

BUSINESS REVIEW

DIVISIONAL PERFORMANCE

Results for 2009

The Group reports a record profit of £346 million before tax, amortisation and impairment of intangibles arising on consolidation and exceptional items; this represents an increase of 5% over the prior year. On a statutory basis, profit before tax was £281 million, an increase of 2% over the prior year.

The majority of ICAP's revenue is dollar denominated and as such has been positively affected by the strengthening of the dollar against sterling. The impact of this was to increase operating profit* by £42 million. Should sterling and the euro continue to trade at \$1.50/£1 and €1.10/£1, the year-on-year impact in 2009/10 would be an increase in operating profit* of £65 million.

Voice broking

	£m	Headline growth %	Underlying growth* %
Revenue	1,225	24	4
Operating profit*	212	4	(9)

Our voice broking division had strong revenue growth, particularly in EMEA, as the dislocations in global financial markets and extreme volatility made the price discovery mechanism and the depth of the liquidity pools provided by our voice brokers more valuable. There has been a structural shift in the markets "back to basics", with the focus of global trading moving to "plain vanilla" products. ICAP's voice broking businesses benefited strongly from this shift, the traditional flow businesses – interest rate swaps, options, government bonds, FX and commodities – were the primary drivers of growth. The interest rate markets have been affected by historically low short-term interest rates, steep yield curves and a substantial increase in corporate and government bond issuance. Longer maturity interest rate products, such as swaps, have seen particularly strong growth and spreads in general widened. Corporate bonds reported a strong performance as market uncertainty about companies' credit positions continued and spreads widened. This offset weaker volumes in the credit derivative market in Europe. In the Americas, we have been investing in building our credit derivative business and saw a good revenue performance.

Equities and equity derivatives continued to experience difficult conditions and our growth in this market was driven primarily by ICAP's acquisition of equity derivatives broker Link and the development of our cash equities business. Equity derivatives was one of the businesses that we identified as having strong structural growth potential and the acquisition of Link was an important further step in building our overall capability in the equity market.

Commodities had a record performance, particularly in the oil, natural gas and carbon emissions markets, and ICAP expanded into soft commodities.

In the emerging markets, the European business reported good growth through the year, however this was offset by softer markets in Asia.

Revenue per voice broker is a key performance indicator in this division and our average annual revenue per broker rose 12% to £560,000 (2008 – £499,000).



RECORD YEAR

Record revenue, profit and EPS.

* Excludes amortisation and impairment of intangibles arising on consolidation and exceptional items. Underlying additionally excludes the impact of FX and acquisitions.

Electronic broking

	£m	Headline growth %	Underlying growth* %
Revenue	324	19	2
Operating profit*	126	18	5

Electronic broking, including post-trade services, had another strong year in terms of revenue and operating profit*. Despite seeing a short-term fallout from the dislocations in the credit markets as hedge funds deleveraged and bank proprietary trading was reduced, the business performed well. The fixed income and FX businesses remain very strong and are well positioned to benefit from increased government and corporate bond issuance and currency volatility. ICAP has retained its market share in both the spot FX and US Treasury markets; market participants are focusing their trading activities on the ICAP platforms as the central source of liquidity in each market.

Average daily electronic broking volumes for the 12 months ended 31 March 2009 were \$736.4 billion, down 14% from the previous 12 months which were exceptional. From November 2008 onwards volumes in electronic broking began to slow from the very high levels of the prior year, but overall have stabilised since then. Average daily volume in fixed income products (US Treasury products, US repo and EU repo) for the first three months of 2009 was \$406.6 billion and average daily electronic broking volume on the EBS platform was \$149.9 billion. While absolute volumes have declined, the proportion of total volume accounted for by customers using prime broking has increased.

To support our customers' evolving trading requirements and desire for new trading opportunities, ICAP Electronic Broking continues to be committed to ongoing product innovation and has rolled out new currency pairs and trading connectivity. We also continue to invest in the expansion and development of the Group's electronic systems.

Demand for improvements in the efficiency of post-trade processing and for reductions in the capital allocated to existing positions continued to provide opportunities for ICAP's range of post-trade processing, portfolio compression and reconciliation and risk management services – Traiana, TriOptima and Reset. Pressure from global regulatory authorities to ensure the robustness of the infrastructure behind the OTC markets increased dramatically and the banks responded positively to that pressure.

To give an indication of scale of ICAP's post-trade services, including ICAP's 39% share of its associate TriOptima's revenue and operating profit*, ICAP's proforma revenue and operating profit* relating to post-trade services amounts to £87 million and £43 million respectively.**

TriOptima, the leading provider of portfolio compression and reconciliation services, has been at the forefront of the reduction of risk in the CDS and interest rate swap market. In 2008 TriOptima's portfolio compression service, triReduce, eliminated \$30.2 trillion of CDS contracts. In the first three months of 2009, TriOptima eliminated a further \$5.5 trillion in CDS contracts.

In March 2009 derivative dealers reduced \$3.27 trillion in interest rate swap contracts using TriOptima. With the largest elimination in interest rate exposure so far, the 20 participating banks demonstrated that they were meeting their commitments to the regulators to accelerate compression activity for interest rate swaps in 2009.

Information

	£m	Headline growth %	Underlying growth* %
Revenue	52	30	13
Operating profit*	23	5	0

ICAP is also the source of market information, research and commentary for professionals in the global financial markets. ICAP Information Services offers real-time, end-of-day and historic market data sourced from our global interdealer broking platforms and post-trade businesses, providing authoritative and comprehensive market information across a broad range of asset classes. A significant part of the revenue of this division is sourced from ICAP's electronic broking business. During the year there has been significant investment in the information division's systems and processes to improve the efficiency and breadth of its offering, resulting in reduced margins.

ICAP Information Services has continued to build out its offering, expanding its data distribution relationship with Thomson Reuters by offering data including EBS Ticker data, historical data and real-time content. In 2008 ICAP also signed an agreement integrating ICAP market data into the Xinhua product and service offering. Xinhua is the People's Republic of China's largest news and information provider.

* Excludes amortisation and impairment of intangibles arising on consolidation and exceptional items. Underlying additionally excludes the impact of FX and acquisitions.

** Under IFRS TriOptima's results are not included in ICAP's revenue and operating profit as TriOptima is accounted for as an associate. As such ICAP includes only its share of TriOptima's post-tax profit.