London STOCK EXCHANGE

Creating opportunities, delivering results

Annual Report 2001

Contents

Creating opportunities, delivering results

We are a strong company with talented people and powerful, flexible technology. We provide a wide range of market services to support all our customers — issuers, professional investors, private client brokers and individual investors.

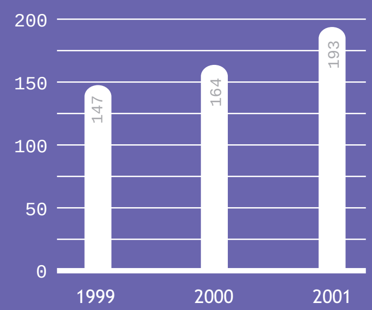
This year, we report strong financial results and a range of exciting initiatives and developments for our customers to enhance their businesses. By creating opportunities for our customers, we aim to maximise value for our shareholders.

A year of strong performance

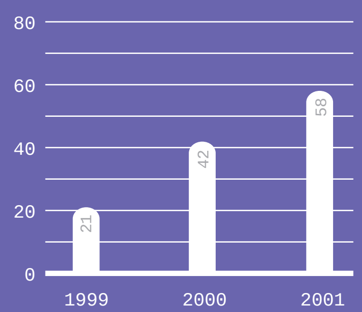
Turnover has increased by 18 per cent from £164 million to £193 million, leading to growth of 34 per cent in adjusted earnings per share from 113.1p to 152.0p.

	2000/2001	1999/2000
Turnover on continuing activities	**£193m**	£164m
Operating profit on continuing activities before exceptional costs	**£58m**	£42m
Profit before tax	**£30m**	£49m
Basic earnings per share	**51.4p**	108.1p
Adjusted earnings per share	**152.0p**	113.1p
Dividend per share	**32.0p**	–

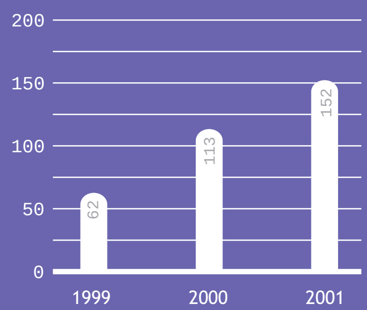
Turnover on continuing activities
year ended 31 March (£ million)



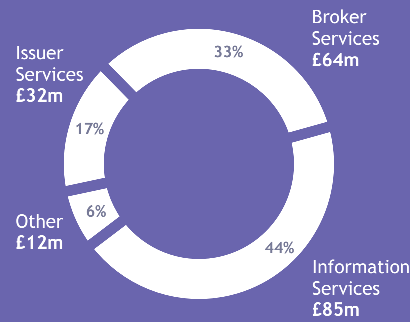
Operating profit on continuing activities before exceptional costs
year ended 31 March (£ million)



Adjusted earnings per share
year ended 31 March (pence)



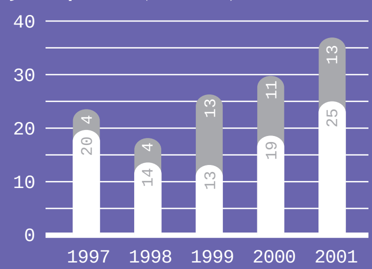
Total revenue
year ended 31 March 2001



The Exchange derives revenues from its activities in three main business divisions: **Issuer Services, Broker Services** and **Information Services.**

Issuers

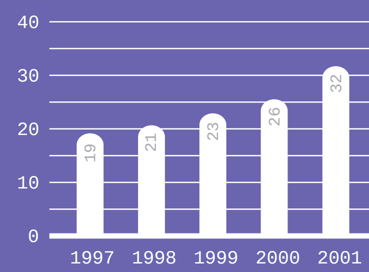
***UK and international money raised by companies** (£ billion)*



UK International

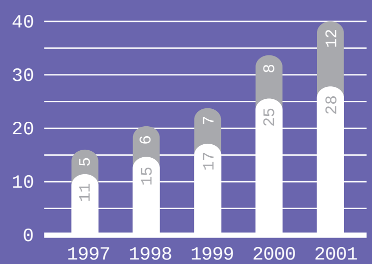
Issuer Services derives its revenue from fees for admission to trading and from annual fees

***Issuer Services revenue** year ended 31 March (£ million)*



Brokers

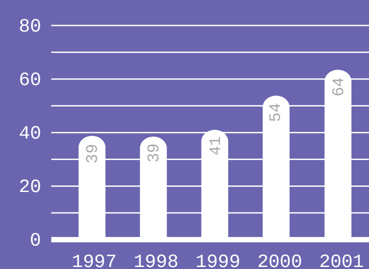
***Number of UK and international equity bargains** (million)*



UK International

Broker Services derives its revenue principally from charges levied on trades

***Broker Services revenue** year ended 31 March (£ million)*

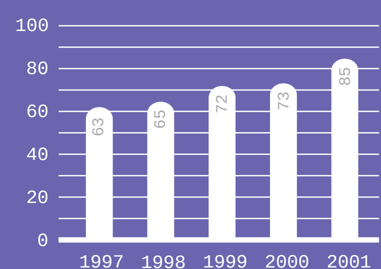


Information

***Number of terminals** (thousand)*

Information Services derives its revenue principally from charges levied on terminals with access to Exchange trade and price data

***Information Services revenue** year ended 31 March (£ million)*



Chairman's statement

In our first year of operation as a public limited company, the London Stock Exchange has achieved much as we have built on our core strengths and prepared the way for the future development of the company both in reach and scale of business. Our decision to demutualise has enabled us to focus more clearly on the interest of all our customers and on delivering value to our shareholders.

Strategic issues

There are challenging times ahead. This last year has driven home – to everyone – the fundamental changes that are taking place in the economic and political context in which exchanges must trade and compete. In the past, exchanges have typically been in a dominant position in a domestic market, often carrying inappropriate public policy regulatory functions and, usually, running a domestic silo of trading, clearing and settlement. Companies, their advisers, and investors have reinforced this local exchange bias. And the governance of exchanges has reflected this world. Competitive market disciplines were missing and the capacity to change was weak or absent.

No more. And in many ways your company is in the vanguard of the change. We have moved from mutual to reformed governance. We are a commercial organisation, now preparing to move to fully listed status to give us keener disciplines, better flexibility and more capacity to respond to customer needs.

But structural changes – changes in the landscape – are required too, before we can exploit the economies of scale of our systems, our technology intellectual property rights, our worldwide, fine brand and the sound regulatory framework in which we operate from the UK. Some of the structural changes are unfortunately in the UK itself – most notably the bizarre notion that stamp duty on equity cash transactions can be part of a modern competitive economy.

The bigger changes are required in Europe. We welcome the thrust of the Lamfalussy Report on moves to a well functioning single market. We welcome the gathering consensus around how to organise the clearing and settlement infrastructure. And we welcome the moves by other exchanges to expose themselves to market disciplines. All this is absolutely necessary if Europe is to have the efficient capital market it needs to compete. The costs of today's rules and structures are enormous.

These changes to the landscape are underway. The question is: What does the London Stock Exchange need to do in order to thrive and grow as the landscape changes? The answer is that we have to succeed in:

- **being a strong commercial company** in our own right. This year's results demonstrate that we have a sound foundation. Moving to listing will cement in the disciplines required to sustain that performance
- **using our considerable influence** to change the landscape within which we must compete. We're doing that, and doing it with enthusiasm, because we are particularly well positioned to exploit more open markets across Europe and elsewhere
- **having a commercial growth strategy** that builds on our strengths, and the capacity to execute that strategy outstandingly well. The first report from Clara Furse, our new Chief Executive, sets out in some detail our progress and ambition on this front.

Chairman's statement

Our people

On 24 January, I welcomed Clara Furse to the Exchange and resumed my role as Non-Executive Chairman. Clara brings with her valuable experience in the technology sphere together with a strong international focus and firm belief in the strengths of the Exchange. I look forward to working with Clara and her new management team as she takes the Exchange on to the next stage of its development.

The Board has also been reconstituted to reflect better the future needs of the company. The number of independent non-executive directors has also been increased in line with the UK Code on Corporate Governance. We welcome to the Board as non-executive directors Baroness Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb QC. We are grateful to Graham Allen, Ian Plenderleith, Simon Robertson, Hector Sants and Nigel Sherlock for their valued contributions.

I would also like to take this opportunity to thank Gavin Casey for leading the organisation during a period in which the financial and commercial position of the Exchange was strengthened significantly.

And I would like to pay tribute to all the staff of your company who, in a difficult and often troubled year, completed the transition from a mutually owned organisation to a commercial company, delivered the fine financial results set out in this report and contributed enormously to the creation and delivery of our strategy. It was an excellent team effort that augurs well for the future.

Listing

At the time of demutualisation in March 2000, the Board concluded that an interim period was required during which the business could evolve and the benefits of moving to a fully commercial basis of operation could begin to take effect. Your company is now proposing to list its shares on the main market of the London Stock Exchange and to remove the 4.9 per cent limit on shareholdings.

As a fully listed company, your company will have freely transferable shares and access to capital markets, providing greater strategic flexibility to play a leading role in the development of our marketplace.

200th anniversary

This year marks the 200th anniversary of the founding of the first regulated exchange in London, the organisation that became the London Stock Exchange. To commemorate this milestone, we commissioned an official history – *From Coffee House to Cyber Market* by Elizabeth Hennessy. Reflecting upon the past in this way can be a useful guide towards meeting the challenges of the future.

Looking to the future is the theme of our charitable efforts for this bicentennial year, when we will be holding a series of special events, a number of which are designed to raise funds for The Trident Trust, our chosen charity. Trident is an educational charity, based in the City of London but with links across the country. We will be working in partnership with Trident to help improve the employability of young people and gain the skills they need to succeed in the economy of the future.

Thank you for your support over this past year. I am sure that it will be well rewarded as we strive to create maximum value for shareholders and customers. Your company firmly intends to sustain its position as Europe's leading, and the world's most international, exchange.

200 YEARS London Stock Exchange

supporting The Trident Trust

Don Cruickshank
Chairman

Chief Executive's review

The Exchange has experienced an eventful year and emerged a stronger organisation. Despite the distractions of the proposed merger and the successful bid defence, last year saw another significant increase in revenues and in the levels of trading across our markets. I would like to take this opportunity to thank all the staff of the Exchange for their valued contribution and professionalism throughout this period of intense corporate activity.

Strategy

When I assumed responsibility as Chief Executive in February, I recognised the long-standing strengths of the London Stock Exchange in terms of the value of business transacted, the number of companies listed and their overall market capitalisation. The Exchange has a reputation for strength of product and delivery to customers. Moving forward, my primary focus will be to build on those strengths and enhance that reputation by growing the existing business and increasing the reach and scale of its operations.

We will pursue the following strategic aims:

- to be Europe's leading exchange organisation
- to shape the globalisation of capital markets through technology links and partnerships
- to create value for our shareholders.

We intend to do this by:

- **becoming the clear market of choice in the European time zone**, strengthening our current position as the leading European equity exchange with investment in new products and services and in our trading mechanisms
- **extending our service offering and broadening our product range** to become a global provider of exchange services and to admit to trading additional non-equity products such as Exchange Traded Funds and covered warrants
- **building the reach and scale of our businesses**, by developing links with other international markets and diversifying our exchange-related activities through internal business development initiatives and acquisitions where these provide opportunities to deliver customer and shareholder value
- **promoting the growth of capital markets**, by working to resolve the longer-term market-efficiency issues which impact upon our ability to implement our plans and on our efforts to drive down costs for investors – notably stamp duty on sharedealing in the UK, the fragmented European capital market and clearing and settlement infrastructure and the use of share certificates in the UK equity market.

Strong results

The Exchange has achieved strong financial results in its first year since demutualisation. Turnover increased by 18 per cent while profits before exceptional items were up by 39 per cent. The value of the business is demonstrated by the 34 per cent increase in adjusted earnings per share.

In order to help finance development of the business and pursue our strategic objectives, we continue to believe that it is important to maintain a strong balance sheet with significant cash balances.

That underlying strength is in part a testament to the progress made under my predecessor, Gavin Casey. Few exchange organisations have undertaken such a programme of change during the last five years – from the introduction of electronic trading and techMARK to the financial strengthening and demutualisation of the company. On behalf of the organisation, I would like to express my appreciation to him for his leadership during an important stage of our development.

Market activity

The year again saw significant growth in trading with the value of trading in the UK equity market reaching £1,863 billion, an increase over the past year of 14 per cent.

Growth in international trading was particularly impressive – an increase of 46 per cent by volume and 36 per cent by value. Overall, an average of 160,000 bargains per day were transacted on our markets. This demonstrates the success of our continuing efforts to create new products and services to meet international demand and to promote the Exchange more widely overseas.

AIM was again one of the best performing smaller company markets in the world. Over 200 new companies joined during 2000 – its fifth year of operation – with the total number now standing at 550, an increase of 43 per cent over last year. The market continues to fulfil a vital role in the provision of finance to growth companies.

Chief Executive's review

techMARK's first anniversary in November was a milestone for both technology companies and investors. We will shortly welcome the 250th company on the market with over 90 new joiners since launch. Almost £12 billion has been raised on techMARK during that time – almost a quarter of the total raised on the main market.

Issuer Services

Our aim is to attract as many new listings as possible from within the UK and overseas. This will contribute to overall liquidity on our markets as well as facilitate new and further capital raising by companies. To help raise the profile of our markets and of our constituent companies, we will continue to develop appropriate market structures complemented by a range of internet-based and other information services.

Local markets

Building on the success of techMARK, the Exchange will introduce new attribute groups to give companies the tools they need to communicate more effectively with investors. In March 2001, we launched landMARK north west – the first in a series of internet-based UK regional attribute groups. Further landMARKs will be introduced throughout the year.

Internationalising our markets

The Exchange has begun its international promotion of techMARK and AIM to build awareness and understanding of the markets. Customer roadshows have been held throughout Europe – including Frankfurt, Paris, Amsterdam and Milan. The goal is to increase participation in our markets by international issuers, investors and intermediaries. We will extend the reach of the campaign globally, in particular to those countries – such as Israel and Japan – with high concentrations of growth companies.

Broker Services

Reducing the cost of clearing and settlement for our customers is a priority. In March, the London market – comprising the Exchange, CRESTCo and the London Clearing House (LCH) – successfully introduced a central counterparty service CCP for the SETS electronic order book. The service offers our customers the full advantages of post-trade anonymity, further deepening the liquidity of the London equity markets. In the next year, we will also work with CRESTCo and LCH to introduce a netting facility which will offer significant scope for cost reductions to our customers. The fragmentation of clearing and settlement systems acts as a continuing barrier to the development of a European capital market and prevents exchanges from competing on equal terms. We are committed to work towards the most efficient clearing and settlement solution across Europe.

We have introduced the new International Retail Service (IRS) tailored specifically to meet the needs of the private investment community. IRS provides easy access to trading in major European and US blue-chip stocks using sterling prices, helping to drive down the cost of cross-border transactions.

A further release of improvements to our trading and information systems took place in April 2001. The release includes the introduction of an order book for a limited selection of existing SEAQ International stocks – the International Order Book – and enhancements to the existing SEAQ auctions service.

Increasing access to SETS

In April, the Exchange announced a groundbreaking proposal with the JSE Securities Exchange South Africa (JSE). The proposed deal involves the provision of core technology services to the JSE, including the SETS order book system. Both exchanges aim to provide their respective members with remote access to trading in the most liquid securities on each other's markets. The agreement underlines the attractiveness of our technology, which we aim to extend to new customers in the future.

The City Media Centre in the London Stock Exchange Tower broadcasts throughout the day to the world's investment community

Information Services

Information is the lifeblood of our markets and we will continue to develop internet-based sources of information for different groups of issuers and investors.

The demand from private investors for real-time market data owes much to growing use of the internet. The number of real-time terminals on private investors' premises has doubled in a year to over 10,000. More than 100,000 terminals now display our live information to over 100 countries around the world.

www.londonstockexchange.com

Our website is now established as the core delivery channel for our information services. During the year, the site's popularity increased from 14 million to 57 million hits per month. In September 2000, we successfully launched new internet services for companies to communicate their announcements through the Regulatory News Service (RNS). Over half of all RNS announcements now reach the market via the internet. We believe that RNS is now well positioned to meet the challenges of a competitive environment for the release of company news.

City Media Centre

In June 2000, we opened the City Media Centre – our broadcasting suite in the heart of the City. With two television studios and a radio interview room, a stream of high-profile broadcasters including the BBC, CNN, BSkyB and CNBC use its state of the art facilities to broadcast live or pre-recorded business programming to the world. The Centre also offers prestigious facilities for companies to conduct media broadcasts and presentations.

Relocation

In October 2000, we announced our intention to vacate the Exchange Tower because the building no longer meets the requirements of our business.

In choosing a new site, we will examine a number of criteria such as a more efficient working environment, improved access to our customers and the ability to develop further the City Media Centre facility. We are currently on schedule to relocate by June 2004.

Redemption of mortgage debenture stock

In February, having reviewed the Exchange's cash requirements, we decided that it was appropriate to redeem the existing mortgage debenture stock on the Exchange Tower early – at a cost of £46.4 million before accrued interest. Accordingly an Extraordinary General Meeting of the holders of the mortgage debenture stock was convened for 28 February at which the necessary Resolution was approved.

Looking ahead

The Exchange will maintain and promote a strong and competitive UK equity market.

In delivering our strategic objectives, we will strive to ensure that our trading, company and information services respond imaginatively to the needs of as many UK and international customers as possible. We will place a strong emphasis on developing our markets by progressing essential market reforms – such as lower-cost clearing and settlement and electronic shareholding – as efficiently and expeditiously as possible.

It is clear to me that the Exchange will benefit substantially from a single European capital market and closer ties with other international markets. We are uniquely placed to attract cross-border capital flows – in particular to link the European and US time zones. We will therefore position ourselves as a commercial organisation to take maximum advantage of those opportunities for shareholders and customers.

Clara Furse

Chief Executive

Providing the right environment

We are committed to supporting the companies whose shares are issued and traded on our markets. We actively promote our issuers through marketing and roadshows in the UK and across the world to help raise their profile and to attract investors.

Our success during the year in attracting top-class companies and providing a vibrant, liquid trading environment for all our customers reflected the benefits we offer to issuers of all types and in all industries. Over 450 new companies joined our markets, nearly 300 of them via IPOs, bringing the total on our markets to 2,922. In total, £213 billion was raised on our markets, over 40 per cent of it by international issuers. These companies were attracted not only by the dynamism and profile of our markets, but also by the flexible yet thorough approach to regulation embodied by our widely-respected standards. Our enhanced AIM rules also received a warm welcome from issuers. New listings on our markets during the year included leading companies such as EasyJet, Sun Life Financial Services, Autonomy, Egg and Granada Media.

Taking AIM and techMARK to the world

Our growing family of markets, servicing different types of issuer, played a pivotal role in our success. The number of companies on AIM, our international market for growing companies, leapt by 43 per cent to 550 and the number of companies on techMARK, our international technology market, grew by over a fifth to 244. Through our drive to promote the benefits of these markets to a wider international audience of issuers and investors, we aim to increase their attractiveness even further. We are already the world's most international exchange, providing a central focus for investors worldwide – a status which offers clear advantages to all companies traded in London, and which continues to help us attract a stream of top-class international issuers such as China Petroleum and Chemical Corporation, Orange and Dimension Data.

We are now looking to foster greater international awareness of the benefits a London listing can deliver to any issuer, whatever its business and wherever in the world it is based. On top of this, we are currently reviewing our existing infrastructure, products and services with a view to identifying measures which will enhance our ability to attract the best international listings. We are already consulting with market participants to help us plan these improvements. Delivering the markets and services issuers want is the key to sustaining our own commercial success and growing value for our shareholders.

The future winners among the world's stock exchanges will be those that create the best meeting-point for international issuers, intermediaries and investors

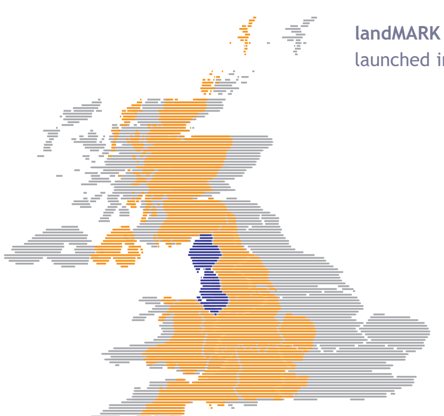
Providing the right environment

From March 2001, the attractions of techMARK and AIM for international issuers have been promoted by a high-profile advertising and marketing campaign. This coincided with a series of roadshows for investors and analysts in continental Europe's major financial centres, focusing on those with a strong fund management community and where there is specific expertise in technology companies. At the same time, potential issuers are benefiting from a series of 'going public' seminars in selected centres across Europe – again focused on those with a strong technology base – and in important markets such as Israel, India and Japan.

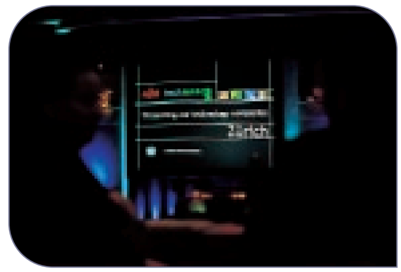
These initiatives reflect our awareness that investors – and the liquidity they provide – are a key attraction for issuers in any market. Capital now has the potential to flow freely across the world and the future winners among the world's stock exchanges will be those that create the best meeting-point for international issuers, intermediaries and investors. We are targeting all these groups, with the aim of increasing our position as an attractive listing environment for international companies.

National resources, local results

Alongside our drive to increase our attractiveness to international issuers, we are creating new opportunities specifically for existing and potential issuers based in the UK – and especially for smaller companies. Our landMARK initiative, launched in April 2001, brings our national resources to bear on meeting the local needs of issuers and advisers in the various regions of the UK, helping to raise the profile and awareness of companies and our markets among investors in all parts of the country.



landMARK north west — launched in April 2001



The London Stock Exchange and its technology companies spoke directly to fund managers and analysts in the major financial centres of Europe to promote the international attractions of AIM and techMARK

landMARK is underpinned by new sections on our website, www.londonstockexchange.com, offering investor relations pages for each company including company share prices, announcements via RNS and recent share trades grouped together for each regional market. At a local level, the impact is maximised through a series of events and initiatives coordinated by our local business development managers and Regional Advisory Groups.

By providing companies with higher profile and targeting information more accurately at investors, landMARK provides a new focus for everyone involved in our markets at the local level – including issuers, sponsors, stockbrokers, accountants, lawyers, nominated advisers and investors of all sizes. A pilot in North West England has received an enthusiastic response and the roll-out is now set to continue in other regions.

The City Media Centre — our shop window

A further step-change in our service to issuers has come with the continuing development of the City Media Centre at our main offices in central London. This was opened in June 2000, enabling issuers to conduct media broadcasts, deliver presentations and record webcasts, and offering UK and global broadcasters state-of-the-art facilities for covering our markets – including real-time market data displays, fibre-optic links and online computer booths for visiting journalists.

For millions of people worldwide, the Centre is increasingly the window through which they see the Exchange, and through which our name and brand are broadcast into their homes and offices every day. By the end of March 2001, prestigious customers including CNN, the BBC, CNBC, BSkyB, Bloomberg and Reuters had made over 2,400 broadcasts from the Centre.

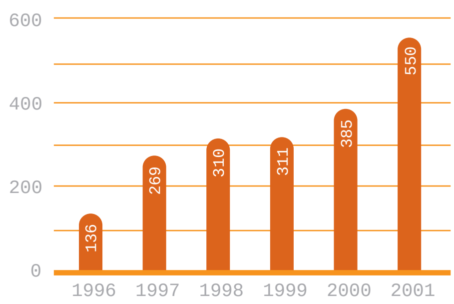
In January 2001, we added presentation facilities, enabling issuers, member firms and other customers to use our on-site auditoria – including an 80-seat theatre – for press conferences, training sessions and results announcements.

Viewpoint

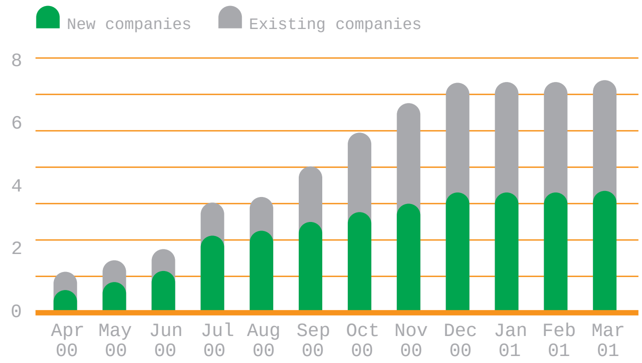
Tim Ward
Head of Issuer Services and Institutions

"Our role is to deliver the marketplace that issuers want – and the current pace of progress makes this an extremely exciting time. In the past year, we have built up huge momentum in transforming our markets and turning them to face the customer. The range of initiatives launched this year, or taken to a new phase of development, underlines our openness to innovative ideas and feedback, and our commitment to act on them. We are the number one international market for issuers the world over. But, in an increasingly competitive environment, it is up to us to prove our abilities constantly. This year we have done just that."

Number of AIM companies
year ended 31 March



Money raised by techMARK companies
cumulative during year ended 31 March 2001 (£ billion)

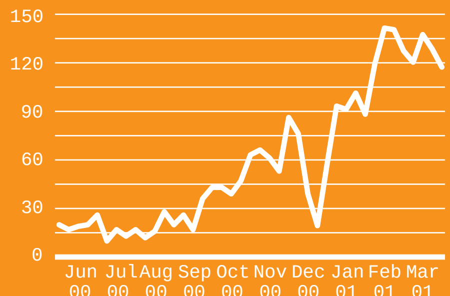


The City Media Centre

"By the end of March 2001, prestigious customers including CNN, the BBC, CNBC, BSkyB, Bloomberg and Reuters had made over 2,400 broadcasts from the Centre."

Below: **Declan Curry presenting *BBC Breakfast*** business news live from the Exchange

Number of broadcasts from the City Media Centre week by week



Note: closed for Christmas and New Year's holidays

Creating new trading opportunities

In partnership with customers and other infrastructure providers, we have worked to deliver a wide range of initiatives during the year, creating opportunities and long-term benefits for the wholesale brokers and institutional investors who buy and sell large volumes of shares on our markets.

We worked hard throughout 2000 to forge closer partnerships with all members of the global investment community. Trading volumes once again reached new highs, with turnover in international equities surging by 36 per cent to £3,640 billion, and in UK equities by 14 per cent to £1,860 billion. Building on this success, we are planning and delivering a growing number of enhancements to create new trading opportunities for professional investors – and to ensure that our markets remain their trading and investment environment of choice.

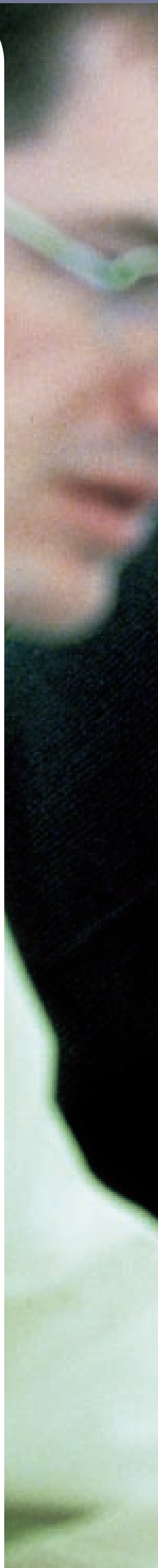
Business partnership with Johannesburg

On 2 April 2001, we announced a proposed partnership with the 17th largest exchange in the world, the JSE Securities Exchange South Africa (JSE), involving the provision of core technology services including our trading system, SETS.

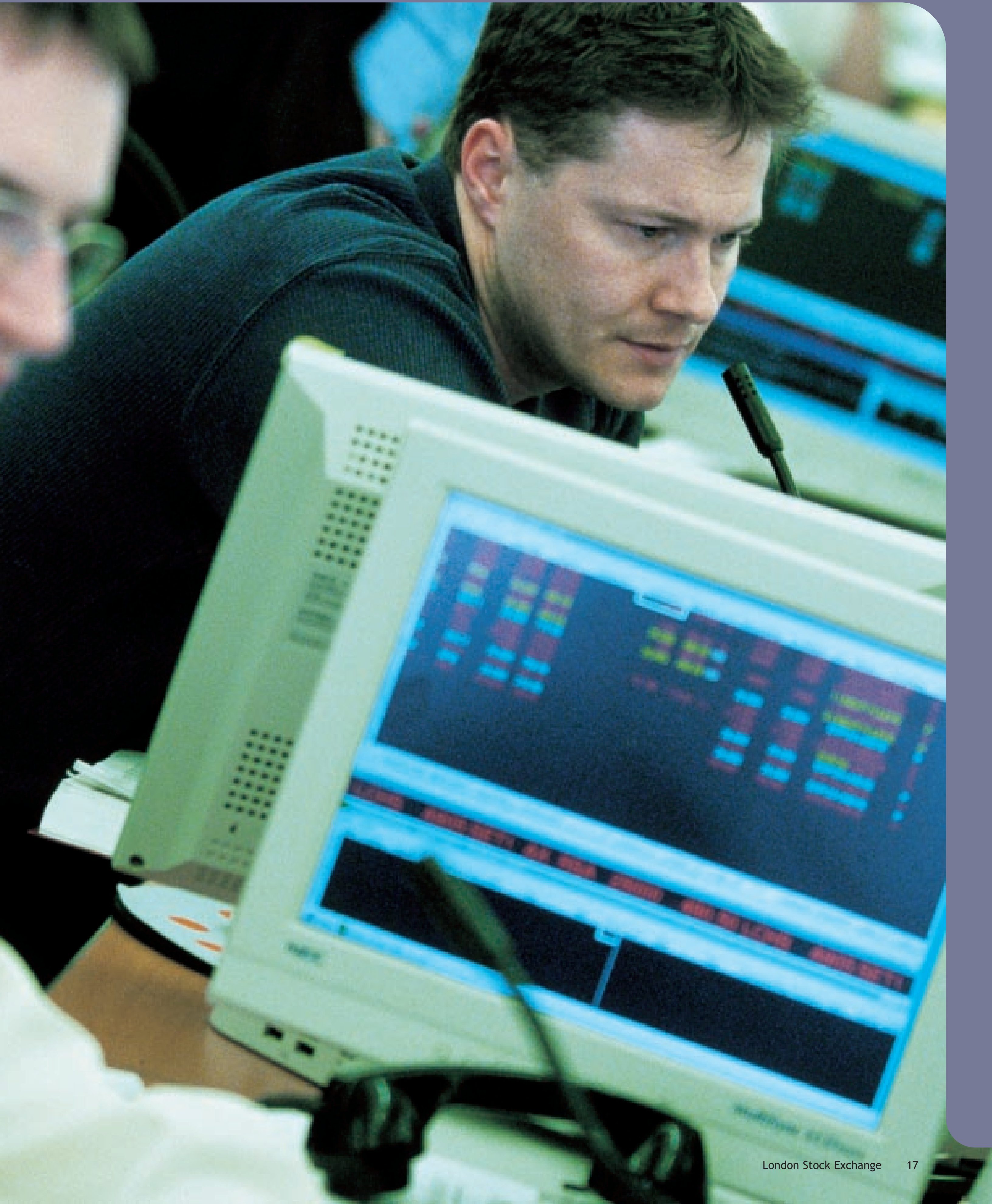
This is an exciting step for the Exchange. It demonstrates the attractiveness of our technology and represents an addition to the portfolio of products and services we offer.

The proposed deal is estimated to be worth at least £11 million in terms of additional revenue for the Exchange over the next five years and will also provide an opportunity to share in any additional revenue generated as a result of growth in the South African market.

In addition to technology, together with JSE we will aim to provide our respective members with remote access to trading in the most liquid securities on each other's markets.



London is the largest equity management centre in the world — the Exchange is the only European bourse in the world's top five equity management centres



Creating new trading opportunities

Central counterparty cuts trading risk

Our introduction of a central counterparty (CCP) in February 2001 represented the biggest single change in our market structure since the introduction of the electronic order book in 1997. The successful and seamless implementation of the CCP – achieved in just 12 months following the agreement between ourselves, CRESTCo and the London Clearing House (LCH) – was a prime example of how the London market's key players can work together to deliver solutions for customers in a tight timeframe.

Under the structure, LCH becomes the counterparty to all SETS trades. The CCP makes an important addition to SETS, by providing market participants with full post-trade anonymity and improved management of counterparty risk. It also forms a key part of the infrastructure required to support settlement netting in the UK equities market.

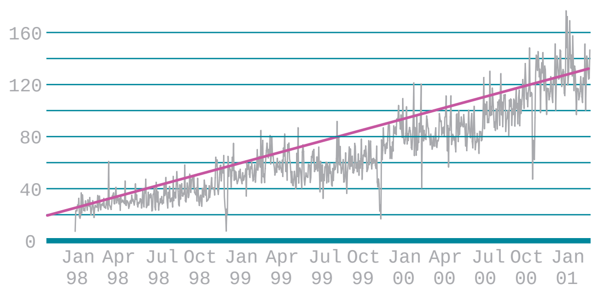
The introduction of the CCP has helped to take SETS to new record levels of activity. The order book now routinely sees more than 120,000 orders entered a day and more than 50,000 trades executed in a day.

Order book goes international

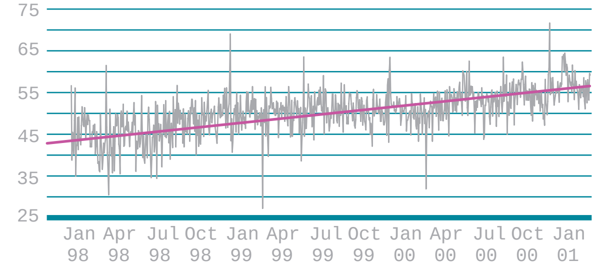
A further structural innovation, of benefit to our wholesale customers, has been the introduction of the International Order Book in April 2001. This change – again introduced following widespread consultation with brokers and other customer groups – extended the benefits of a fully electronic marketplace to trading in our most liquid international securities. It involved the introduction to our international market of a SETS-style order book, initially covering around 40 of the most liquid depositary receipts.

Customers trading on SEAQ benefited during the year from the introduction of a crossing mechanism in FTSE 250 securities to increase trading efficiency. We also introduced new processes for the SETS opening and closing auctions to help facilitate trading. At the same time, extraMARK – our market launched in 2000 to provide a home for innovative investment products and companies – continued to attract growing liquidity and interest, including plans for further launches of extraMARK listed investments by product providers.

Orders entered onto SETS
1998 to March 2001 (thousand per day)



Order book share
1998 to March 2001 (%)



Usage of the order book has increased steadily since its introduction, standing now at over 55 per cent by value traded

Technology — the power to deliver

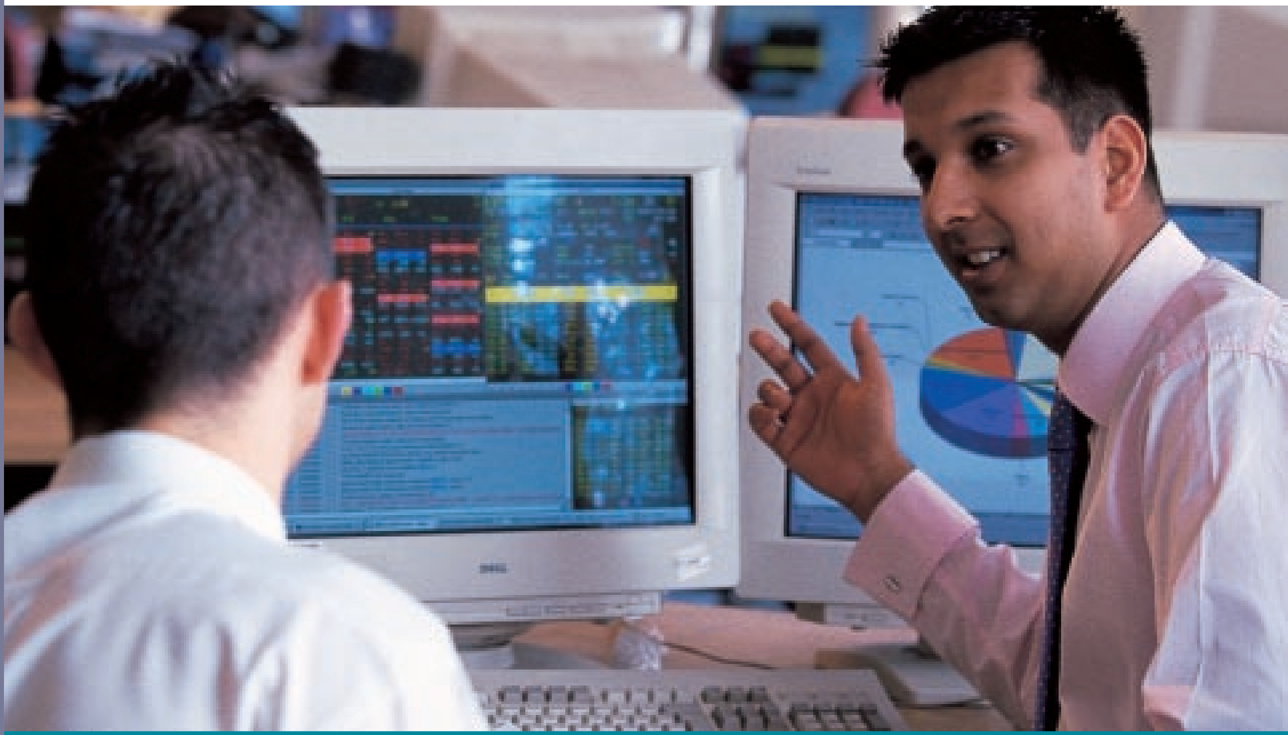
The power of our technology underlies our ability to provide appropriate tailored services to all our customers. Our extensive use of scalable and reliable technology serves the needs of local brokers and the world's major international investment banks.

Our core trading platform, SEQUENCE, currently handles over 100,000 UK equity trades a day, with capacity in excess of one million trades a day.

One of the design principles underlying SEQUENCE is flexibility and scalability. This enables us to provide tailored market solutions, ensuring efficient market models and facilitating the growth of markets over time. Through SEQUENCE, we are able to offer:

- **SETS** — our fully electronic order book, providing the central trading and pricing mechanism for the most liquid securities
- **SEAQ** — the real-time quote book showing quotes, prices and trading information for over 2,000 securities. SEAQ crosses also allow the anonymous matching of limit orders at specific times during each trading day — providing market participants with the maximum possible choice
- **SEATS PLUS** — a hybrid quote and order book for less liquid securities
- **facilities** for trade publication and regulatory reporting of trades.

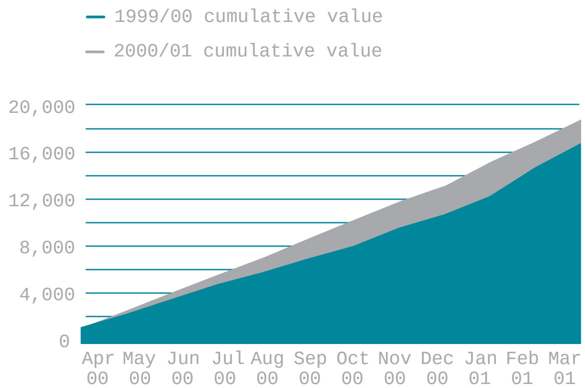
The power and flexibility of our technology has been demonstrated by the range of initiatives announced this year.



"Our core trading platform currently handles over **100,000** UK equity trades a day, with capacity in excess of **one million** trades a day."

Creating new trading opportunities

UK equity trading value
1999/00 vs 2000/01 (£ million)



Comparison of trading volumes on the Exchange — this year volumes were 14 per cent up against last year

Reducing trading risk

Our move in February 2001 to a standard settlement cycle based on settlement three days after trading (T+3) has also reduced the level of trading risk, and therefore is of benefit to all market users. As expected, this change went through seamlessly, with over 70 per cent of trades now being settled on this basis. The move to T+3 represents a further step towards our stated objective of moving to T+1 at some stage in the future.

A closer partnership with institutions

Institutions are important to us as our end customers, providing the bulk of trading and liquidity across our markets. We have created a new institutional relationship management team dedicated to strengthening our links with the institutional community, and to ensure that they receive the information and services they need and deserve from us. As a result, institutions are now more in touch with our markets than ever before.

The structural changes we are making to our markets mean we are increasingly reflecting the way our institutional customers do business. This is directly as a result of institutions advancing from a country-based to a sectoral approach for their trading and research.

We have also put structures in place to ensure the institutional viewpoint is taken fully into account in our decision-making. The Institutional Investor Group, a consultative panel of dealers, fund managers and chief investment officers, has been created to provide our Exchange Markets Group with feedback and advice on issues such as market infrastructure and potential new services. A wider initiative has been our establishment of an Institutional Investor Forum. This group of representatives from 15 to 20 leading institutions, meets quarterly with the Exchange for presentations on new developments and a series of round-table discussions.

Regulation — giving us the edge

Our internationally recognised standards of regulation and the monitoring and surveillance by our Market Supervision team are vital in maintaining the high degree of fairness and integrity for which the Exchange's markets are known.

Price transparency
The regimes for the publication of trades and prices are tailored to the type of security and the nature of regular market participants. The most popular and liquid securities trade on our SETS electronic order book. Order book trades are automatically executed and published immediately.

Real-time monitoring
During the year, we upgraded and enhanced our surveillance systems, incorporating artificial intelligence algorithms to provide alerts for signs of possible insider dealing or price manipulation. Using this and other systems including 'IMAS', our real-time monitoring system, we have continued to streamline our regulatory activities and provide unobtrusive and cost effective regulation to member firms and other market participants.

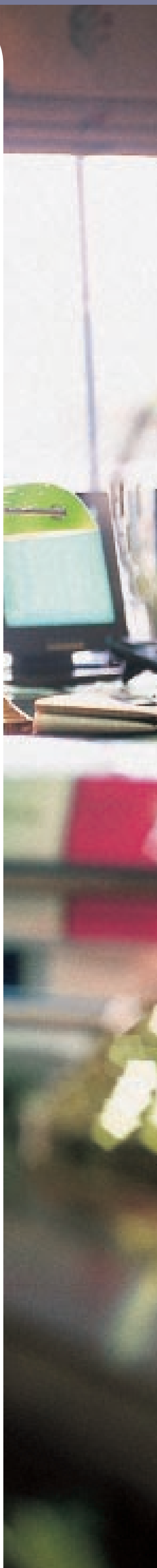
Andrew McStravick, Director of Operations

Investigations and enforcement
Where our surveillance systems detect potential rule breaches, we undertake full investigations to establish whether a breach has occurred. In most cases, advice and guidance from the Exchange is sufficient to deal with a firm's failure and to prevent a repetition. However, in serious cases, investigations may lead to disciplinary action and, possibly, referral to the Financial Services Authority or other regulatory authorities.

Company disclosure
Companies traded on our markets publish a wide range of timely information to give investors a reliable basis on which to make their investment decisions. Up to 800 announcements are released daily through our Regulatory News Service.

Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000 brings two important changes for the Exchange. First, it provides the Financial Services Authority with additional powers to deal with market misconduct. We will build upon our existing positive relationships with the Financial Services Authority to jointly provide a clear, consistent mechanism by which guidance and advice on the new and existing rules is easily available to market users. Second, it provides more detail to the existing requirements which the Exchange meets in order to retain its status as a recognised investment exchange.



Tailoring services for the private investment community

Retail investors and private client brokers play a key role in maintaining the liquidity, diversity and profitability of our markets, accounting for about 80 per cent of trades by number. Our commitment to them is underlined by our initiatives to enhance their market access and reach — and to bring them increasingly into the centre of our markets.

The creation of our new Broker Services group in October 2000 has brought renewed focus and creativity to our drive to meet the needs of the private client brokers and investors. Set up specifically to focus on all our broker customers and deliver the products and services they need, the group is segmented into private client and wholesale broker services, and enables continuing cross-fertilisation of ideas.

Private client brokers get world service

With the introduction of the International Retail Service in April 2001, we have extended price discovery and trade execution services in international equities to private client brokers – delivering a major enhancement to their ability to participate in our markets. The service, originally announced in December 2000 and made ready in just five months, includes the dissemination of continuous sterling prices for non-UK stocks through existing channels to 107,000 terminals worldwide. It also supports automatic execution of retail orders via brokers' existing links to the Exchange, with central Exchange regulation of service levels and rules and settlement through CREST.

By exploiting our existing technology and services in a new way, this innovation makes price discovery, execution and settlement in international stocks as easy and cost-effective as it is in UK stocks. With private investors exhibiting growing knowledge and interest in non-UK companies, this service brings private client brokers lower costs, increased transparency and ease of access – enabling them to offer a seamless international service.

By exploiting our existing technology in innovative ways, we are delivering major enhancements to the services which private client brokers can offer their clients

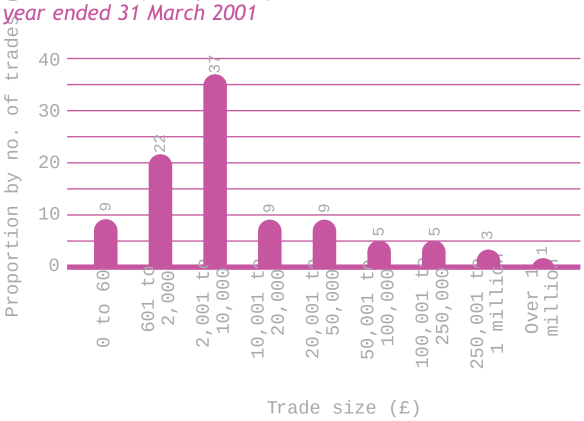
Tailoring services for the private investment community

Building the private client broking community on the web

A further service developed during the year for the benefit of the retail community is a section of our website specifically dedicated to the private client broking community. This initiative, which entered its pilot testing phase in April 2001, is an online interactive forum and information centre for private client brokers. The site's potential uses include online polling on key issues of interest to private client brokers, and – for the Exchange – the ability to float new ideas and get immediate feedback.

The website is a prime example of the increasingly customer-led focus we bring to all our market development initiatives. This means setting out to identify the needs and aspirations of groups of customers, and then developing ways to satisfy them as fully and cost-effectively as possible.

Distribution of bargains by trade size
year ended 31 March 2001



A large proportion of trades on the Exchange are in retail sizes

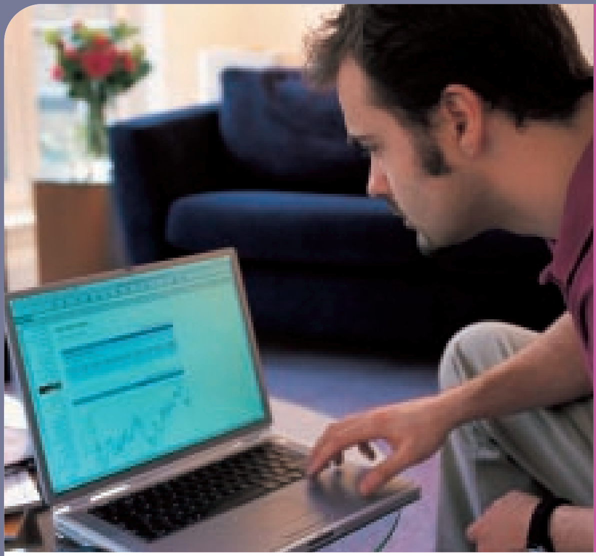
Domestic retail services — the future

As part of this drive to deliver the right markets and services for private client brokers and their clients, we have been looking at potential improvement in the current service they receive. The existing market structure is a two-tier structure in which the central mechanism sets the reference price but where private client trades are generally carried out away from that mechanism, through a retail service provider (RSP). This structure works and is valued by the industry but it does bring with it unnecessary industry overheads and an inefficient infrastructure, which would become more acute if the number of RSPs grows.

We are consulting on how we may use our systems and expertise to offer a central hosting service for RSPs. The aim is for our network to be used to provide connectivity for RSPs and brokers. All RSP services would therefore be available through a single connection – the same connection as used for SETS. We are also assessing how the network could be offered for connectivity to CREST.

This would maintain the benefits of the existing market model. RSPs would continue to make prices electronically, as they do today, and offer price improvements to customers with whom they have a business relationship – but by leveraging the network that already exists between member firms, we believe we can create significantly greater efficiency and reduce costs. The connectivity required will be developed as part of an upgrade to our network.

The aim of this centralisation is a single low cost point of access for customers to RSPs, SETS, regulatory reporting and settlement. We are currently taking our customers' views on this idea and how it might best be implemented.



Free information for private investors — direct from the source

- online prices
- details of all companies and links to their websites
- portfolio tracking
- RNS News
- our Share Aware initiative
- new issues

www.londonstockexchange.com

Private investors get more from the internet

Private investors continue to benefit from our drive to support the retail community, with the focus being on increasingly sophisticated, free-of-charge services delivered over the internet. Our online delayed price service has now established itself as the most-visited section of our website. This service has been enhanced during the year with the addition of a portfolio valuation service — which is WAP-enabled to allow mobile access — international securities, and links to the Share Monitoring Service and RNS sites.

While all our customers make use of our website, private investors clearly drive much of the traffic, and have played a key role in pushing up the number of hits by 223 per cent to a total of 363 million in the year to March 2001. More significant than the number of the hits is the length of time for which the average user stays on the site. This increased by over a quarter to 14 minutes 48 seconds — showing that many more people are finding much more of interest, and therefore staying logged on for longer.

"Our focus is on increasingly sophisticated, free-of-charge services delivered over the internet."

Viewpoint

Chris Broad
Head of Broker Services

"We have made significant progress in our services to the retail community in the past year — and there is much more to come. Our efforts in this area all underline one of our principal aims and commitments — to align the operation of the central market more closely with the needs of the retail community, both brokers and investors. What we aim to do is bring private client business more closely into the central market. The way to do that is through precisely the type of new retail-focused services and structures we have developed and launched in the past 12 months — and those we are planning for the future."

Delivering the information and transparency essential for all our customers

Information is the lifeblood of our markets — and its quality and availability underpin the transparency that makes our markets so attractive to customers worldwide. Our initiatives in the information arena have made this a very significant year, especially in starting to harness the full power of the internet.

New opportunities for information vendors

Third-party information vendors, who take our real-time data and then distribute it across the world to a vast array of their customers, play a critical and highly valued role in the success of our business. To support them, we have put in place a dedicated vendor section within our website with specific information on a range of issues relevant to their business.

In recent years, the number of vendors has increased significantly with the application of different types of technology to distribute our information. As well as being customers, they are also our long-term partners in both a commercial and technological sense. We work with them to facilitate the use of our information in their services. In response to vendors' requests to put real-time market data on television screens, we introduced television ticker licences in 2000.

The Vendor Access Programme, through which vendors' customers gain low-cost access to our trading platform, is a further example of ongoing initiatives that have been welcomed.

Demand from private investors for real-time market data has increased significantly in line with the growing use of the internet. We have therefore introduced specific 'private investor licences' to enable vendors to service this market. As a result, the number of real-time terminals on private investors' premises has doubled in a year to over 10,000, accounting for almost one in 10 of the 107,000 terminals now displaying our live information around the globe.

Bringing our customers the benefits of a global network

Delivering the information and transparency essential for all our customers

Harnessing the power of our networks

The year has seen us make significant progress in reshaping our business to realise the massive potential of the networks linking us to our customers. Preparations have commenced to replace our existing trading and information networks with a single IP (Internet Protocol) network. This will bring all our customers the benefits of a global network with greatly expanded capacity to our existing infrastructure – enabling us to handle the continuing growth in market volumes, and to offer flexible and highly targeted delivery of a wide range of new information and trading services. It will also enable us to offer high-speed access to our trading and information systems to customers in other parts of the world.

Taking RNS into the digital era

One of the most beneficial advances to date in our use of the internet came with the introduction in September 2000 of RNS internet services. These provide companies with a flexible and user-friendly means of submitting and publishing all their regulatory news announcements. The RNS Input website gives them a straightforward and secure way to submit corporate announcements. These are published in real-time on our website, complete with the company's required formatting and hyperlinks, at the same time as they are published to professional customers.

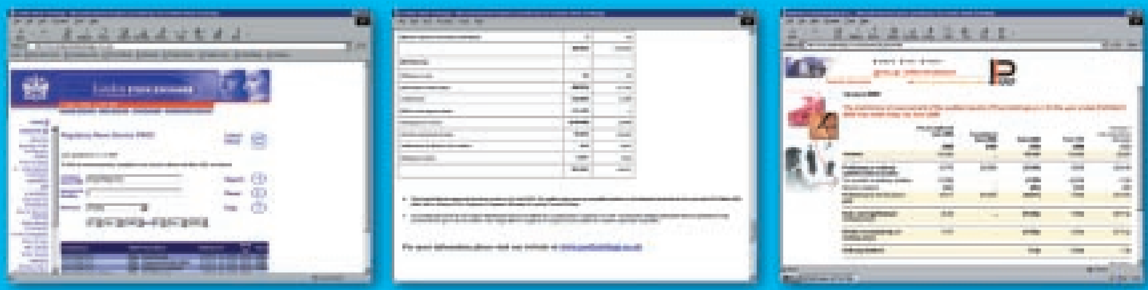
The benefits for companies in terms of speed and ease of use are underlined by the rapid take-up of RNS internet services. Within six months of launch, over 50 per cent of the total number of announcements received by RNS – now running at well over 14,000 announcements a month – are submitted via the website.

RNS internet services enable us to continually enhance the level of service we provide to companies. Currently we are working closely with the information vendors to overcome formatting restrictions and increase the speed of release of information to the market. As such, our pivotal role as a communication channel between issuers, information vendors and investors puts us in an ideal position to help speed up the adoption of advanced data formatting standards such as XML.

During the year, the Financial Services Authority (FSA) continued its review – begun in December 1999 – of the way company announcements are distributed. A Consultation Paper was published in May 2001 which proposes changes to the FSA's Listing Rules to enable listed companies to publish their regulatory announcements via a choice of FSA approved commercial service providers. We have participated in this review and will respond formally to the Consultation Paper. We welcome the FSA's recommendations and believe the innovations we have introduced this year, together with our stated intention to move fully to internet input, puts RNS in a strong position to compete effectively with other commercial services.

Countries receiving data from the London Stock Exchange (highlighted in blue)

RNS real-time — reaching the screens of professional and private investors

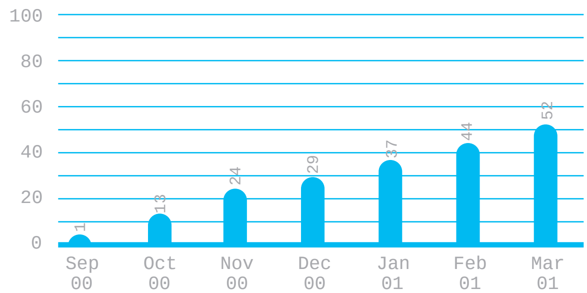


Home page → access text of announcement → hyperlink to company website

"Our RNS internet services provide companies with a flexible means of submitting and publishing their regulatory news announcements."

"Over 50 per cent of the total number of announcements input to the RNS system — now running at well over 14,000 announcements a month — are submitted via the website."

***Percentage of announcements submitted via the internet** September 2000 to March 2001 (%)*



Viewpoint

Helen Bennett
Head of Information Services

"This year we have seen our strong, global information business expand significantly through new customer acquisition and growth in information access points. An essential factor has been our ability to leverage our relationship with customers and listen closely to their needs to deliver product and service enhancements. The increase in availability of our information products to users in over 100 countries has been a key outcome of these relationships.

The potential for future growth remains strong and we are dedicated to developing our services for new and existing customers. A key opportunity is presented by technology and we will be working with our customers to harness this, whilst ensuring the highest quality of our overall offering."

Financial review

The year to 31 March 2001 was one of financial progress for the Exchange. Turnover from continuing operations increased by 18 per cent to £193.4 million, and operating profit from continuing operations before exceptional items grew 39 per cent to £57.9 million, which led to an improvement in adjusted earnings per share of 34 per cent to 152.0 pence per share.

Turnover

Each of the three key business areas achieved significant growth over the year and delivered a range of initiatives to improve their services to customers and grow their businesses.

Issuer Services turnover grew by 24 per cent to £31.9 million with over 450 new companies joining our markets. The development of AIM as an international market for growing companies showed further progress during the year with the number of AIM companies increasing by 43 per cent to 550. The number of techMARK companies also grew by a fifth to 244.

Turnover for Broker Services increased by 19 per cent to £64.2 million with a 19 per cent increase in trading bargain volumes. A series of developments were implemented to improve services offered, including the introduction of the central counterparty in February 2001 and the International Retail Service and International Order Book in April 2001. We also announced a partnership with the Johannesburg Securities Exchange to provide core technology services which we expect will make an additional contribution to turnover in the coming years.

Information Services achieved further growth with turnover up 17 per cent to £85.3 million. The number of real-time information terminals for private investors increased to 10,000 and now accounts for almost one in 10 of the 107,000 terminals displaying live information worldwide.

Expenditure

With a significant growth in business levels administrative expenses for continuing operations increased by £11.6 million to £129.3 million.

In addition to our ongoing expenses, we incurred two exceptional costs during the year. Firstly, included within administrative expenses, is an exceptional charge of £18.9 million in respect of professional fees incurred for the proposed merger with Deutsche Börse AG and in defence of the takeover bid launched by OM Gruppen.

A further exceptional charge of £17.6 million is included within net interest receivable/(payable) for the premium payable on the redemption in March 2001 of the 10⅛ per cent Mortgage Debenture Stock 2016.

Profit for the year

With turnover growth significantly in excess of the increase in costs, operating profit for continuing operations before exceptional items this year improved by 39 per cent, from £41.8 million last year to £57.9 million this year.

After the exceptional charges referred to above and increased net interest receivable, profit before taxation amounted to £30.4 million, £18.1 million below last year.

The taxation charge for the year was £15.2 million. The 50 per cent rate of tax is higher than normal due to certain exceptional expenses being disallowed for the purpose of tax provision. After the charge, the resulting profit for the financial year was £15.2 million compared with £32.1 million last year.

The directors are recommending a final dividend of 22 pence per Ordinary Share which, in addition to the interim dividend of 10 pence per Ordinary Share paid in January 2001, gives a total distribution of £9.5 million for the year. On the basis of profit after tax for continuing operations before exceptional items, the dividend is covered 4.7 times.

Balance sheet and cash flow

Net cash inflow from operations improved by £7.1 million to £52.1 million, even after meeting the exceptional administrative expenses of £18.9 million referred to above. Having reviewed the Company's cash requirements and its plans to vacate the Exchange Tower, we took the decision to redeem the £30 million mortgage debenture secured on the Tower building. After this redemption, the Exchange's cash resources are £147.9 million with no debt to finance.

The Exchange now has no financial liabilities and its financial assets comprise cash and investments, all of which are sterling-based. No derivative contracts were entered into during the year. The Exchange invests the majority of its funds in fixed-rate term deposits with banks, for periods of up to one year. Counterparty risk is managed by establishing minimum credit worthiness and limiting the maximum exposure to each counterparty.

Accounting developments

The Exchange has adopted the new financial reporting standards issued in the past year. The accounts include additional disclosures reflecting the first phase of implementation of FRS 17 on Retirement Benefits. FRS 19 on Deferred Tax has been adopted and the prior year's figures have been restated accordingly. As a result, the Exchange now recognises the full deferred asset in respect of timing differences for all past transactions and events rather than those that are reversible within three years. The effect has been to increase the taxation charge this year by £1.2 million and by £1.8 million in the restated prior year.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation, at the time of approving the financial statements, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

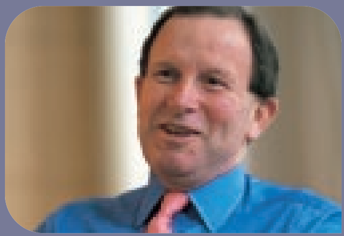
The Board of Directors

Don Cruickshank 58 ■
Chairman

Chairman since May 2000. Chairman of SMG plc. He was Chairman of UK Banking Review from 1998 to 2000, Director General of Telecommunications from 1993 to 1998, Chief Executive, NHS in Scotland from 1989 to 1993, Managing Director of Virgin Group from 1984 to 1989. Chairman, Wandsworth Health Authority from 1986 to 1989.

Clara Furse 43
Chief Executive

Appointed Chief Executive in January 2001. Formerly Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. Director of LIFFE from 1990 to 1999, Deputy Chairman from 1997 to 1999. At Phillips & Drew/UBS (now UBS Warburg) from 1983 to 1998; became a Director in 1988, Executive Director in 1992, Managing Director in 1995, Global Head of Futures in 1996.



Ian Salter 58 ● ■
Deputy Chairman

Non-Executive Deputy Chairman since 1990. He is a Director of SG Investment Management Limited. He is also a member of the Lloyds of London Authorisation Committee, the Authorisation Committee of the Financial Services Authority and the Financial Reporting Council.

Martin Wheatley 42
Deputy Chief Executive

Deputy Chief Executive since March 2001, with responsibility for Corporate Strategy and Development. Previously Director of Business Development from December 1999 to March 2001 and Director of Marketing and Development from July 1998 to December 1999. He is a Director of FTSE International Limited. He joined the Exchange in 1985.

Jonathan Howell 38
Director of Finance

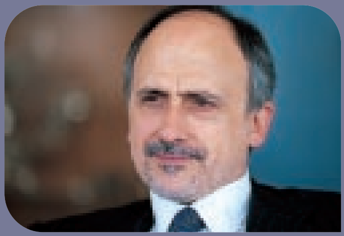
Director of Finance since December 1999. Previously Director of Regulation from March to December 1999. He is a Director of FTSE International Limited. He joined the Exchange in 1996 from PricewaterhouseCoopers.

Gary Allen CBE 56 ●
Non-Executive Director

Chairman, IMI plc since May 2001, Chief Executive from 1987 to January 2001. Board Director of IMI plc since 1978, having joined the company in 1965. He is a Non-Executive Director of NV Bekaert SA, Belgium.

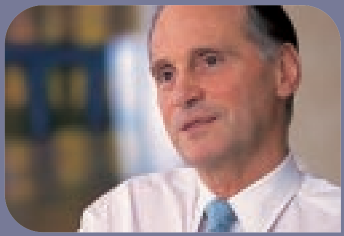
Baroness Cohen 60 ● ▲ ■
Non-Executive Director

A Life Peer. Non-Executive Director of BPP Holdings plc, the Defence Logistics Organisation and Informed Sources. Advisory director of HSBC Investment Bank, previously a Non-Executive Director of Charterhouse Management Services Limited from 1988 to 1999 and of Charterhouse Financial Services Limited from 1989 to 1993.



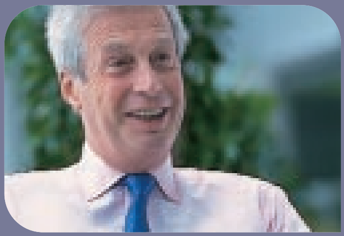
Oscar Fanjul 52 ● ■
Non-Executive Director

Chief Executive of Omega Capital. Formerly Chairman and CEO of Repsol and Chairman of Hidroeléctrica del Cantábrico. Non-Executive Director of Banco Bilbao-Vizcaya-Argentaria BBVA, Acerinox, Técnicas Reunidas, Ericsson, S.A. and Advisory Director of Unilever. He is also a member of the International Advisory Board of Marsh & McLennan Companies and of The Chubb Corporation.



Michael Marks 59 ● ■
Non-Executive Director

Executive Vice-President, Merrill Lynch & Co, Inc, Chairman of Merrill Lynch Europe, Middle East and Africa and a member of the Executive Management Committee of Merrill Lynch & Co, Inc. He is a member of NASD's International Markets Advisory Board.



Peter Meinertzhagen 55 ▲
Non-Executive director

Chairman, Hoare Govett Limited since October 1999. Previously he was Chairman of Hoare Govett Corporate Finance Limited and of Hoare Govett Smaller Companies Index Investment Trust plc. He joined Hoare Govett in 1965.

Nigel Stapleton 54 ▲
Non-Executive Director

Chairman, Veronis Suhler International Limited. Previously Chairman of Reed International plc from 1997 to 1999. Co-Chairman of Reed Elsevier plc from 1996 to 1998. Chief Financial Officer of Reed Elsevier plc from 1993 to 1996.

Robert Webb QC 52 ▲
Non-Executive Director

General Counsel of British Airways plc since September 1998, responsible for government and industry affairs, safety, security, risk management and the environment.

● *Member of the Audit Committee*
▲ *Member of the Remuneration Committee*
■ *Member of the Nomination Committee*

Directors' report & accounts

Contents

Corporate governance

Throughout the year the Exchange has applied the principles of the Combined Code on Corporate Governance and, during this time, has made further enhancements to its corporate governance arrangements.

The Exchange's Board continues to include a majority of non-executive directors, each one selected for the contribution which he or she can bring to the Exchange's development. During the year, a majority of the Exchange's non-executive directors were not considered to be fully independent as defined by the Combined Code. However, following the recent changes to the Board, the majority of the Board's non-executive directors have been fully independent since 1 April 2001. During the year, the Board committees concerned with the governance of the Exchange comprised a majority of non-executive directors who are involved in the Exchange's wider business and market community. The composition of these committees was reviewed on 23 May 2001 in order to increase the representation of independent non-executive directors, while ensuring a necessary degree of continuity. These changes bring the Exchange closer to the requirements of the Combined Code.

Subject to the comments above regarding the independence of non-executive directors and the composition of Board committees, the Exchange's Board is satisfied that it has complied with the provisions of the Combined Code on Corporate Governance during the year ended 31 March 2001.

Board of directors

The Board has six scheduled meetings a year and, at 31 March 2001, comprised nine non-executive directors, including the Chairman and Deputy Chairman (senior non-executive director) and three executive directors. Of the non-executive directors, Gary Allen, Baroness Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb QC are considered to be fully independent within the meaning of the Combined Code.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below. On 23 May 2001 the Exchange's Senior Appointments and Remuneration Committee was replaced by separate Remuneration and Nomination Committees.

The directors who serve on the Board's committees are identified on pages 32 and 33.

The Remuneration Committee is chaired by Nigel Stapleton and comprises three other non-executive directors. The committee meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes.

The Audit Committee is chaired by Gary Allen and comprises four other non-executive directors. It meets at least twice a year, normally with the external auditors, to consider the audit plan and the interim and annual results, as well as any matters raised by the auditors. It also reviews the adequacy and effectiveness of the key systems of internal control (including accounting systems) and monitors the efficiency and independence of the internal audit function. The committee reviews the Company's financial statements and makes recommendations regarding their approval by the Board as a whole.

The Nomination Committee is chaired by Don Cruickshank and comprises four other non-executive directors. The committee meets as necessary to make recommendations to the Board on all new Board appointments.

Internal control

The Board confirms that procedures have been in place throughout the year and up to the date of this report which comply fully with the guidance 'Internal Control: Guidance for Directors on the Combined Code', published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales in September 1999. The systems of internal control are designed to enable the Exchange to meet its business objectives and appropriately minimise risk. The Board is committed to the continual enhancement of internal controls, which ultimately can provide reasonable, but not absolute, assurance that the risks facing the business are effectively managed.

The Board has ultimate responsibility for the Company's systems of internal control over business, operational, financial and compliance risks. The directors, through the Audit Committee, have reviewed the effectiveness of these systems, which can provide only reasonable and not absolute assurance against material misstatement or loss.

As reported last year, although the Exchange has strong internal control procedures, a specific series of coincident events, including a system software fault, resulted in a significant delay in the market opening on 5 April 2000. All necessary remedial action has been taken to prevent a recurrence of these events.

The Exchange's control framework is described under the following headings:

Delegation of authority – There are clearly defined matters which are reserved for Board approval only. The executive directors have general responsibility for making and implementing operational decisions and overseeing the Company's business.

Planning and reporting process – The Board approves strategic decisions and the budget for the forthcoming year. Monthly reports to management contain key performance indicators and compare actual financial performance with the annual budget or forecast. Management action is taken where variances arise and revised forecasts are prepared on a regular basis.

Audit Committee – Reports from the Exchange's internal audit department on the effectiveness of key risk management and internal control procedures are reviewed by the Audit Committee and appropriate action taken, where necessary. The Audit Committee also receives reports from the Company's external auditors. Other than the delay in the market opening on 5 April 2000, no material weaknesses in internal controls have been identified over the past year.

Risk management – Effective risk management is the responsibility of all line managers and each business area continuously updates and evaluates its documented key risks and controls. Periodic reports confirming the effectiveness of all significant control procedures are produced by management and reviewed by the most senior executive in each business area. The Exchange's internal audit department also reviews these reports and independently summarises matters arising for the Audit Committee.

Procedural manuals – Procedures and controls for key business areas (including the Exchange's finance function) are set out in detailed departmental manuals. These are reviewed and kept up-to-date to meet changing business needs.

Remuneration report

This report by the Exchange's Board has been prepared in accordance with the Listing Rules and section 1 of the Combined Code on Corporate Governance.

Remuneration Committee

The Remuneration Committee comprises four non-executive directors who are appointed by the Board. The members are:

Nigel Stapleton (Chairman)
Baroness Cohen
Peter Meinertzhagen
Robert Webb QC

The members of this committee do not have any personal financial interests nor any potential conflicts arising from cross-directorships which relate to the business of this committee. The members do not have any day-to-day involvement in running the Company.

The committee has access to professional advice both from internal sources and external consultants. This advice includes relevant market data to assess the levels of remuneration.

The committee's terms of reference are approved by the Board.

Remuneration policy

The Exchange's remuneration policy is designed to attract, retain and motivate senior executives of a high calibre through a remuneration package which is competitive and representative of best practice.

All executive directors have one-year rolling service contracts with the Company.

Executive directors are allowed to accept appointments as non-executive directors of other companies with the prior formal approval of the Remuneration Committee. Approval will only be given where the appointment does not present a conflict of interest with the Exchange's activities and the wider exposure gained will be beneficial to the development of the individual. The fees for these appointments will normally be paid to the Exchange.

Executive directors' rewards

The executive directors' remuneration package has five elements: base salary, benefits in kind, annual performance bonus, pension benefits and participation in the Company's share scheme. Details of directors' remuneration and benefits are set out in note 7 (pages 50 to 52) to the financial statements.

Base salaries are reviewed annually taking into account market comparisons for similar roles, together with the performance of the individual.

Benefits in kind provided to executive directors are principally private health care and life insurance arrangements. Within the disclosures of individual director's remuneration, included in note 7 to the financial statements, benefits in kind represent the amounts assessable to income tax in respect of the benefits provided.

The annual performance bonus is a non-pensionable payment for achieving targets set each year. These targets are linked to the performance against objectives set for the director and the Company.

A proportion of this bonus is paid in shares, the payment of which is deferred over two years.

Pension benefits are also part of the remuneration package. Executive directors may be members of the Company pension scheme which offers Inland Revenue approved retirement benefits on final salary. The core benefit, which is non-contributory, comprises a pension accrual rate of 1/60th of final pensionable salary for each year of service (up to a limit of 2/3rds of final pensionable salary). Alternatively, executive directors may elect to have a proportion of their base salary paid into an appropriate vehicle for pension according to their individual circumstances.

The amounts paid for pension arrangements are shown for each director in note 7 to the financial statements. The note also includes details in respect of a director who is a member of the Company's defined benefit scheme.

A share scheme was approved by shareholders in March 2000, and implemented in the year ended 31 March 2001. Shares and options have been awarded to executive directors under an Initial Share Plan and Annual Share Plan – details of share awards and option grants are set out in notes 7 and 26 to the financial statements.

Non-executive directors' fees are determined by the Board. Emoluments paid to the Chairman and Deputy Chairman take into account their additional duties. Details of fees paid to non-executive directors are set out in note 7 to the financial statements.

Directors' report

The directors of London Stock Exchange plc ('the Exchange') have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 2001.

As part of the demutualisation proposals approved by the Shareholders at the Extraordinary General Meeting on 15 March 2000, the Company changed its name from London Stock Exchange Limited to London Stock Exchange plc on 8 June 2000.

Directors

The directors of the Company at 31 March 2001 are shown on pages 32 and 33.

Sir John Kemp-Welch retired from the Board on 25 May 2000.

The following directors resigned during the year: Gavin Casey on 15 September 2000, Graham Allen and Ian Plenderleith on 28 February 2001, Hector Sants on 19 March 2001, Simon Robertson on 20 March 2001 and Nigel Sherlock on 31 March 2001.

Don Cruickshank was appointed to the Board on 20 April 2000 and became Chairman with effect from 25 May 2000.

The following additional directors were appointed to the Board during the year: Clara Furse on 24 January 2001 and Baroness Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb QC with effect from 1 February 2001. All of these directors will, in accordance with the Company's Articles of Association, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment. The unexpired term of Clara Furse's service contract is 12 months. None of the other newly appointed directors have service contracts.

The unexpired term of the service contract for Martin Wheatley, who is seeking re-election at the 2001 Annual General Meeting, is 12 months. Ian Salter, who is also seeking re-election at the 2001 Annual General Meeting, does not have a service contract.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2001 according to the register maintained under the Companies Act 1985 are set out on pages 51 and 52, in note 7 to the financial statements. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

The Exchange's corporate governance statement is set out on pages 36 and 37.

Share capital

Details of the Company's share capital are set out on page 58, in note 19 to the accounts.

Substantial shareholding

As at 23 May 2001 the Company had been notified of the following interests in the issued Ordinary share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

UBS AG	4.07%
Fidelity International Limited	3.05%

Principal activities and results

The principal activities of the Exchange and its subsidiaries are the delivery of trading systems, the organisation and regulation of markets in securities, the provision of associated information services and the admission of securities to trading. On 1 May 2000, the role of the UK Listing Authority was transferred to the Financial Services Authority and, accordingly, has been treated as a discontinued operation in these accounts.

The profit of the Group on ordinary activities before taxation for the year ended 31 March 2001 was £30.4 million, after charging exceptional items and exceptional financing costs of £36.5 million (as detailed in notes 4 and 8 to the financial statements). This compares with a profit of £48.5 million for the year ended 31 March 2000.

The strategic developments and operations of the business are described more fully in the Chairman's statement and the Chief Executive's review on pages 4 to 11.

Dividend

The directors are recommending a final dividend of 22 pence per Ordinary share for the year which, together with the interim dividend of 10 pence per Ordinary share paid in January 2001, produces a total dividend of 32 pence per Ordinary share amounting to £9.5 million. The final dividend will be paid on 27 August 2001 to shareholders on the register on 6 July 2001. The profit retained of £5.7 million has been transferred to reserves.

Tangible assets

All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts less depreciation. In the opinion of the directors, the market value of freehold properties at 31 March 2001 exceeded book value by approximately £48 million. This is based on an existing use valuation which does not take into account any change of use for any of the properties.

Employees

All new employees undergo an induction programme which includes training on their roles and responsibilities and on health and safety matters. A range of training and development programmes is then available for staff to develop their skills, knowledge and careers at the Exchange. The Exchange encourages and assists the employment, training and retention of disabled people. Where changes to working practices or structure affect staff, they are consulted and given the appropriate support.

All employees are provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications. During the year we have added to our staff communications by:

- carrying out a survey of staff opinions on communications
- introducing a communications database to communicate business messages, organisation changes and other business developments
- holding regular staff briefings by members of senior management.

The Company has introduced an Annual Share Plan, in which all employees are eligible to participate. Employees can also share in the success of the Exchange through the SAYE Scheme with 60 per cent of eligible employees participating in the first year of its introduction.

Donations

During the year the Exchange gave £100,000 (2000, £108,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

It is the Exchange's policy to agree payment terms with suppliers when business transactions are negotiated and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2001 trade creditors represented 34 days of annual purchases to the Company.

Auditors

A resolution to reappoint PricewaterhouseCoopers as the Company's auditors will be proposed at the Annual General Meeting.

By Order of the Board

L M Condron

Secretary
23 May 2001

Directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 43, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare an Annual Report and financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The maintenance and integrity of the Group's website is the responsibility of the directors. Information published on the internet is accessible in many countries; the legal requirements relating to the preparation and dissemination of financial statements in those countries are different from those applying in the United Kingdom.

Auditors' report

To the members of London Stock Exchange plc

We have audited the financial statements which comprise the consolidated profit an loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 to you 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 explanation we require for our audit, or if the information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the Chairman's statement, the Chief Executive's review, and the operating and financial review.

We also, at the request of the directors (because the Company applies the Listing Rules of the Financial Services Authority as if its shares were listed), review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified by the Listing Rules for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with 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 affairs of the Company and the Group as at 31 March 2001 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London
23 May 2001

Consolidated profit and loss account

Year ended 31 March 2001

	Notes	2001 £m	Restated 2000 £m
Turnover			
Group and share of joint venture – Continuing operations		**193.4**	164.0
– Discontinued operations		**1.2**	11.7
Gross turnover		**194.6**	175.7
Less: share of joint venture's turnover – Continuing operations		**(6.2)**	(4.5)
Net turnover	2	**188.4**	171.2
Administrative expenses – Operating costs	3	**(129.7)**	(124.2)
– Exceptional items	4	**(18.9)**	(5.1)
		(148.6)	(129.3)
Operating profit – Continuing operations – before exceptional items	5	**57.9**	41.8
– after exceptional items		**39.0**	36.7
– Discontinued operations		**0.8**	5.2
		39.8	41.9
Share of operating profit of joint venture and income from other fixed asset investments		**0.3**	0.3
Net interest receivable/(payable) – before exceptional item	8	**7.9**	6.3
– exceptional item	8	**(17.6)**	–
		(9.7)	6.3
Profit on ordinary activities before taxation		**30.4**	48.5
Taxation on profit on ordinary activities	9	**(15.2)**	(16.4)
Profit for the financial year		**15.2**	32.1
Dividend	10	**(9.5)**	–
Retained profit for the financial year		**5.7**	32.1
Earnings per equity share	11	**51.4p**	108.1p
Diluted earnings per equity share	11	**51.4p**	108.1p
Adjusted earnings per equity share	11	**152.0p**	113.1p
Dividend per equity share		**32.0p**	–

Statement of total recognised gains and losses

		2001 £m	Restated 2000 £m
Profit for the financial year		**15.2**	32.1
Other recognised gains and losses for the year:			
Prior year adjustments (see note 28)		**11.0**	13.4
Total recognised gains and losses since last annual report		**26.2**	45.5

Note of historical cost profits and losses

	Notes	2001 £m	Restated 2000 £m
Profit on ordinary activities before taxation		**30.4**	48.5
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	**1.9**	1.9
Revaluation reserve realised on property disposal		**–**	1.1
Historical cost profit on ordinary activities before taxation		**32.3**	51.5
Historical cost profit retained after taxation		**17.1**	35.1

Balance sheets

31 March 2001

	Notes	Group 2001 £m	Group Restated 2000 £m	Company 2001 £m	Company Restated 2000 £m
Fixed assets					
Tangible assets	12	**117.1**	114.4	**117.1**	114.4
Investments					
Investments in joint venture:					
Share of gross assets		**7.1**	5.8	**–**	–
Share of gross liabilities		**(4.8)**	(3.7)	**–**	–
	13	**2.3**	2.1	**1.5**	1.5
Other investments	13	**10.1**	0.4	**10.1**	0.4
		12.4	2.5	**11.6**	1.9
		129.5	116.9	**128.7**	116.3
Current assets					
Debtors					
Debtors – amounts falling due within one year	14	**37.3**	35.7	**37.3**	35.7
Deferred tax – amounts falling due after more than one year	15	**10.7**	12.2	**10.7**	12.2
		48.0	47.9	**48.0**	47.9
Investments – term deposits		**143.0**	196.0	**143.0**	196.0
Cash at bank		**4.9**	4.4	**4.9**	4.4
		195.9	248.3	**195.9**	248.3
Creditors: amounts falling due within one year	16	**58.8**	59.1	**58.8**	59.1
Net current assets		**137.1**	189.2	**137.1**	189.2
Total assets less current liabilities		**266.6**	306.1	**265.8**	305.5
Creditors: amounts falling due after more than one year	17	**–**	30.0	**–**	30.0
Provisions for liabilities and charges	18	**24.6**	31.0	**24.6**	31.0
Net assets		**242.0**	245.1	**241.2**	244.5
Capital and reserves					
Called up share capital	19	**1.5**	–	**1.5**	–
Reserves					
Revaluation reserve	20	**47.7**	49.6	**47.7**	49.6
Capital redemption reserve	20	**–**	8.8	**–**	8.8
Trade compensation reserve	20	**–**	15.0	**–**	15.0
Profit and loss account	20	**192.8**	171.7	**192.0**	171.1
Total shareholders' funds		**242.0**	245.1	**241.2**	244.5
Analysed between:					
Equity shareholders' funds	20	**242.0**	236.3	**241.2**	235.7
Non-equity shareholders' funds	20	**–**	8.8	**–**	8.8
		242.0	245.1	**241.2**	244.5

The financial statements on pages 44 to 64 were approved by the Board on 23 May 2001 and signed on its behalf by:

Clara Furse, Chief Executive
Jonathan Howell, Director of Finance

Consolidated cash flow statement

Year ended 31 March 2001

	Notes	2001 £m	2000 £m
Net cash inflow/(outflow) from:			
– ongoing operating activities	22(i)	**74.5**	46.4
– exceptional items	22(i)	**(22.4)**	(1.4)
Net cash inflow from operating activities		**52.1**	45.0
Returns on investments and servicing of finance			
Interest received		**12.1**	10.6
Interest paid		**(4.1)**	(3.0)
Premium on redemption of debenture		**(17.6)**	–
Dividends received		**0.1**	0.1
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(9.5)**	7.7
Taxation			
Corporation tax paid		**(20.6)**	(12.1)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		**(22.7)**	(14.7)
Payments to acquire own shares		**(10.0)**	–
Receipts from sale of tangible fixed assets		**–**	1.2
Receipts from sale of fixed asset investments		**–**	0.1
Net cash outflow from capital expenditure and financial investments		**(32.7)**	(13.4)
Equity dividends paid		**(3.0)**	–
Acquisitions and disposals			
Payments to acquire shares in joint venture		**–**	(1.5)
Net cash (outflow)/inflow before use of liquid resources and financing		**(13.7)**	25.7
Management of liquid resources			
Decrease/(increase) in term deposits	22(ii)	**53.0**	(2.0)
Financing			
Redemption of mortgage debenture		**(30.0)**	–
Redemption of 'A' shares		**(8.8)**	(25.8)
Increase/(decrease) in cash in the year	22(ii)	**0.5**	(2.1)

Notes to the financial statements

1. Accounting policies

Change in accounting policy

Following the introduction of the new financial reporting standard on deferred tax, FRS 19, the Company changed its accounting policy in respect of deferred tax during the year. Previously the Company provided for deferred tax using the liability method, except where, in the opinion of the directors, a liability or recovery was unlikely to arise in the foreseeable future. The Company now makes full provision for future tax consequences of past transactions and events. The timing differences are recognised as deferred tax liabilities or assets in the financial statements, measured at expected future tax rates. No discounting of the deferred tax liabilities or assets is applied. The effect of this change in accounting policy is set out in note 28 to the financial statements.

Basis of preparation

The competent authority activity was transferred to the Financial Services Authority on 1 May 2000 and has been treated as a discontinued operation. The expenses charged to the competent authority are the direct expenses of the activity and do not include any applicable overheads, which are included within the expenses charged to the continuing operations. This reflects the directors' view that no significant change in overhead expenses occurred following the transfer of the competent authority to the Financial Services Authority.

Basis of accounting and consolidation

The financial statements are prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets. The consolidated financial statements include the accounts of all subsidiaries, although none was actively trading during the year. As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements.

Turnover

Turnover represents the total amount receivable for the provision of goods and services, excluding value added tax.

Joint ventures

The Group's share of profits, less losses, of joint ventures is included in the consolidated profit and loss account and the Group's share of gross assets and gross liabilities underlying the net equity amount is included in the consolidated balance sheet.

Fixed asset investments

Own shares held under Employee Share Ownership Plans are stated at cost less amortisation to write down the cost to realisable value over the service period of the employees concerned, currently three years. Other fixed asset investments are stated at cost less any provision required for impairment in value.

Tangible assets and depreciation

a) Freehold properties, including related fixed plant, have been revalued by external chartered surveyors and are included in the financial statements at the revalued amounts. Following the implementation of FRS 15 no further revaluations of freehold properties will be made.

   Freehold buildings and related fixed plant are depreciated, based on cost or valuation at the beginning of the year plus subsequent additions, over their estimated economic lives. The economic lives of properties range from 15 to 50 years, the estimated useful lives of fixed plant range from five to 20 years.

b) Leasehold properties and improvements are included at cost and depreciated over the shorter of the period of the lease or economic life.

c) Plant and equipment is stated at cost and is depreciated on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from three to five years. Third party software costs for the development and implementation of systems which enhance the services provided by the Company are capitalised and amortised over their future useful lives, which is an average of three years.

Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Operating leases

Rental costs for operating leases are charged to the profit and loss account as incurred. Provision is made in the accounts for lease commitments, less income from sub-letting, for properties which are surplus to business requirements.

Pension costs

The pension costs for the defined benefit plan are assessed in accordance with the advice of an independent actuary. The accounting cost for providing defined benefit pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Pension costs under the defined contribution plan are charged as incurred. Further details of the Company's pension scheme and the basis upon which the charge to the profit and loss account is determined are set out in note 24 to the financial statements.

Deferred taxation
Full provision is made for the future tax consequences of past transactions and events. The timing differences are recognised as deferred tax liabilities or assets in the financial statements, measured at expected future tax rates. No discounting of the deferred tax liabilities or assets is applied.

Employee Share Ownership Plans (ESOP)
Costs for the Initial Share Plan are being charged to the profit and loss account over three years from the date of award, for the Annual Share Plan in the year to which the awards relate and for the SAYE scheme over the five years of the savings contract.

2. Turnover

	2001 £m	2000 £m
Analysis of turnover:		
Continuing operations		
Issuer services	**31.9**	25.7
Broker services	**64.2**	54.1
Information services	**85.3**	72.9
Other income	**12.0**	11.3
	193.4	164.0
Discontinued operations		
Competent authority	**1.2**	11.7
Gross turnover	**194.6**	175.7
Less: share of joint venture's turnover		
Information services	**(6.2)**	(4.5)
Net turnover	**188.4**	171.2

The Company has one class of business, with principal operations in the United Kingdom.

3. Administrative expenses

	2001 £m	2000 £m
Continuing operations	**129.3**	117.7
Discontinued operations	**0.4**	6.5
	129.7	124.2

4. Exceptional items

	2001 £m	2000 £m
Fees in respect of the proposed merger with Deutsche Börse AG and in defence of the bid from OM Gruppen	**18.9**	–
Fees in respect of the Company reorganisation – demutualisation	**–**	5.1
	18.9	5.1

5. Operating profit

Operating profit before exceptional items is stated after charging the following amounts:	**2001 £m**	2000 £m
Depreciation of tangible assets	**19.9**	22.2
Operating lease rentals – properties	**5.1**	5.2
Auditors' remuneration for:		
Audit	**0.1**	0.1
Non-audit fees for other services (see note)	**1.0**	0.7
Release of property provision (see note 18)	**(4.7)**	(4.4)

Note

Non-audit fees paid to PricewaterhouseCoopers during the year were £1.0m. These fees are primarily in respect of taxation, pensions, actuarial and consulting services. In addition, non-audit fees of £1.2m were payable in respect of the proposed merger with Deutsche Börse AG and in defence of the bid from OM Gruppen, and £0.4m during the previous year in respect of the Company's reorganisation. These fees are included within exceptional items in note 4 above.

6. Employees

Employees of the Group and their employment costs are summarised below:	**2001**	2000
The number of employees was:		
At the year end	**545**	605
Average for the year	**534**	588

On 1 May 2000, 66 staff transferred to the FSA as part of the competent authority activity.

	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	**26.3**	26.4
Social security costs	**2.9**	2.9
Other pension costs	**1.6**	0.8
Total	**30.8**	30.1

7. Directors' emoluments

The report of the Board on directors' remuneration is on pages 38 and 39.

	2001				2000				**2001**	2000
	Salary £000	Performance Bonus £000	Benefits £000	**Total £000**	Salary £000	Performance Bonus £000	Benefits £000	Total £000	**Pensions (Note i) £000**	Pensions (Note i) £000
Chairman										
D G Cruickshank – from 20 April 2000	432	250*	1	**683**	–	–	–	–	**–**	–
Chief executive										
C H F Furse – from 24 January 2001	57	50	–	**107**	–	–	–	–	**8**	–
Executive directors										
J A G Howell	211	260*	2	**473**	175	160	2	337	**24**	23
M Wheatley (note i)	215	270*	10	**495**	190	185	10	385	**–**	–
Previous directors										
Sir John Kemp-Welch – until 25 May 2000	42	–	1	**43**	250	–	4	254	**–**	–
G F Casey – until 15 September 2000	170	138	9	**317**	340	275	9	624	**37**	73
	1,127	968	23	**2,118**	955	620	25	1,600	**69**	96
Compensation for termination of contract										
G F Casey				**950**				–	**–**	–
				3,068				1,600	**69**	96

*The performance bonuses for 2001 include an additional interim bonus payable to these directors.

		2001 Total £000	2000 Total £000	**2001 Pensions (Note i) £000**	2000 Pensions (Note i) £000
Non-executive directors' fees					
Directors in office throughout both years					
I G Salter – deputy Chairman		**25**	25	**–**	–
G J Allen		**15**	15	**–**	–
M J P Marks		**15**	15	**–**	–
P R Meinertzhagen		**15**	15	**–**	–
Directors who did not hold office for the whole of the two financial years					
G K Allen	until 28 February 2001	**14**	15	**–**	–
Sir John Bond	until 31 December 1999	**–**	11	**–**	–
Baroness Cohen	from 1 February 2001	**5**	–	**–**	–
O Fanjul	from 1 February 2001	**5**	–	**–**	–
I Plenderleith	until 28 February 2001	**14**	15	**–**	–
S M Robertson	until 20 March 2001	**15**	15	**–**	–
H W H Sants	until 19 March 2001	**15**	15	**–**	–
N Sherlock	until 31 March 2001	**15**	15	**–**	–
N J Stapleton	from 1 February 2001	**5**	–	**–**	–
R S Webb QC	from 1 February 2001	**5**	–	**–**	–
Total non-executive directors' fees (note ii)		**163**	156	**–**	–
Total directors' emoluments		**3,231**	1,756	**69**	96

7. Directors' emoluments (continued)

Notes

i) Pensions

M Wheatley is a member of the Company's defined benefit scheme. The increase in his accrued pension during the year was £9,000 (2000, £8,000) and the accumulated accrued pension at the end of the year was £51,000 (2000, £42,000). M Wheatley is 42 years old and the scheme's normal retirement age is 60 years. His pension increases in payment each year in line with inflation subject to a maximum of five per cent and a minimum of three per cent a year and has an attaching 50 per cent spouse's pension.

The Company contributed to the senior executive defined contribution pension plan for C H F Furse of £8,000 (2000, £nil), J A G Howell of £24,000 (2000, £23,000) and for G F Casey of £37,000 (2000, £73,000).

ii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £90,000 representing six directors (2000, £111,000 representing seven directors).

iii) Waiver of emoluments

None of the directors waived emoluments during 2000 and 2001.

Directors' share interests

Share option grants	Number of options: At start of year	Granted during year	Exercised during year	At end of year	Option price	Expiry date
D G Cruickshank	–	18,195	–	18,195	23.74	16/11/10
	–	13,475	–	13,475	29.68	16/11/10
	–	31,670	–	31,670		
C H F Furse	–	28,545	–	28,545	25.22	25/01/11
	–	21,145	–	21,145	31.53	25/01/11
	–	49,690	–	49,690		
J A G Howell	–	24,260	–	24,260	23.74	16/11/10
	–	17,970	–	17,970	29.68	16/11/10
	–	42,230	–	42,230		
M Wheatley	–	27,295	–	27,295	23.74	16/11/10
	–	20,215	–	20,215	29.68	16/11/10
	–	47,510	–	47,510		

The options set out above become exercisable by D G Cruickshank, J A G Howell and M Wheatley between 16 November 2001 and 16 November 2005, at 20 per cent in each year, and by C H F Furse between 25 January 2002 and 25 January 2006, at 20 per cent in each year.

Share awards	Number of shares: At start of year	Awarded during year	Vested during year	At end of year	Vesting date
D G Cruickshank	–	5,055	–	5,055	16/11/03
C H F Furse	–	7,930	–	7,930	25/01/04
J A G Howell	–	6,740	–	6,740	16/11/03
M Wheatley	–	7,582	–	7,582	16/11/03

7. Directors' emoluments (continued)

The options granted and shares awarded during the year to D G Cruickshank, J A G Howell and M Wheatley were granted and awarded under the Company's long term incentive plans when the market price of the Company's shares was £23.74 and to C H F Furse when the market price was £25.22.

The market price of the shares on 31 March 2001 was £29.05 and the range during the year was £19.25 to £31.49.

Further share awards and grants of options under the Annual Share Plan and deferred bonus scheme, to vest in future years, will be made after the year end. The share awards will amount to £18,750 for C H F Furse, £67,500 for J A G Howell and £75,000 for M Wheatley. Grants of options will be at fair value and will be over shares to the value of £12,500 for C H F Furse, £45,000 for J A G Howell and £50,000 for M Wheatley.

Directors' interests in shares

The directors who held office at 31 March 2001 had the following other interests in the shares of the Company:

	Ordinary shares 2001	Ordinary shares 2000
D G Cruickshank	2,500	–
J A G Howell	1,250	–
M Wheatley	1,750	–
I Salter	400	–

8. Net interest receivable/(payable)

	2001 £m	2000 £m
Interest receivable		
Bank deposits (see note i)	**12.4**	11.1
Interest payable		
On bank and other loans repayable after five years (see note ii)	**(2.8)**	(3.0)
Interest on discounted provision for leasehold properties (see note 18)	**(1.7)**	(1.8)
Total	**(4.5)**	(4.8)
Net interest receivable – before exceptional item	**7.9**	6.3
Exceptional item		
Premium on redemption of mortgage debenture	**(17.6)**	–
Net interest (payable)/receivable – after exceptional item	**(9.7)**	6.3

Notes

i) Surplus funds are deposited for periods of less than one year. No trading of financial instruments takes place.

ii) The interest payable on loans repayable after five years was in respect of the £30m debenture repayable in 2016 (see note 17).

9. Taxation

	2001 £m	Restated (see note 27) 2000 £m
Current tax:		
Corporation tax for the year at 30% (2000, 30%)	**15.0**	17.8
Adjustments in respect of previous periods	**(1.4)**	(1.0)
	13.6	16.8
Deferred taxation (see note 15)	**1.5**	(0.5)
Joint venture	**0.1**	0.1
Taxation charge	**15.2**	16.4

The adjustments for previous years are partly in respect of timing differences, and reflect revised assumptions for the allowance of certain expenses.

Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2000, 30%).

The differences are explained below:

	2001 £m	2000 £m
Profit on ordinary activities before tax	**30.4**	48.5
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**9.1**	14.6
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	**6.8**	2.7
Accounting deduction greater than capital allowances – timing difference	**0.3**	2.6
Release of provisions	**(1.2)**	(2.1)
Adjustments to tax charge in respect of previous periods	**(1.4)**	(1.0)
Corporation tax charge	**13.6**	16.8

Factors that may affect future tax charges

The disposal of properties at their revalued amount would not give rise to a tax liability.

10. Dividend

	2001 £m	2000 £m
Interim paid: 10p per Ordinary share	**3.0**	–
Final proposal: 22p per Ordinary share	**6.5**	–
	9.5	–

11. Earnings per equity share

To show results for continuing operations on a comparable basis, an adjusted earnings per equity share is presented. This is in addition to earnings per equity share, which is in respect of all activities and diluted earnings per equity share which takes account of dilution for share options and share awards made under the Employee Share Ownership Plan (ESOP).

The weighted average number of equity shares excludes those held in the ESOP (see note 26) which are treated as cancelled. The effect of this cancellation is to reduce the weighted average number of equity share to 29.6 million (2000: 29.7 million). For diluted earnings per equity share, the weighted average number of equity shares is adjusted to assume conversion of share options and vesting of share awards granted to employees.

11. Earnings per equity share (continued)

	2001 £m	2000 £m
Profit for the financial year	**15.2**	32.1
Adjustments:		
Exceptional items	**18.9**	5.1
Exceptional interest costs – redemption of debenture	**17.6**	–
Discontinued operations	**(0.8)**	(5.2)
Tax effect of exceptional items and discontinued operations	**(5.9)**	1.6
Adjusted profit for the financial year	**45.0**	33.6
Weighted average number of equity shares – million	**29.6**	29.7
Effect of dilutive share options and awards – million	**–**	–
Diluted weighted average number of equity shares – million	**29.6**	29.7
Adjusted earnings per equity share	**152.0p**	113.1p
Earnings per equity share	**51.4p**	108.1p
Diluted earnings per equity share	**51.4p**	108.1p

12. Tangible assets

	Land and buildings		Plant and	
	Freehold £m	Leasehold £m	equipment £m	Total £m
GROUP AND COMPANY				
Cost or valuation:				
1 April 2000	155.2	4.4	87.9	247.5
Additions	0.6	–	22.1	22.7
Disposals	(0.3)	–	(11.7)	(12.0)
31 March 2001	**155.5**	**4.4**	**98.3**	**258.2**
Depreciation:				
1 April 2000	70.7	4.4	58.0	133.1
Provision for the year	3.4	–	16.5	19.9
Disposals	(0.2)	–	(11.7)	(11.9)
31 March 2001	**73.9**	**4.4**	**62.8**	**141.1**
Net book values:				
31 March 2001	**81.6**	**–**	**35.5**	**117.1**
1 April 2000	84.5	–	29.9	114.4
Net book values at 31 March 2001 are analysed as follows:				
Valuations	73.6	–	–	73.6
Cost less depreciation	8.0	–	35.5	43.5
	81.6	**–**	**35.5**	**117.1**

12. Tangible assets (continued)

Notes

i) Freehold land and buildings includes freehold properties and the associated fixed plant. All freehold properties were revalued as at 31 March 1997 by DTZ Debenham Thorpe, International Property Advisors, in accordance with the RICS Appraisal and Valuation Manual. The Directors reviewed the valuations at 31 March 1997 and were of the opinion that the total value of freehold properties amounted to £92.0m based on the Existing Use Value or Open Market Value as appropriate.

ii) Based on historical cost at 31 March 2001, the aggregate cost of tangible assets was £219.7m (2000, £209.0m) and the aggregate depreciation was £150.3m (2000, £144.2m).

iii) Plant and equipment includes capitalised software with a net book value at 31 March 2001 of £20.4m (2000, £18.3m).

13. Fixed asset investments

These represent investments in joint venture undertakings and other investments made by the Company.

	Joint venture note (i) £m	Own shares note (ii) £m	Other note (iii) £m	Total £m
a) GROUP				
1 April 2000	2.1	–	0.4	2.5
Additions – purchase of own shares	–	10.0	–	10.0
Charge to profit and loss account	–	(0.3)	–	(0.3)
Share of retained profit	0.2	–	–	0.2
31 March 2001	**2.3**	**9.7**	**0.4**	**12.4**
b) COMPANY				
1 April 2000	1.5	–	0.4	1.9
Additions – purchase of own shares	–	10.0	–	10.0
Charge to profit and loss account	–	(0.3)	–	(0.3)
31 March 2001	**1.5**	**9.7**	**0.4**	**11.6**

Notes

i) Joint venture

The Company owns 50 per cent of the 1,000 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is a joint venture owned together with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The Exchange is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. At 31 March 2001, the Company was owed £nil by FTSE International Limited (2000, £nil). The Group investment of £2.3m shown above represents the Exchange's share of the joint venture's net assets as at 31 December 2000, their accounting reference date.

The following amounts were receivable from FTSE International during the year:

	2001 £m	2000 £m
Royalties	**1.7**	1.9
Facilities management and other data services	**–**	0.2
Rent and service charges	**0.1**	0.1
	1.8	2.2

13. Fixed asset investments (continued)

ii) Own shares

Own shares represent shares held in a separately administered trust for the purposes of the Company's Initial and Annual Share Plans. The difference between the purchase price of the shares and the exercise price of the awards/grants is charged to the profit and loss account over the period of service for which the options and awards are granted. Details of the Trust's liabilities are set out in note 26 to the financial statements.

iii) Other investment

The other investment of £0.4m represents the cost of the Company's 3.0 per cent interest in unlisted redeemable fixed interest shares in CRESTCo Limited.

iv) Subsidiary undertakings

The Company holds directly or indirectly 100 per cent of the Ordinary shares, being the only class of shares on issue, of all its subsidiaries, none of which has actively traded during the year. A full list of subsidiaries will be annexed to the next annual return of the Company.

14. Debtors: amounts falling due within one year

	2001 £m	2000 £m
Trade debtors	**15.1**	16.4
Other debtors	**0.9**	0.5
Prepayments and accrued income	**21.3**	18.8
	37.3	35.7

15. Deferred taxation: amounts falling due after more than one year

	£m
31 March 2000 as previously stated	1.2
Prior year adjustment (see note 28)	11.0
1 April 2000 restated	12.2
Transfer to the profit and loss account during the year	(1.5)
31 March 2001	**10.7**

The deferred taxation balance comprises:

	2001 £m	2000 £m
Tax allowances available in excess of related depreciation	**5.6**	5.9
Provisions and other timing differences	**5.1**	6.3
	10.7	12.2

The deferred tax asset is recoverable against future taxable profits.

16. Creditors: amounts falling due within one year

	2001 £m	2000 £m
Trade creditors	**10.9**	10.8
Corporation tax	**7.3**	14.3
Other taxation and social security	**0.8**	1.8
Other creditors	**6.3**	4.2
Accruals and deferred income	**27.0**	28.0
Proposed dividend	**6.5**	–
	58.8	59.1

17. Creditors: amounts falling due after more than one year

	2001 £m	2000 £m
Repayable in five years or more – otherwise than by instalments:		
10⅛% Mortgage Debenture Stock 2016	**–**	30.0

The 10⅛% Mortgage Debenture Stock 2016 (the Stock) was secured by a mortgage on the freehold site and buildings known as The Stock Exchange, London. The Company could purchase and cancel any of the Stock at any time and, except in so far as previously purchased or redeemed and cancelled, the Stock was to be redeemed at par on 1 November 2016. Earlier purchase or redemption of the Stock could be at an amount above par.

On 28 February 2001, an Extraordinary General Meeting of holders of the Company's Stock approved an amendment to the Trust Deed enabling the Company, at its discretion, to redeem the Stock in its entirety at any time. Following execution of amendments to the Trust Deed on 1 March 2001, the Company exercised its rights and redeemed the Stock in full on 8 March 2001.

18. Provisions for liabilities and charges

	Pensions £m	Property £m	Total £m
1 April 2000	1.3	29.7	31.0
Utilised during the year	(0.2)	(3.2)	(3.4)
Interest on discounted provision	–	1.7	1.7
Surplus provision released	–	(4.7)	(4.7)
31 March 2001	**1.1**	**23.5**	**24.6**

Pensions

The pensions provision represents a pension surplus which first arose in 1990 and is being released to the profit and loss account over the expected remaining service lives of scheme members in accordance with the accounting policy for pension costs.

Property

The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting for those properties which are surplus to business requirements. The leases have a maximum term of 13 years to expiry. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting and lower future costs.

19. Share capital

	2001	2000
Authorised		
Ordinary shares of 5p each – number	**40,000,000**	–
– £	**2,000,000**	–
'A' shares of 5p each – number	**–**	5,601
– £	**–**	280
'B' shares of 5p each – number	**–**	14,399
– £	**–**	720
Issued, called up and fully paid		
Ordinary shares of 5p each – number	**29,700,000**	–
– £	**1,485,000**	–
'A' shares of 5p each – number	**–**	880
– £	**–**	44
'B' shares of 5p each – number	**–**	14,399
– £	**–**	720

All outstanding 'A' shares were redeemed with effect from 12 April 2000. On 12 April 2000, the 'B' shares held by the share trustee were purchased by the Company for £1 and cancelled, each 'B' share was reclassified as an Ordinary share and there was a bonus issue of 99,999 Ordinary shares for every Ordinary share held. This increased the number of shares in issue to 29.7 million.

20. Reserves

	Group				Company			
	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m
31 March 2000 as previously stated	49.6	8.8	15.0	160.7	49.6	8.8	15.0	160.1
Prior year adjustment (see note 28)	–	–	–	11.0	–	–	–	11.0
1 April 2000 restated	49.6	8.8	15.0	171.7	49.6	8.8	15.0	171.1
Retained profit for the financial year	–	–	–	5.7	–	–	–	5.5
Premium paid to 'A' shareholders (see note 19)	–	(8.8)	–	–	–	(8.8)	–	–
Bonus issue of new shares	–	–	–	(1.5)	–	–	–	(1.5)
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(1.9)	–	–	1.9	(1.9)	–	–	1.9
Transfer on closure of Trade Compensation Scheme	–	–	(15.0)	15.0	–	–	(15.0)	15.0
31 March 2001	**47.7**	**–**	**–**	**192.8**	**47.7**	**–**	**–**	**192.0**

20. Reserves (continued)

Equity shareholders' funds on the balance sheet comprise the issued share capital of Ordinary (previously 'B') shares together with the revaluation and trade compensation reserves and the profit and loss account. Non-equity shareholders' funds comprised the issued share capital of 'A' shares and the capital redemption reserve. As explained in note 19, following the approval by the Court on 12 April 2000, all outstanding 'A' shares as at 31 March 2000 were redeemed with effect from 12 April 2000.

The balance on the trade compensation reserve was returned to the profit and loss account on closure of the Trade Compensation Scheme on 26 February 2001 when the Company introduced a central counterparty for trading.

21. Reconciliation of movements in shareholders' funds

	2001	2000
	£m	£m
Profit for the financial year – (2000 restated, see note 28)	**15.2**	32.1
Dividend	**(9.5)**	–
Redemption of 'A' shares during the year	**(8.8)**	(25.8)
Net (reduction)/addition to shareholders' funds	**(3.1)**	6.3
Opening shareholders' funds – (2000 restated, see note 28)	**245.1**	238.8
Closing shareholders' funds	**242.0**	245.1

22. Notes to the consolidated cash flow statement

	2001	2000
	£m	£m
i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**39.8**	41.9
Depreciation of tangible assets	**19.9**	22.2
Increase in debtors	**(1.3)**	(7.6)
Decrease in creditors	**(3.2)**	(8.5)
Provisions utilised during the year	**(3.4)**	(3.0)
Amortisation of own shares	**0.3**	–
Net cash inflow from operating activities	**52.1**	45.0
Comprising:		
Ongoing operating activities	**74.5**	46.4
Exceptional items (see note 4)	**(22.4)**	(1.4)
Net cash inflow	**52.1**	45.0
ii) Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the year	**0.5**	(2.1)
(Decrease)/increase in liquid resources	**(53.0)**	2.0
Redemption of debenture	**30.0**	–
Change in net funds	**(22.5)**	(0.1)
Net funds at 1 April 2000	**170.4**	170.5
Net funds at 31 March 2001	**147.9**	170.4

22. Notes to the consolidated cash flow statement (continued)

	At 1 April 2000 £m	Cash flows £m	**At 31 March 2001 £m**
iii) Analysis of changes in net funds			
Cash in hand and at bank	4.4	0.5	**4.9**
Debt due after more than one year	(30.0)	30.0	**–**
Current asset investments	196.0	(53.0)	**143.0**
Total net funds	**170.4**	**(22.5)**	**147.9**

23. Commitments

	2001 £m	2000 £m
Contracted capital commitments not provided for in the financial statements	**0.6**	0.1
The contracted commitments were mainly in respect of computing equipment.		
Financial commitments under property operating leases at 31 March 2001 for payments in the year to 31 March 2002 are as follows:		
Leases expiring – in one year	**–**	0.2
– between two and five years	**0.9**	–
– in five years or more	**3.8**	4.7
	4.7	4.9

24. Pension costs

The Company operates one pension plan which includes separate defined benefit and defined contribution sections. The assets of the defined benefit and defined contribution sections are held separately from those of the Company and the funds are managed by Schroder Investment Management Limited and Legal & General Investment Management Limited respectively. The defined benefit section is non-contributory and provides benefits based on final pensionable pay. Pension costs are determined by an independent qualified actuary on the basis of regular valuations using the projected unit method and are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Company.

A full actuarial valuation of the defined benefit section was carried out at 31 March 2000 and updated to 31 March 2001 by a qualified independent actuary. The assumptions which have the most significant effect on the results of the valuation are those relating to the discount of estimated cash flows and the rates of increase in salaries and pensions:

	31 March 2001	Actuarial valuation 31 March 2000
Inflation assumption	**2.7%**	2.9%
Rate of increase in salaries	**4.7%**	4.9%
Rate of increase in pensions in payment	**3.7%**	3.7%
Discount rate	**6.0%**	5.9%

24. Pension costs (continued)

At 31 March 2000, the market value of the plan's assets for the defined benefit section was £162m, representing 107 per cent of the value of benefits that had accrued to the members, after allowing for expected future increases in salaries.

Following the actuarial valuation as at March 2000, contributions recommenced in March 2001. The contribution rate and pension charge for the forthcoming year for the defined benefit section is 31.2 per cent of pensionable salaries less £1.1m amortisation of the current surplus. As the defined benefit section is closed to new members, under the projected unit method the current service cost will increase as a percentage of pensionable salaries as the members approach retirement.

Since July 1999, the Company has provided a defined contribution scheme to all employees, now the only scheme open to new employees. A core contribution of eight per cent of pensionable pay is provided and the Company will match employee contributions up to a maximum of six per cent of pensionable pay.

The pension charge for the year ended 31 March 2001 was:

	2001 £m	2000 £m
Defined benefit	**0.7**	(0.2)
Defined contribution	**0.9**	1.0
	1.6	0.8

The fair value of the assets and net position of the defined benefit section, with the assumed expected rate of return at 31 March 2001 was as follows:

	31 March 2001 £m	Long term expected rate of return
Equities	**71.0**	6.25%
Bonds	**80.0**	5.25%
Total market value of assets	**151.0**	
Present value of liabilities	**163.0**	
Deficit in the plan	**(12.0)**	
Related deferred tax asset	**3.6**	
Net pension liability	**(8.4)**	

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2001 would have been reduced by £8.4m. The trustees of the plan have decided to re-allocate the plan's investments so that 25 per cent is invested in equities and 75 per cent in bonds by the end of the next accounting year, gradually moving to 100 per cent investment in bonds over the long term.

25. Financial assets and liabilities

The Company has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash, investments and borrowings. Short term debtors and creditors are excluded. All of the Company's financial assets and liabilities are sterling based and no derivative contracts have been entered into during the period. The main risks arising from the Company's financial instruments are in respect of interest rate, credit and liquidity.

Interest rate management

The Company finances its operations through retained earnings and, prior to its redemption in March 2001, by a £30 million debenture. Details of the debenture are set out in note 17. There are no floating rate financial assets or liabilities. Term deposits with banks are for fixed rates for the period of the deposit.

Liquidity and credit management

The Company manages liquidity risk by depositing funds available for investment in approved instruments for periods up to one year. Counterparty risk is managed by establishing minimum credit worthiness limits and limiting the maximum exposure to each counterparty.

	2001 **£m**	2000 £m
Financial assets		
Other fixed asset investments (excluding own shares)	**0.4**	0.4
Investments – term deposits	**143.0**	196.0
Cash at bank	**4.9**	4.4
	148.3	200.8
Maturing in:		
One year or less, or on demand	**147.9**	200.4
Weighted average period of fixed interest rates	**153 days**	84 days
Weighted average interest rate	**5.7%**	6.0%
Financial liabilities		
The Company's financial liabilities and their maturity profile are:		
10⅛% Mortgage Debenture Stock 2016, repayable in more than five years	**–**	30.0

	Book value 31 March 2001 £m	**Fair value 31 March 2001 £m**	Book value 31 March 2000 £m	Fair value 31 March 2000 £m
Fair values of financial assets and liabilities				
Other fixed asset investments (excluding own shares)	**0.4**	**0.4**	0.4	0.4
Investments – term deposits and cash	**147.9**	**147.9**	200.4	200.4
10⅛% Mortgage Debenture Stock 2016	**–**	**–**	(30.0)	(49.5)
	148.3	**148.3**	170.8	151.3

The fair value of term deposits and cash is based on the carrying amount because of the short maturity period of the instruments. The fair value of the 10⅛% Mortgage Debenture Stock 2016 was based on the market price for comparable instruments.

26. Employee Share Ownership Plans (ESOP)

During the year, the Company introduced a Share Scheme comprising of an Initial Share Plan and an Annual Share Plan including a SAYE option scheme.

The Initial Share Plan was introduced in November 2000 following the Company's conversion to a public limited company. Share awards and a grant of options were made to senior executives. The share awards have a vesting period of three years and share options vest at 20 per cent per annum over five years.

Under the Annual Share Plan, the first awards of shares and grants of options to staff were made in November 2000, and further awards and grants will be made each year, based on individual performance and potential. The awards are funded from the annual bonus pool which is determined by the Remuneration Committee. The share awards have a vesting period of three years and share options vest at 20 per cent per annum over five years.

The SAYE scheme provides for grants of options to employees who enter into a SAYE savings contract – the first contracts were established in December 2000.

The Company has established an ESOP discretionary trust to administer the share plans and to acquire the Company's shares to meet the commitments to employees.

Share awards are granted at nil cost to the employee and share options are granted at fair market value or above. Options under the SAYE scheme were granted at 20 per cent below fair market value. Costs for the Initial Share Plan are being charged to the profit and loss account over three years from the date of award, for the Annual Share Plan in the year to which the awards relate and for the SAYE scheme over the five years of the savings contract.

At the balance sheet date, 424,000 shares had been purchased by the trust, funded by an interest free loan from the Company, at an initial cost of £10.0 million. At the balance sheet date, the market value of these shares was £12.3 million. Dividends on share awards have not been waived by the trust. In accordance with UITF 13, the assets, liabilities, income and costs of the ESOP trust have been included in the Company's financial statements.

As at 31 March 2001 awards of shares and grants of options outstanding were:

	Date granted	Subscription/ option price per share	Exercisable from	Number of shares for which right is exercisable 2001	2000
Share awards	16/11/00	–	16/11/03	**90,819**	–
	25/01/01	–	25/01/04	**7,930**	–
Share options	16/11/00	23.74	16/11/01	**290,730**	–
	25/01/01	25.22	25/01/02	**28,545**	–
	16/11/00	29.68	16/11/01	**181,990**	–
	25/01/01	31.53	25/01/02	**21,145**	–
SAYE scheme – share options	7/12/00	19.00	7/12/05	**146,026**	–
Total share awards and options				**767,185**	–

27. Transactions with related parties

During the financial year, no contracts of significance were entered into by the Company or any of its subsidiaries in which the directors had a material interest.

FTSE International Limited

Details of transactions with FTSE International Limited are included in note 13.

28. Prior year adjustment

During the year the Company changed its accounting policy in respect of deferred taxation. Previously the Company provided for deferred tax using the liability method, except where, in the opinion of the directors, a liability or recovery was unlikely to arise in the forseeable future. The Company has now adopted the new financial reporting standard on deferred taxation, FRS 19. The Company now makes full provision for future tax consequences of past transactions and events. The timing differences are recognised as deferred tax liabilities or assets in the financial statements, measured at expected future tax rates. No discounting of the deferred tax liabilities or assets is applied. The comparative figures have been restated to reflect this change in accounting policy.

	Year ended 31 March 2000 £m
Profit for the financial year as previously reported	33.9
Effect of change in accounting policy:	
Change in taxation charge	(1.8)
Profit for the financial year as restated	**32.1**
Net assets for the Group as previously reported at 31 March 2000	234.1
Effect of change in accounting policy:	
Change in deferred tax asset	11.0
Net assets as restated at 31 March 2000	**245.1**

The effect of this change in accounting policy is to reduce profit after tax for the current year by £1.2m due to the increase in the deferred tax charge.

29. Contingent liabilities

In December 2000 the Company received a letter claiming €10m (£6.2m) from Deutsche Börse AG (DBAG) for damages in respect of the withdrawal of the proposed merger between DBAG and the Company. DBAG has not commenced any formal legal proceedings and the Company will vigorously defend any action brought by DBAG.

There are other claims against the Company, none of which are considered to be material.

Shareholder information

Financial calendar

Final dividend payment	**August 2001**
Half year end	**30 September 2001**
Interim dividend payment	**January 2002**
Financial year end	**31 March 2002**

Registered office

London Stock Exchange
London
EC2N 1HP

Registered company number

2075721

Corporate Investor Relations contacts

Mailing address:
London Stock Exchange
Attn: Investor Relations
London EC2N 1HP

Email: irinfo@londonstockexchange.com

Shareholder helpline

+44 (0)20 7797 3322

Website: www.londonstockexchange.com

Registrar information

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone: +44 (0)1903 502541

Website: www.lloydstsb-registrars.co.uk

Substantial shareholders

(notified of 3% holding or more)

As at 23 May 2001 the Company had been notified of the following substantial interests in accordance with Sections 198 to 208 of the Companies Act 1985:

UBS AG	4.07%
Fidelity International Limited	3.05%

Share trading

At an Extraordinary General Meeting held on 15 March 2000, shareholders approved the necessary resolutions to enable the Exchange to become a public company. The Company re-registered itself as a public company and changed its name to 'London Stock Exchange plc' on 8 June 2000. Dealing of the Exchange's shares is conducted via an off-market trading facility operated by Cazenove & Co. The Company proposes to seek admission of its shares to the Official List.

London STOCK EXCHANGE

London Stock Exchange plc
London EC2N 1HP
Telephone +44 (0)20 7797 1000

www.londonstockexchange.com

Registered in England and Wales No 2075721

Design by Dragon
Photography by Martin Levenson
Printed by First Impression