

INTERACTIVE BROKERS (UK) LIMITED

Report and Financial Statements

31 December 2003

Deloitte & Touche LLP
London



REPORT AND FINANCIAL STATEMENTS 2003

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report to the members of Interactive Brokers (UK) Limited	4
Profit and loss account	5
Balance sheet	6
Notes to the accounts	7
Independent auditors' report to The Financial Services Authority	14
Annual reporting statement reconciliation	16
Calculation of expenditure requirement	17

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Thomas Peterffy
Yograj Aggarwal
Gerald Perez

SECRETARY

Paul J Brody
305 Weed Street
New Cannan
CT 06840

REGISTERED OFFICE

10 Arthur Street
London EC4R 9AY

BANKERS

National Westminster Bank plc
PO Box 712
94 Moorgate
London EC2M 6XT

SOLICITORS

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

The directors present their annual report for the year ended 31 December 2003.

ACTIVITIES AND REVIEW OF DEVELOPMENTS

Interactive Brokers (UK) Limited offers execution and clearing broking services in equity and derivative products to European private clients. Interactive Brokers (UK) Limited has been authorised to carry out investment business by the Financial Services Authority since 6 February 2002.

The firm is a member of the London Stock Exchange and a General clearing member of London Clearing House for LSE, LIFFE and the Virt-x exchange. It is also a member of MEFF, the Spanish derivatives exchange.

The company continues to expand and at year-end the company had daily client trades approaching 18,000 (2002 - 10,000).

RESULTS AND DIVIDENDS

The directors report a profit after taxation of £212,810 for the year ended 31 December 2003 (2002: loss of £184,528). No dividends are proposed (2002: £nil).

FUTURE PROSPECTS

In October 2003, the company applied for clearing membership of the EDX exchange with clearing being effected through membership of the London Clearing House.

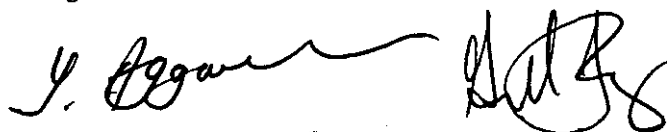
DIRECTORS' INTERESTS

Thomas Peterffy, Gerald Perez and Yograj Aggarwal have been directors of the company throughout the year. None of the directors has interests in the share capital of the company or other UK group companies that are required to be disclosed under the Companies Act 1985.

AUDITORS

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Board of Directors gave its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP and a resolution to appoint Deloitte & Touche LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERACTIVE BROKERS (UK) LIMITED

We have audited the financial statements of Interactive Brokers (UK) Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

31 March 2004

INTERACTIVE BROKERS (UK) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Note	2003 £	2002 £
TURNOVER		2,245,607	212,750
Administrative expenses	2,3	(2,527,428)	(597,687)
OPERATING LOSS		(281,821)	(384,937)
Interest receivable	5	992,126	200,846
Interest payable and similar charges	6	(406,411)	(437)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		303,894	(184,528)
Tax on profit/(loss) on ordinary activities	6	(91,084)	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		212,810	(184,528)

The company had no recognised gains or losses other than the profit for the current year and loss for the preceding year.

All activities derive from continuing operations.

INTERACTIVE BROKERS (UK) LIMITED

BALANCE SHEET

As at 31 December 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible assets	7	5,055	6,443
Investments	8	297,619	-
		<u>302,674</u>	<u>6,443</u>
CURRENT ASSETS			
Debtors	9	95,032,039	31,121,939
Investments	10	24,149,933	-
Prepayments		15,591	-
Cash at bank and in hand		638,362	3,132,086
		<u>119,835,925</u>	<u>34,254,025</u>
CREDITORS: amounts falling due within one year	11	<u>(107,810,148)</u>	<u>(27,144,996)</u>
NET CURRENT ASSETS		<u>12,025,777</u>	<u>7,109,029</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,328,451</u>	<u>7,115,472</u>
Provisions for liabilities and charges	12	<u>(169)</u>	<u>-</u>
NET ASSETS		<u>12,328,282</u>	<u>7,155,472</u>
CAPITAL AND RESERVES			
Called up share capital	13	79,332	79,332
Capital contribution	14	12,220,668	7,220,668
Profit and loss account	14	28,282	(184,528)
EQUITY SHAREHOLDERS' FUNDS	14	<u>12,328,282</u>	<u>7,115,472</u>

The financial statements were approved by the Board of Directors on 31 March 2004.

Signed on behalf of the Board of Directors



Director

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared under the historic cost convention as modified by the inclusion of current assets investments at market value and in accordance with applicable United Kingdom accounting standards.

Tangible fixed assets

Tangible assets are stated at cost net of depreciation. Depreciation is provided on all fixed assets in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Computer equipment	3 years
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Investments

Investments held as fixed assets are recorded at cost, less provision for impairment. Current asset investments are listed and are stated at market value.

Turnover

Turnover is recognised on an accruals basis and represents commission earned from agency trades.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions. Exchange differences are dealt with in arriving at the operating profit for the year.

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement under paragraph 5 of Financial Reporting Standard No. 1.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

2. ADMINISTRATIVE EXPENSES

Administrative expenses include:

	2003 £	2002 £
Clearing fees	336,508	38,400
Foreign exchange losses	27,448	2,583

	2003 £	2002 £
Operating loss is arrived at after charging :-		
Depreciation	1,388	496
Auditors' remuneration in respect of:		
Audit services	15,863	18,606
Other services	-	-

3. EMPLOYEE INFORMATION

	2003 £	2002 £
Staff costs:		
Wages and salaries	794,070	309,061
Social security costs	76,702	22,816
Total staff costs	870,772	331,877

The average monthly number of employees in the year was ten (2002: three).

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

4. DIRECTORS' EMOLUMENTS

	2003 £	2002 £
Emoluments	<u>450,005</u>	<u>309,061</u>

The amounts in respect of the highest paid director are as follows:

	2003 £	2002 £
Emoluments	<u>318,400</u>	<u>149,500</u>

5. INTEREST RECEIVABLE

	2003 £	2002 £
Bank interest	211,115	97,046
Coupon interest	446,483	-
Intercompany interest	334,528	103,800
	<u>992,126</u>	<u>200,846</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Bank overdrafts and other borrowings	<u>406,411</u>	<u>437</u>

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2003 £	2002 £
Factors affecting tax charge for the current period		
Profit/(Loss) on ordinary activities before tax	<u>303,894</u>	<u>(184,528)</u>
Tax at 30% thereon:	(91,168)	55,358
Expenses not deductible for tax purposes	(577)	(11,903)
Capital allowances in excess of depreciation	31	-
UK dividend income	799	-
Tax losses not recognised	<u>-</u>	<u>(43,455)</u>
Current tax for period	<u>(90,915)</u>	<u>-</u>

Factors that may effect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to tax losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £51,458 (2002: £43,455). The asset would be recovered if the company generated trading profits in future accounting periods.

8. TANGIBLE FIXED ASSETS

	Computer equipment £
Cost	
At 1 January 2003	6,939
Additions	-
Disposals	<u>-</u>
At 31 December 2003	<u>6,939</u>
Depreciation	
At 1 January 2003	496
Charge for the year	1,388
Disposals	<u>-</u>
At 31 December 2003	<u>1,884</u>
Net book value	
At 31 December 2003	<u>5,055</u>
At 31 December 2002	<u>6,443</u>

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

9. FIXED ASSET INVESTMENTS

	£
At 1 January 2003	-
Additions in the year	297,619
At 31 December 2003	<u>297,619</u>

The fixed asset investments relate to the company's shareholding in the London Clearing House. The holding is stated at cost. The directors consider that the market value at 31 December 2003 was not less than the net book value shown in the accounts.

10. DEBTORS

	2003 £	2002 £
Trade debtors	1,923,456	2,175,856
Amounts owed from group undertakings	78,538,443	26,290,708
Other debtors	14,570,140	2,655,375
	<u>95,032,039</u>	<u>31,121,939</u>

11. CURRENT ASSET INVESTMENTS

	2003 £	2002 £
German Government bonds	24,149,933	-
	<u>24,149,933</u>	<u>-</u>

The German Government bonds mature within one year and have been classified as a current asset investment. They are valued at market value at the year end.

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Bank overdraft	289	11,830
Customer credits	78,318,161	25,279,913
Amounts owed to group undertakings	29,050,215	1,761,897
UK Corporation Tax	90,915	-
Accruals and deferred income	350,568	91,356
	<u>107,810,148</u>	<u>27,144,996</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

Movement on deferred taxation balance in the period:

	Deferred taxation £
At 1 January 2003	-
Charge to the profit and loss account	169
At 31 December 2003	<u>169</u>

14. SHARE CAPITAL

	2003 No.	2002 No.
Authorised:		
A ordinary shares of £1 each	100	100
B ordinary shares of €1 each	125,000	125,000
	<u>2003 £</u>	<u>2002 £</u>
Allotted, called up and fully paid:		
700 A ordinary shares of £1 each (2002: 700 A ordinary share of £1 each)	700	700
125,000 B ordinary shares of €1 each (2002: 125,000 B ordinary shares of €1 each)	78,632	78,632
	<u>79,332</u>	<u>79,332</u>

Class A and B shares rank pari passu and have one vote per share, no preferential dividend rights, no redemption rights and an unlimited right to share in any surplus remaining on the winding up of the company.

INTERACTIVE BROKERS (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Shareholders' funds as at 1 January 2003	7,115,472	-
Capital contribution made during the year	5,000,000	7,220,668
Profit/(loss) for the financial year	212,810	(184,528)
Shareholders' funds as at 31 December 2003	<u>12,328,282</u>	<u>7,036,140</u>

16. STATEMENT OF MOVEMENTS ON RESERVES

	Capital contribution £	Profit and loss account £	Total £
Balance at 1 January 2003	7,220,668	(184,528)	7,036,140
Profit for the financial year	-	212,810	212,810
Capital contribution	5,000,000	-	5,000,000
Balance at 31 December 2003	<u>12,220,668</u>	<u>28,282</u>	<u>12,248,950</u>

During the year, the parent company made a capital contribution of £5,000,000 in cash. This is intended to provide additional long term working capital for the company.

17. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY DISCLOSURES

At 31 December 2003, the parent undertaking of the smallest group of which the company was a member is Interactive Brokers Group LLC, a company incorporated in the USA. Consolidated financial statements are publicly available from the company's registered office, Two Pickwick Plaza, Greenwich, Connecticut 06830, United States of America.

The company has taken advantage of the exemption from reporting related party transactions with group undertakings under paragraph 3(d) of Financial Reporting Standard No. 8.

INDEPENDENT AUDITORS' REPORT TO THE FINANCIAL SERVICES AUTHORITY ('THE FSA') IN RESPECT OF INTERACTIVE BROKERS (UK) LIMITED FOR THE YEAR ENDED 31 DECEMBER 2003

We report in respect of Interactive Brokers (UK) Limited ('the firm'), a securities and futures firm on:

- the attached annual financial statements;
- the following information set out in the attached Annual Reporting Statement:
 - the balance sheet and profit and loss account;
 - the statements of financial resources and financial resources requirement;
- the statement of the firm's expenditure requirement for the forthcoming year;
- the attached reconciliation between the balance sheets in the annual financial statements, the Annual Reporting Statement and the monthly reporting statement;

and on the further matters set out below. Our report is provided to the FSA in its capacity as a regulator under the Financial Services and Markets Act 2000. Our report should not be disclosed to any third party or otherwise quoted or referred to without our prior written consent.

We have audited the annual financial statements in accordance with United Kingdom Auditing Standards, and have carried out such other procedures as we considered necessary for the purposes of the report having regard to Practice Note 21, "The audit of investment businesses in the United Kingdom". We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our report to the FSA.

Financial Statements

In our opinion:

- the annual financial statements give a true and fair view of the firm's state of affairs as at 31 December 2003 and of its profit for the year then ended;
- the Annual Reporting Statement has been properly prepared in accordance with the FSA's rules;
- the balance sheet and profit and loss account in the Annual Reporting Statement are in agreement with the firm's accounting records and returns; and
- the balance sheet in the Annual Reporting Statement has been properly reconciled to the balance sheet of the annual financial statements and to the balance sheet in the monthly reporting statement prepared by the firm as at 31 December 2003.

Financial resources

In our opinion:

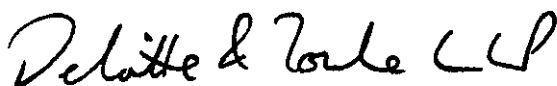
- the firm's statements of financial resources and financial resources requirement as at 31 December 2003 have been properly prepared in accordance with the FSA's rules;
- the firm's financial resources as at 31 December 2003 are sufficient to meet the firm's financial resources requirement at that date; and
- the statement of the firm's expenditure requirement for the forthcoming year has been prepared in accordance with the FSA's rules.

Accounting records

In our opinion the firm has, throughout the year, kept proper accounting records in accordance with the FSA's rules.

Client Assets

Although the scope of the firm's permission allows it to hold client money and custody assets, the directors have stated that the firm did not hold client money or custody assets during the year. Based on review procedures performed, nothing has come to our attention that causes us to believe that the firm held client money or custody assets during the year.



Deloitte & Touche LLP

Registered Auditors

London

31 March 2004

RECONCILIATION BETWEEN ANNUAL AUDITED BALANCE SHEET AND
BALANCE SHEETS SHOWN IN MONTHLY AND ANNUAL REPORTING STATEMENTS AS AT 31 DECEMBER 2003

	Fixed assets £'000	Current assets £'000	Debtors £'000	Cash at bank £'000	Creditors less than one year £'000	Capital contribution £'000	Share capital £000	Profit and loss account £'000
Per monthly reporting statement	5	24,448	95,047	638	(107,640)	(12,220)	(80)	(198)
Adjustment 1					(177)			177
Adjustment 2					7			(7)
Adjustment 3	298	(298)						
Per Annual Reporting Statement	303	24,150	95,047	638	(107,810)	(12,220)	(80)	(28)
Per audited financial statements	303	24,150	95,047	638	(107,810)	(12,220)	(80)	(28)

Adjustment 1 relates to an accrual for an employee incentive plan that was originally booked into the parent company, but subsequently recharged to this subsidiary company.

Adjustment 2 relates to an adjustment to the year-end tax accrual.

Adjustment 3 relates to a reclassification of the firm's investment in the London Clearing House from current assets to fixed assets.

INTERACTIVE BROKERS (UK) LIMITED

CALCULATION OF EXPENDITURE REQUIREMENT

Year ended 31 December 2003

The annual expenditure requirement has been calculated in accordance with rule 10-73.

	£'000
Revenue:	
Turnover	2,228
Interest receivable	995
	<hr/>
Total Revenue per Rule 10-73 (2) (a)	3,223
Less:	
Profit before taxation	(304)
Commission & Brokerage	(944)
Interest Payable	(406)
Foreign Exchange Losses	(28)
	<hr/>
Relevant annual expenditure	1,541
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Expenditure requirement ($1/4 \times £1,541,000$)	385
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