CMC Markets Group.

#### Net investment hedging reserve

Overseas net investments are hedged using forward foreign exchange contracts. Gains and losses on instruments used to hedge these overseas net investments are shown in the net investment hedging reserve. These instruments hedge balance sheet translation risk, which is the risk of changes in reserves due to fluctuations in currency exchange rates. All changes in the fair value were treated as being effective under IAS 39 - Financial Instruments: Recognition and Measurement and Eligible Hedged Items.

#### Merger reserve

The merger reserve arose following a corporate restructure in 2005 when a new holding company, CMC Markets plc, was created to bring all CMC companies into the same corporate structure. The merger reserve represents the difference between the nominal value of the holding company's share capital and that of the acquired companies.

## 28. Operating lease commitments

GROUP	2013	2012
	£m	£m
Minimum lease payments under operating leases recognised in income for the year	3.4	6.3

Operating lease payments represent rentals payable by the Group for office space. Leases are negotiated for an average term of 3.1 years and rentals are fixed for an average of 1.4 years.

The Group had outstanding commitments under non-cancellable operating leases as follows:

GROUP	2013	2012
	£m	£m
Within one year	5.8	6.0
Within two to five years	8.8	13.1
After five years	10.8	17.1
	<b>25.4</b>	<b>36.2</b>

## Notes to the financial statements

## 29. Cash generated from / (used in) operations

	GROUP		COMPANY	
	2013 £m	2012 £m	2013 £m	2012 £m
<b>Cash flows from operating activities</b>				
Profit / (loss) before taxation	(4.0)	2.7	0.1	0.5
Adjustments for:				
Net interest income	(1.9)	(1.8)	-	-
Finance costs	1.4	1.2	-	-
Depreciation	5.4	6.5	-	-
Amortisation of intangible assets	11.3	12.1	-	-
Loss on disposal of Intangibles	-	0.1	-	-
Loss on disposal of PPE	-	0.2	-	-
Gain on disposal of investment in subsidiaries	(0.1)	(0.5)	(0.1)	(0.5)
Share-based payment	-	0.4	-	-
<b>Changes in working capital:</b>				
(Increase)/decrease in trade and other receivables	1.0	4.7	(1.2)	-
(Increase)/decrease in amounts due from brokers	(1.2)	48.6	-	-
Increase/(decrease) in trade and other payables	(11.0)	(59.1)	1.1	(1.3)
Increase/(decrease) in provisions	0.8	0.1	-	-
<b>Cash generated from/(used in) operations</b>	<b>1.7</b>	<b>15.2</b>	<b>(0.1)</b>	<b>(1.3)</b>

## 30. Retirement benefit plans

The Group operates defined contribution retirement benefit plans for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Where employees leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions. The pension charge for these plans for the year was £1.3m (2012: £1.5m).

## 31. Dividend per share

No dividends were paid during the year ended 31 March 2013. An interim dividend in respect of the year ending 31 March 2014 of 1.07p per share, amounting to £3.0m was approved on 05 July 2013 and will be paid during July 2013. This dividend reflects the strong performance that the Group has made since the start of the year and the board's confidence that the Group is well positioned to maintain this going forward. After the payment, the Group remains well capitalised with a significant capital surplus. These financial statements do not reflect this dividend payable.

## 32. Related party transactions

## Group transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this section of the note.

Transactions between the Group and its other related parties are disclosed below:

#### Compensation of key management personnel

GROUP	2013	2012
	£m	£m
Key management compensation:		
Short-term employee benefits	2.6	3.6
Post-employment benefits	0.1	0.1
Termination benefits	0.5	0.3
Share based payments	-	0.2
	<b>3.2</b>	<b>4.2</b>
Remuneration of highest paid director:		
Wages, salaries, bonuses and incentive payments	2.0	2.0

Key management comprise the Board of CMC Markets plc only.

#### Directors' transactions

During the financial year, £70,000 (2012: £70,000) was paid to Astre Associates Limited in respect of non-executive director fees payable to John Jackson.

#### Company transactions

The Company entered into the following transactions with other CMC Markets Group entities during the year:

COMPANY	2013	2012
	£m	£m
Repayment of amounts due	(0.6)	(1.2)
Recharge in respect of share options issued to subsidiary's employees	-	0.1

The Company had the following amounts outstanding with subsidiaries at year end:

COMPANY	2013	2012
	£m	£m
Amounts due from subsidiaries	37.1	35.4
Amounts due to subsidiaries	39.2	38.2

Amounts due to Group undertakings are unsecured, interest free and repayable on demand.

### 32. Contingent liabilities

#### Guarantee

The Company is a joint and several guarantor to the bank loan facility described in note 20. Under the terms of the loan agreement, CMC Markets UK plc can draw down on this facility.

#### Letters of support

The Company has issued a letters of support to several of its subsidiary undertakings confirming its intention to provide such financial support as is necessary to settle creditors as they fall due and to be able to continue operations on a going concern basis.

### 33. Ultimate controlling party

The Group's ultimate controlling party is Peter Cruddas by virtue of his majority shareholding in CMC Markets plc.

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78

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<b>Simon Waugh</b>	Chairman
<b>Peter Cruddas</b>	Chief Executive Officer
<b>John Jackson</b>	Non-executive Director

## Company Secretary

Jonathan Bradshaw

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## Registered Number

CMC Markets plc: 5145017  
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