London STOCK EXCHANGE

Building on our success

Annual Report 2000

Contents

Building on our success

The past year has been one of challenge and opportunity within the world's securities markets. We have met those challenges and enjoyed one of the most successful periods in our history. Building on our experience and success, we have taken steps to create a firm basis for the development of our markets in the future.

A year of strong performance

Our business

Turnover increased by **14 per cent**

117 per cent increase in profit before tax

Earnings per share increased by **131 per cent**

	1999/2000	1998/1999
Turnover on continuing operations	**£164m**	£144m
Profit before tax	**£49m**	£22m
Earnings per share	**114p**	50p
Net assets	**£234m**	£226m

Our markets

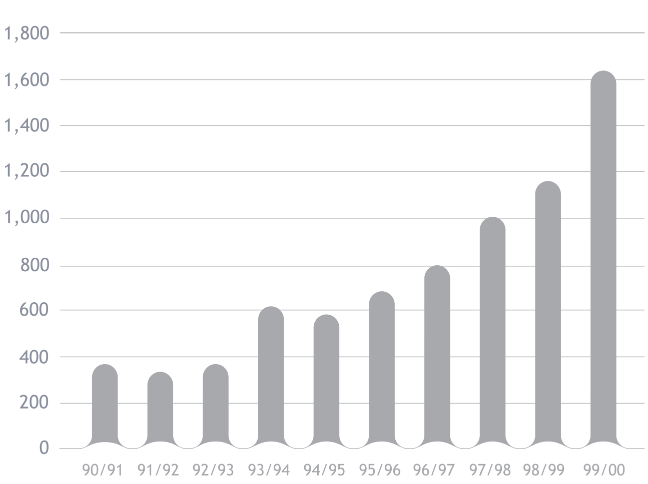
Value of bargains in UK equities increased by **42 per cent**

285 new companies joined our markets

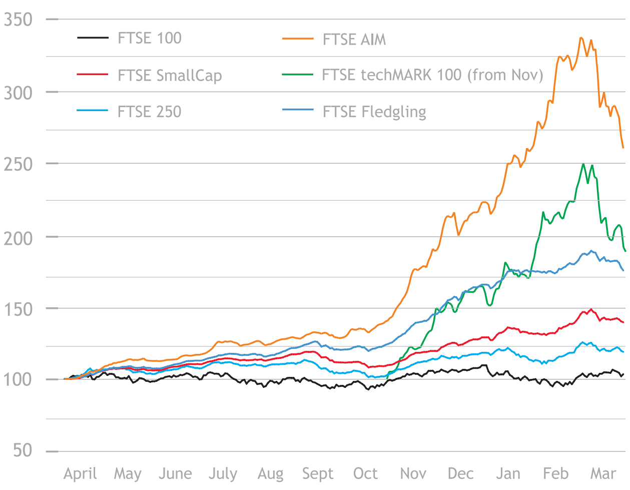
UK market capitalisation up **19 per cent** to **£1,839bn**

	Domestic		International	
Value of bargains in equities	£1,638bn	*up 42%*	£2,673bn	*up 12%*
Number of equity bargains	25.4m	*up 49%*	8.5m	*up 13%*
Equity market value	£1,839bn	*up 19%*	£3,683bn	*up 26%*
New companies	253	*up 25%*	32	*down 3%*
Total money raised	£112.5bn	*up 56%*	£103.1bn	*up 31%*

UK equity turnover over 10 years (£bn)



Daily index movements 1999/2000



A year of change

Last year we emphasised the scale of the changes and opportunities that lay ahead. Our initiatives and activities in the year since then have gone a significant way to meeting those challenges, with a series of major developments to the services and markets available to our customers, culminating in the recent announcement of our proposed merger with Deutsche Börse and our plans to work with Nasdaq to develop a European market for high-growth companies.

Record levels of trading

The year saw our markets busier than ever, with much of the attention – and trading activity – focused on the telecommunications, media and technology sectors. The introduction of techMARK in November helped to raise the profile of those stocks, and we were pleased to see the high levels of activity from private investors, who are increasingly using the internet to obtain company information and to access on-line trading services.

Largely as a result, trading in UK equities reached a record value of £1,638 billion, up 42 per cent compared with the previous year. Most of this increase was due to heavy trading in the final quarter of the year. In addition, trading in international equities was up 12 per cent to £2,673 billion.

International

We have continued to give high priority to attracting new international business to our markets and there have been over 50 major overseas missions this year. As Asia recovered from volatile market conditions, we have visited China, Japan and Korea and were pleased to see new business flowing from that region.

> "I am confident that the initiatives we have taken in recent years will enable the Exchange to maintain and enhance its leading position."

Demutualisation

In July 1999, we announced that the time had come for us to adopt a different ownership structure and in February, we presented proposals to move from our long-standing quasi-mutual status.

By taking the step to a fully commercial basis of operation, we believe that the Exchange will be able to achieve not only a clearer focus on customer needs, but also the more responsive decision-making capability that will enable us to respond flexibly to changes in the business environment.

The response to the proposals was very positive. At an Extraordinary General Meeting on 15 March 2000, the 'B' shareholders voted overwhelmingly to adopt the necessary resolutions, and the early repayment of £10,000 to each 'A' shareholder received final court approval on 12 April 2000.

Achieving this change within a relatively short timescale involved a great deal of hard work and commitment from all involved. I should like to express my thanks to members of the Board, and to all the executive management staff, for their valuable input and support during this period.

The Board and management

Sir John Bond retired from the Board on 31 December 1999 after six years' service. We are most grateful to him for the strong commitment, steadfast support and international experience that he brought to our affairs.

Keith Robinson, who had been Secretary to the Board since 1991, left at the end of March. We have greatly appreciated the outstanding contribution he made to the Stock Exchange, not only as Secretary to the Board but also in the wider role he played. We wish him great success and fulfilment in his new appointment.

Committees

We are most grateful to our advisory committees who have played a central role in our policy development, providing valuable market practitioner input and advice on a range of issues.

Looking forward, we shall continue to place the utmost importance on discussions and consultations with market users, in order to ensure that we have effective relationships with all our customers.

Chairmanship

I announced last September that I would, in the course of the year, be retiring from the Board of the London Stock Exchange. We are very pleased that Don Cruickshank has been appointed my successor. With his considerable experience in both the private and the public sectors, he brings to the Exchange a range and breadth of skills that will be of great value as it enters a new era as a fully commercial organisation.

The future

The approval of our new ownership structure as a fully commercial company has put us in an ideal position from which to exploit the many opportunities open to us.

Our proposals to merge with Deutsche Börse and to work with Nasdaq on the development of a pan-European high-growth market will bring a fundamental change and potentially is a great opportunity for London.

Detailed proposals for the merger are being drawn up in conjunction with our advisers and will be circulated to our shareholders for their consideration during the coming period.

As I conclude my final annual statement as Chairman, I am confident that the initiatives we have taken in recent years will enable the Exchange to maintain and enhance its leading position,
In terms of our structure, management team and staff, we are more than ready to meet our principal objectives – which are to provide efficient, cost-effective markets that enable our customers to maximise their domestic, European and international business opportunities.

On a personal note, I would like to express great appreciation to all my Board colleagues over the past six years for their strong support during a period of extensive change and challenge – and to Ian Salter, Deputy Chairman for the whole of this period, I owe a particular debt of gratitude.

Sir John Kemp-Welch
Chairman, London Stock Exchange

Leading the way

The year 1999/2000 was a period of far-reaching change and development for the London Stock Exchange in particular and for Europe's equity markets as a whole. Consolidation among European exchanges began to take shape and the proliferation of fast-growing technology companies further raised the profile of our markets and made a significant impact on trading volumes.

Ready for change

The competitive environment in which the Exchange operates is constantly changing as markets move away from a domestic focus towards a sector-based, cross-border approach. Our demutualisation places us in an ideal position to respond rapidly to events and opportunities as they arise and has provided a basis on which to negotiate our proposed merger with Deutsche Börse and our joint venture with Nasdaq. Through these steps, we intend fully to participate in the rationalisation of stock markets for the benefit of our customers.

"We will continue to develop our range of markets in line with our customers' requirements as economic and business conditions evolve."

Gavin Casey, Chief Executive of the London Stock Exchange, at the announcement of the proposed merger with Deutsche Börse

Financial results

Our financial performance showed a significant improvement over last year. Turnover from continuing operations was £164.0 million, an increase of £20.0 million on 1998/99. Operating profit from continuing operations rose by £28.1 million to £36.7 million, and profit before tax increased to £48.5 million, up £26.2 million on last year. Operational cash flow was £45.0 million, a rise of £9.0 million.

Company services

We provide a range of services for companies, facilitating the raising of capital and the trading of securities. During the year, our relationship with companies moved to a more customer-focused basis, with a high priority on providing a wider range of services and on raising the profile of companies among investors of all kinds.

In particular, we have responded to the changing needs of companies and investors by developing a series of initiatives following the 'attribute' approach. The first of these, techMARK, was our new market for companies whose business is founded on innovative technology.

Launched by the Chancellor of the Exchequer in November, techMARK addresses the fact that many technology companies need to raise capital on a public market much earlier in their life-cycle than traditional businesses. It caters for these needs by providing special listing arrangements, designed specifically for technology companies and their investors. Furthermore, techMARK's grouping together of technology companies, irrespective of size or sector, helps to raise their visibility and allows investors to target them more effectively. There are two techMARK indices, both provided by FTSE International, and the new market should help to improve the flow of capital into these important growth companies of the future.

In February 2000, we announced the second of our attribute markets – extraMARK – which provides a focus for innovative new investment products offering benefits for both professional and private investors. The first product to be launched under the extraMARK umbrella was an Exchange Traded Fund, which provides investors with access to the performance of a share index by buying shares in a single fund.

Both these new attribute markets have been designed to respond to the changing needs of companies and investors. We will continue to develop our range of markets in line with our customers' requirements as economic and business conditions evolve.

The year has seen great emphasis on developments driven by the internet. Within the Exchange, internet technology is increasingly being used to improve our services to our customers of all kinds. Our innovations during the year included a new internet-based market performance service for companies. The information provided includes share price and trading information, allowing companies to compare themselves against their competitors.

Chief Executive's review

Trading services

During the year, we improved the functionality of our trading services to ensure that investors use our markets to the fullest possible extent rather than the services offered by alternative trading systems. In particular, we announced in October 1999 a major new programme to develop and invest further in all our trading services.

We have introduced a range of technical enhancements that will attract further liquidity to our electronic order book. They will also align our market structures more closely with other European markets. We have played a major part over the past year, with other European exchanges, in harmonising trading rules across Europe for the benefit of all our users. In addition to the current opening auction, a further auction has been introduced to set the closing price for stocks on the order book. At the same time, for a limited number of securities traded through our quote-driven system, we introduced two 15-minute blind auction periods. Although initially a pilot, we fully expect that these alternative execution services will benefit all market users.

The electronic order book was also expanded during the year to include the most liquid stocks from the FTSE 250 index.

As a further enhancement to the efficiency of the London market, plans were announced in November 1999 to progress settlement from T+5 to T+3 in the first quarter of 2001.

We encountered a technical problem on 5 April 2000 in our trading service that prevented the market from opening until mid-afternoon. Immediately following the incident, we wrote to member firms expressing our regret over the disruption caused to market users and we undertook a thorough investigation of the cause of the failure. We have identified and implemented measures to ensure that the problem does not recur.

Gavin Casey welcomes Don Cruickshank, Chairman designate, to the London Stock Exchange

Information services

The dramatic, continuing expansion in the use of the internet during the year has been reflected in developments to our information services. Our website has been upgraded significantly and is particularly valuable for private investors seeking information, including the latest news about our Share Aware campaign. In addition, Stock Exchange notices and technical announcements are now being delivered on-line. 'Hits' on our site are growing, both in number and in length of visits. By the end of March 2000, the average number of hits per day had risen to 500,000.

As part of our programme of work to ensure that market users derive the greatest possible benefit from development of the internet, the Regulatory News Service is also being upgraded to allow companies to input their announcements using internet technology. The new arrangements will enable announcements to be displayed on our website – a move that will again be particularly beneficial to private investors. This programme of enhancements, announced in March 2000, will be completed in the autumn.

> "The Exchange is continuing to take decisive action to build for the future and to strengthen the commercial focus it will need in the years ahead."

A further initiative aimed at the private share-owning community was our launch of a new internet service providing share price information to private investors and share clubs. The new service, which went live in February 2000, offers share price information with benchmarking and charting facilities. The user can track a portfolio of stocks as well as a FTSE sector or FTSE index over his or her preferred time period. The service is free and available to everyone, and by the end of March 2000, the service was already receiving over 65,000 visits per day.

Promotion and development

We have given high priority during the year to the promotion of our markets, both in the UK and overseas. The launch of techMARK was supported by an extensive media advertising and direct marketing campaign, and we have continued to focus on enhancing our relationships with companies and other customers.

Internationally, our marketing and promotional initiatives have fully reflected the increasingly competitive global environment in which we are operating. There have been successful promotional visits to South Africa, India, China and Eastern Europe, resulting in a number of important new listings. These include Anglo American, Israel's Bank Hapaolim, Korea Telecom, Old Mutual, Q-Tel (our first listing from Qatar), South African Breweries, the Indian IT company SSI and Toyota Motor Corporation.

Management and staff

The progress we have made during the year has depended crucially on the commitment and quality of our staff. In recognition of this, we have strengthened our senior management team by promotions from within the organisation. I should like to thank all our management and staff for the contribution they have made to the results and activities of the company during the year. It has been a pleasure to work with them all.

The year ahead

In the year ahead, we shall remain committed to the provision of high quality services to all our customers. In particular, we will:

- actively participate in the development of global markets
- make increasing use of the internet to deliver our information services
- expand and improve services to raise the profile of our companies with investors
- increase the geographical reach of our real-time market data.

The Exchange is continuing to take decisive action to build for the future and to strengthen the commercial focus it will need in the years ahead. The coming year will be important, as the pace of change in equity markets continues and we work to deliver the merger with Deutsche Börse and our new working relationship with Nasdaq.

Gavin Casey
Chief Executive, London Stock Exchange

A focused business

As markets across the world face unprecedented competitive and technological pressures, we have ensured that we are in position to play a leading role in this period of rapid change. Our move towards a new structure has enabled us to be faster and more responsive in our decision-making, allowing us to deliver enhanced services to our customers and improved returns for our shareholders. Our drive to meet these objectives is based on the complementary commercial strengths of our three core business areas – Company Services, Trading Services and Information Services.

Company Services

The well-being of the companies that raise capital through our markets is central to our future. By providing these companies with the added-value services they need to make the most of their publicly-quoted status, our Company Services division brings us clear advantages – making our markets an attractive place for companies to choose for their listing, and ensuring that our companies maximise the benefits of being traded on the London Stock Exchange.

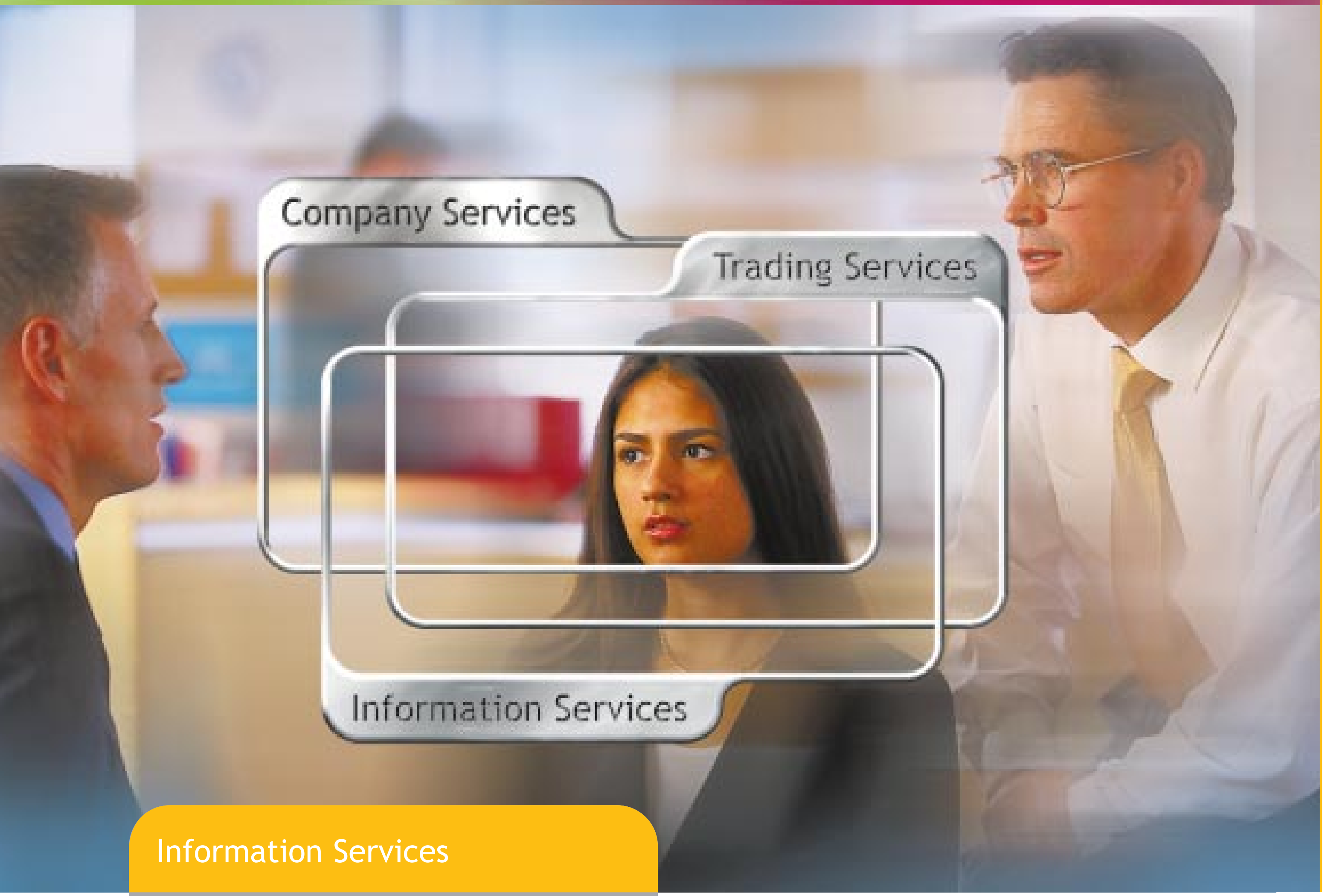
These services have three objectives:

- to facilitate capital raising and trading in companies' securities and enhance companies' profiles
- to ensure companies have the information they want on the trading of their securities
- to offer a secure and effective mechanism for making company news widely available.

Trading Services

All companies traded on our markets benefit from access to our large-scale, flexible trading services, providing a basis for fair and orderly markets and reliable prices. Through our Trading Services, we operate a sophisticated and well-regulated trading environment which meets the needs of companies of all sizes.

To respond to the changing needs of the companies traded in London, we invest continually in developing these services – reinforcing our ability to provide low-cost execution, high levels of performance and excellent accessibility. We cater for the most liquid stocks through an advanced electronic order book, while less liquid stocks have access to quote display or a mix of quote display and order execution. Trading Service's revenue derives from a number of sources, principally from the execution of transactions.



Information Services

Our Information Services division plays a pivotal role in shaping our relationship with investors and other stakeholders. Through these services, we aggregate prices, news and other information and sell a range of products into the market.

Most of our Information Services' revenue comes from the sale of real-time data. Third-party information service providers sell this data to their customers while some market participants – generally the larger securities houses – buy the data directly. By giving this strong customer base the services it needs, we have built a successful and growing business delivering high-quality real-time price information to the professional marketplace. The number of installed terminals offering real-time access to the Exchange's data has now grown to over 91,000 worldwide.

Building

Global business is changing more rapidly then ever before and stock exchanges are a central part of this process. We are building our business to meet the new commercial challenges and to play a pivotal role in the development of securities markets across the world.

"This proposal provides us with the opportunity to build a global market and to create a leading international integrated exchange."

Don Cruickshank
Chairman designate,
London Stock Exchange

By building on the strengths of our existing businesses and continuing to invest in new products and services for all our customers, we aim to enhance our strong competitive position still further both in the UK and internationally.

Proposed merger with Deutsche Börse

Our commitment to the development of global markets was clearly demonstrated by the announcement in May 2000 of our proposal to merge with Deutsche Börse.

The proposed merger of the two largest equity markets in Europe is the first major step in the forthcoming global rationalisation of securities trading. The proposed merger will create one of the deepest pools of liquidity available to companies and investors. The corporate structure of the merged entity will be established so as to allow other markets to join, and to share in pooling technology, knowledge and expertise.

We have also announced the signing of a Memorandum of Understanding with Nasdaq to create a pan-European high growth market. These are, however, only the first significant steps in the creation of harmonised markets.

A new structure for a new era

The merger announcement was made possible by our decision to change the ownership structure of the Exchange.

In putting forward our proposals to demutualise, which were approved by shareholders on 15 March 2000, we have given ourselves the capability to develop and execute strategy more efficiently than in the past. Demutualisation will enable us to be more responsive to the challenges facing us now and those yet to emerge. As a commercial organisation, we will be able to focus very clearly on delivering value to our shareholders, while serving the needs of all our customers.

Our demutualisation and the proposed merger are two steps in the same journey – one in which we will drive forward the consolidation of stock markets. In pursuing this goal, we will continue to deliver real benefits to our customers and to build a firm foundation for further rationalisation of trading internationally.

"Demutualisation means a more commercial focus for the Exchange, allowing it to concentrate on matters which benefit all of its customers – attracting more business and increasing its volumes. This can only be good news for the market."

Sue Concannon
Managing Director,
Halifax Share Dealing

"As a customer focused bank, ABN AMRO heartily endorses the decision of the Exchange to demutualise, and we look forward to the undeniable benefits it will bring to the end user."

Nick Bannister
Chairman, Global Equity
Directorate, ABN AMRO Bank NV

Developing our competitive potential

The concept of demutualisation is being examined openly by stock exchanges the world over as a potential means of achieving the commercial flexibility and dynamic decision-making necessary in the new commercial environment. However, while many exchanges are considering it, the London Stock Exchange is one of the first to actually take this momentous step.

Following the initial announcement in July 1999 of our intention to move away from mutual status, we moved quickly to implement the change. The precise proposals for our demutualisation, together with an analysis of the commercial realities underlining the decision, were laid out in an Information Memorandum circulated to shareholders in early February 2000. The final go-ahead came in mid-March, when the Exchange's 'B' shareholders voted overwhelmingly to approve the proposals at a landmark Extraordinary General Meeting.

The decision to demutualise our ownership coupled with our strong market standing have put us in an ideal position from which to play a leading role in the development of European and international equity markets.

Building

A new focus for AIM

We have given AIM, the Alternative Investment Market, a new sharper focus and identity as a fledgling market for high-potential companies of all types. AIM ended 1999 in excellent form as one of the world's best performing share markets, with the FTSE AIM index having risen by over 140 per cent, on trading turnover more than double that of the previous year. The launch of techMARK as the Exchange's flagship market for innovative technology companies helped to underline AIM's unique identity, as a first step into a public market for growing companies.

Ensuring deals get done

Our markets are dynamic and innovative, and both we and our market users are continually identifying and implementing new ways of doing business. At the same time we are constantly adapting the way we supervise our markets to keep pace with current and future developments.

As a Recognised Investment Exchange, we maintain and develop our own rules for trading in securities. We apply these rules on a flexible and case-by-case basis, always bearing in mind the commercial realities and the importance of getting deals done. The quality of our markets is the bedrock of our business and the maintenance of fair and orderly markets is important from a commercial viewpoint as well as a regulatory one. We have invested heavily over recent years to ensure we continue to deliver against these standards. We believe that it is this combination of high quality and responsiveness which attracts companies, investors and liquidity.

Our market supervision activities help us to ensure that all our markets continue to provide efficient and competitive services for issuers, investors and intermediaries. On a daily basis, our supervisory personnel enable the market to operate by helping to resolve quickly and effectively any issues or disputes which might arise between market participants in the course of business. Our supervisory function is forward-looking, continually tracking forthcoming legislative changes and developing proposals to take account of their likely effects, as well as working with the Financial Services Authority (FSA). We will maintain our responsive and flexible approach to supervision in the future, with the core objective of increasing the efficiency of our market's operation.

Regulatory News Service – ready for a new role

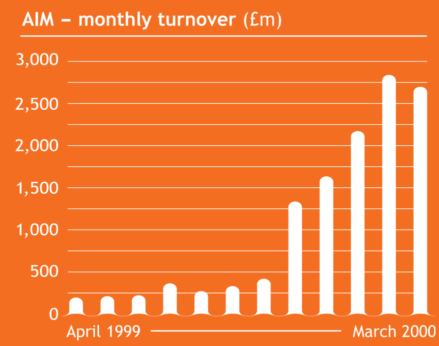
The Exchange's Regulatory News Service (RNS) provides an important service to companies and the market. In December 1999, at the request of HM Treasury, the FSA began a review of the way in which company announcements are distributed to the market. This was in anticipation of the transfer of the UK Listing Authority role to the FSA.

We are committed to providing and enhancing RNS as a competitive service to meet the requirements of our customers. We will monitor the FSA's review and will respond flexibly and commercially to any resulting changes to the environment in which we operate the news service.

AorTech's state-of-the-art electronic checking system, the video comparator. Since February 1997 AorTech has raised over £27 million on AIM

"In the past three years AIM has given us everything we have needed – good liquidity, an exceptionally high profile and the channel to raise capital for our continuing development."

Ian Cameron
Finance Director,
AorTech International plc



IMAS upgrades – less is more

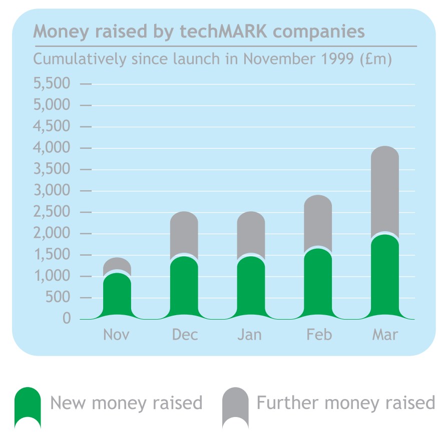
During the year, we continued to upgrade our leading-edge Integrated Monitoring and Surveillance System (IMAS), as well as our other market surveillance systems, to ensure that we can continue to provide effective and unobtrusive supervision of our markets. IMAS works by monitoring and analysing trading patterns, and issuing an alert when it detects unusual activity or price movements. We investigate each alert immediately to isolate its cause and to establish whether there is a risk of a disorderly market developing in a particular security.

Swift corrective action is taken, which can involve the publication of a market announcement by a company and its advisers. An alert may also result in a detailed investigation by our post-event investigation teams. Our upgrades to IMAS during the past year make its filtering process more rigorous and focus alerts on key issues.

Funding tomorrow's technology giants

The launch of techMARK, our market for innovative technology companies, demonstrated once again our adaptability to meet the needs of our customers. The market is underpinned by new entry rules, offering young, fast-growing companies an alternative route into our main market. This reflects the fact that technology companies tend to develop more quickly than their counterparts in other industries, and often lack the three-year trading record previously required of companies seeking admission to the Exchange. The new rules, dispensing with the three-year requirement provided other criteria are met, have helped encourage a vibrant new issues market for techMARK.

At the same time, we were able to refocus AIM as a first step into the public market for growing and fledgling companies. This has contributed to the spectacular growth of AIM and a flood of new, dynamic companies – many from the high-tech industries.



Understanding

Understanding the fast-changing commercial environment in which our customers operate is central to our continued success. In areas ranging from the internationalisation of markets to the application of new technology, we have moved decisively to enhance our competitive position.

Delivering the services our companies deserve

One of the greatest assets we have is our knowledge of what our customers need from our markets. We talk to our investors and companies continually to make sure we are providing the services they need. In the past year, a number of major developments – most notably the decision to demutualise and our agreement with HM Treasury that the role of UK Listing Authority should be transferred from the Exchange to the FSA – have enabled us to provide a better, more responsive and more comprehensive service to the companies traded on our markets.

These changes have provided us with an excellent opportunity to redefine our relationship with our companies. This is an opening we will use to the full, with the development of a new Company Services division.

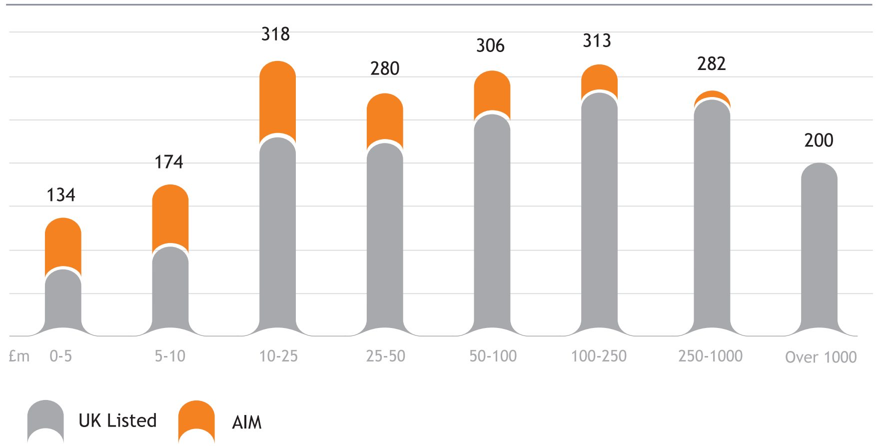
This division will enable us to strengthen our relationship with companies, and to do so at a much earlier stage, starting at the point when they are considering whether a quote on a public market is the best way forward for their business. Our Company Services personnel are keen to hold initial meetings as soon as possible with new companies to discuss in detail the benefits of life as a company traded on the Exchange.

For companies that decide that being publicly traded is the best option for them, we will help them apply for admission to trading at the same time as they apply to the FSA for a listing. To aid this process we have streamlined our admission and disclosure rules to make them as clear and user-friendly as possible. Additional services now include a central point of contact and information for all companies, whether already on or considering coming to our market.

We are committed to expanding the services we offer to companies at every phase of their development. This will help to make our markets more attractive and ensure that our companies themselves reap the fullest possible benefits from being traded on our markets.

Our ongoing series of seminars on Investor Relations, bringing together companies, Investor Relations specialists and Exchange personnel, has also proved to be enormously popular and useful. We are actively encouraging greater input from companies themselves on how our relationship should evolve, and the kinds of additional services they would like.

Distribution of UK listed and AIM companies by market value at 31 March 2000



> "The assistance and support provided to Freeserve made a vital contribution to the enormous success of the flotation, which was a significant step towards our goal of being the UK's number one for the internet."
>
> **John Pluthero**
> Chief Executive, Freeserve plc

Freeserve – a new route for fast growing companies

Freeserve was launched by the listed retail group Dixons in September 1998 as the UK's first fully featured free internet service provider (ISP). It saw immediate and explosive growth and within a few months it had the largest number of subscribers of any ISP in the UK.

Floated in August 1999, Freeserve was the first company to come to the market via what is now a new route to listing for innovative, high growth companies without a three-year record.

By the time of its flotation, which valued the company at £1.5 billion, Freeserve had signed up 1.32 million subscribers and had established itself as the leading portal for UK home internet users. The float – which was 30 times oversubscribed by retail investors and institutions – was a watershed for the European internet sector as a whole and helped to whet the appetite of investors for the succession of technology flotations which have followed.

Freeserve has continued to extend and expand its business and has announced a series of important initiatives including the aquisition of smartgroups.com, a joint venture small business portal with Barclays plc, and a strategic alliance with BT Cellnet for mobile internet.

Understanding

Reaching out to investors – large and small

We have been highly active during the year in communicating and consulting with investors of all types and sizes.

As part of this drive, we have strengthened our relationship with the major institutional investors who use our markets. The debate and widespread consultation in the run-up to the decision on demutualisation has proved extremely valuable in raising the level of understanding on all sides. A substantial number of our announcements and innovations during the year, ranging from trading system enhancements to the establishment of a central counterparty, serve to underline the degree to which we listen to this important customer group. And one-off initiatives, such as our decision to sponsor part of the TraderForum event in September 1999, have further enhanced our relationships with the institutional investment community.

Private investors are crucial to our vision of the future. Their participation provides vital additional share liquidity and a different perspective on the market, counterbalancing that of the major investing institutions.

Alvin Hall, financial expert and TV presenter, at the Share Aware week in Birmingham

Two years ago, we underlined our commitment to the private investor by teaming up with stockbrokers and quoted companies of all sizes to launch the high-profile Share Aware campaign. Its objective is to use major private investor events and advertising campaigns to promote the benefits of equity investment as part of individual personal savings.

During 1999/2000, the Exchange and our co-sponsors built on the success of the first Share Aware Week in Leeds with three more highly successful 'roadshows', including two week-long events in the Midlands and Scotland, and a two-day event in Cardiff. The formula of offering private investors free access to an exhibition including stockbroker seminars and senior management from regional and national companies has proved hugely effective, stimulating interest in stock market investment among private investors. These events have also helped to strengthen the ties between private client brokers and local companies.

Cutting the costs of trading – the electronic order book

Our understanding of the needs of the market users was further underlined during the year by the continuing expansion of the electronic order book. Trading volumes on the book continued upwards and its market share rose to 50 per cent of trading by value. Equally significantly, over the year, the proportion of trades carried out at order book prices was 75 per cent, confirming the order book's status as the central price formation mechanism in the London market.

The benefits of electronic trading have been extended further through the enhancement of auction functionality and the introduction of electronic auctions to our SEAQ market.

International listings continue to flow

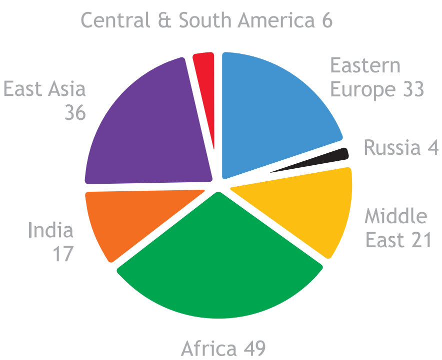
The year was highly successful in terms of international listings, reflecting our continuing status as the world's most international exchange. New listings on our markets during 1999 included Toyota Motor Corporation, Korea Telecom, South African Breweries, mining group Anglo American, Japanese software developer Konami and Bank Haopolim of Israel. We also further increased our premier position for eurobond issues, with £179.4 billion raised at issue during the year.

The prospects for more international listings in 2000 are very positive, in particular from India. In February 2000 we signed an agreement paving the way for closer cooperation with India's Mumbai and National Stock Exchanges, a move expected to encourage more Indian companies to choose to list in London.

Active in the wider debate

We have been involved in a wide range of public policy matters in the UK, including representation on two Government-sponsored committees looking into the issues faced by smaller quoted companies. Both of these produced highly practical reports – the first from the committee headed by Paul Myners of Gartmore Investment Management and entitled *Creating quality dialogue between smaller quoted companies and fund managers,* and the second from the committee chaired by Tim Waterstone of HMV Media, *Private investors – improving share liquidity for smaller quoted companies.*

Locations of listed companies in emerging markets at 31 March 2000



These documents proposed potential ways of improving communication between smaller quoted companies and the investment community.

Also in the public policy arena, we provided substantial input to the UK Government's far-reaching Company Law Review, whose proposals were published in early 2000. A further high-profile initiative was our publication in January 2000 of authoritative research highlighting the benefits which could flow from the abolition of UK stamp duty on share trading. According to the study, undertaken on the Exchange's behalf by London Economics, abolition of stamp duty could increase the volume of UK companies' shares traded on the Exchange by some 40 per cent.

Trading via an electronic order book shows the clear benefits it brings to our market users. During 1999, average spreads in FTSE 100 stocks narrowed to 42 basis points on the order book, down from 62 basis points prior to its introduction. The order book's role in the rising levels of trading was underlined by continuing growth in the number of orders entered. From an average of 25,000 per day at its launch, this increased to over 55,000 in 1999. Trading volumes on the order book have also doubled over this period.

Innovating

In the dynamic environment now facing businesses of all types, and stock markets in particular, the ability to create new opportunities for customers is vital. Our people, our commercial structure, our technology and our trading infrastructure continue to advance and the innovations we are introducing now will bring benefits to all market users.

techMARK

techMARK – our new market specifically designed for innovative technology companies and their investors

extraMARK

extraMARK – our market for innovative investment companies and products – was the base for the launch of Exchange Traded Funds

A market for tomorrow's technology winners

Our commitment to innovation was underlined by the highly successful launch of techMARK in November 1999, at an event attended by the UK Chancellor of the Exchequer, Gordon Brown. techMARK – a new 'market within a market' specifically designed for innovative technology companies and their investors – broke new ground in many ways. Not least of these is that it is the first of the Exchange's markets to represent an 'attribute-led' approach to investment, bringing together innovative companies from across the market, irrespective of size or sector.

techMARK's launch was warmly welcomed both by investors and companies. This initial optimism has been fully borne out by the performance of the market since its launch, with the FTSE techMARK indices rising sharply in their first few months, before experiencing the effects of the worldwide correction. Throughout, the companies listed on techMARK have benefited from higher visibility and profile, while the new market has enabled investors to know exactly where to look to find innovative companies.

A further attribute-led market, extraMARK, was launched in February 2000. extraMARK is our market for innovative investment companies and products – offering attractive characteristics such as lower cost, wider accessibility and enhanced flexibility. The first products launched under the extraMARK umbrella are Exchange Traded Funds (ETFs) – collective investment vehicles which closely follow indices. ETFs allow quick and low cost exposure to the performance of whole market segments, while still paying an income stream from the underlying securities.

“By focusing attention on technology stocks, techMARK has helped improve the corporate visibility of Cambridge Antibody Technology Group leading to increased investor interest and improved liquidity.”

John Aston
Finance Director, Cambridge Antibody Technology Group plc

techMARK: the attributes for success

With techMARK and now extraMARK – our second attribute market – we have demonstrated our ability to break the investment mould, and create new possibilities and relationships. These are skills which will be at a premium in the years ahead.

Traditionally, investors have looked at stocks from two perspectives – size and sector. However, they are increasingly now adopting a third perspective, a specific attribute. With techMARK, the key shared attribute is the fact that technological innovation represents a cornerstone of each company's business. techMARK groups together such companies from across the FTSE industrial sectors and size classifications into one market with its own identity and its own FTSE indices.

techMARK is a hugely successful innovation and has already proved to be a strong magnet for new technology companies.

techMARK company, Cambridge Antibody Technology Group, uses its proprietary technologies in fully human antibodies for drug discovery and drug development

Innovating

Web innovations for our customers

Internet-based services are a simple and low-cost way of delivering sophisticated services to all our customer communities – from quoted companies to private investors. During the year, we launched new free-of-charge services which were welcomed warmly by all groups.

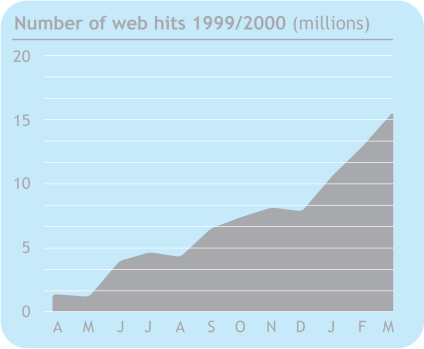
The first of these was the Company Report Service, which went live in August 1999 for the exclusive use of eligible companies quoted on the Exchange. This secure, password-protected site enables companies to track their stock market share performance and compare it dynamically with any five competitors or peers they choose. The largest companies can also generate reports showing the proportion of trading in their shares carried out through the order book.

Exploiting the potential of the internet

During the year, our growing use of the web to disseminate information has reflected the continuing explosion in internet penetration and usage worldwide. In the last six months the number of 'hits' on our corporate website at **www.londonstockexchange.com** has risen by more than 140 per cent. These hits are coming principally from private investors, while the professional investment community and companies themselves are also making growing use of the internet as a research and reference tool. The huge interest in techMARK and AIM, as well as recent initiatives such as extraMARK, has been a further factor in attracting investors to our site.

The growing activity surrounding our corporate website also reflects our launch during the year of a number of new free web-based services aimed at completely different audiences. First came the Company Report Service, which was launched in August 1999 for the exclusive use of companies quoted in London. This was closely followed by the web-based Share Monitoring Service for private investors, and on-line prices, delayed by 15 minutes.

Significantly, all of these specialised internet services make use of similar underlying technology – an illustration of how the same innovation can benefit completely separate communities in the investment arena. Other developments include delivery of regulatory and technical announcements via the web. We will continue to launch further internet-based services on a rolling basis to meet our customers' changing needs.



The number of hits on the London Stock Exchange website has risen by more than 140 per cent over the last six months

Turning the focus to private investors, we followed up in February 2000 with the launch of the Share Monitoring Service, a specially-designed web service which enables private investors and investment clubs to get free daily price updates and charting facilities for their share portfolios. Investors can select up to 10 companies on-screen, and then benchmark their price performance against one of the chosen shares, or alternatively against a choice of index or industrial sector. The site is updated daily with the previous day's closing prices for all UK companies quoted on the Exchange's markets.

April 2000 saw the launch of on-line London Stock Exchange prices – at www.londonstockexchange.com/prices. This service enables private investors to view detailed price and index data, delayed by 15 minutes, including highest risers and fallers, and a personalised portfolio tracking tool.

Widening access to our trading platform

A continuing feature of our drive to enhance our markets is our exploration of new ways to enable remote access to our trading platforms, bringing the dual benefits of wider geographical distribution and lower cost for the customer. A significant step forward came in January 2000, with the announcement of an agreement with the market data vendor Primark, paving the way for low-cost trading access to the Exchange's markets via Primark's terminals.

The agreement was the first to be struck under the Vendor Access Network (VAN) programme, which enables UK and overseas investment houses to trade on the Exchange via the vendor's network, without having to bear the cost of establishing a direct leased-line link to the Exchange. Primark is the first company to gain acceptance to offer a VAN connection to its customers, and we are working with a number of other vendors looking to do the same.

Making the future happen

Looking forward, competitive pressures and market evolution are advancing so rapidly that any exchange wishing to play a major long-term role in shaping the equity markets of the future must invest in constant innovation.

As we have demonstrated consistently throughout the past year, we will continue to think laterally in creating new forums and communities across our markets.

We are confident that we will meet the requirements and expectations of all our customers – and remain at the forefront of development of the world's equities markets.

Media Centre goes on-line
The Exchange's new custom-built centre for print and broadcast media opens for business in the summer of 2000. Complete with fibre-optic links, multi-shot camera facilities and real-time market data displays, live broadcasting and press conferences can be beamed from the heart of the City to the world's financial media.

The Board of Directors

Chairman Sir John Kemp-Welch

Chairman designate Don Cruickshank

Chief Executive Gavin Casey

Ian Salter

Jonathan Howell

Martin Wheatley

Gary Allen

Graham Allen

Michael Marks

Peter Meinertzhagen

Ian Plenderleith

Simon Robertson

Hector Sants

Nigel Sherlock

Sir John Kemp-Welch 64

Chairman (to 25 May 2000)

Chairman since July 1994. Formerly Joint Senior Partner, Cazenove & Co. He is Deputy Chairman of the Financial Reporting Council, Chairman of Martin Currie Portfolio Investment Trust plc and a member of the Panel on Takeovers and Mergers. He is retiring from the Board on 25 May 2000.

Don Cruickshank 57

Chairman designate (from 25 May 2000)

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

Gavin Casey 53 ■

Chief Executive

Chief Executive since August 1996. He is a chartered accountant and was previously Chief Operating Officer of Smith New Court (acquired by Merrill Lynch in 1995).

Ian Salter 57 ▲ •

Deputy Chairman since 1990. Director of SG Investment Management Limited.

Jonathan Howell 37 ■

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

• *Member of the Audit Committee*

■ *Member of the Management Committee*

▲ *Member of the Senior Appointments and Remuneration Committee*

Martin Wheatley 41 ■

Director of Business Development since December 1999. Previously Director of Marketing and Development, July 1998 to December 1999. His responsibilities include European strategy and marketing and development of trading systems. He joined the Exchange in 1985.

Gary Allen CBE DL 55 •

Chief Executive, IMI plc since 1986. He was appointed to IMI's Board in 1978, having joined the company in 1965. He is a Non-Executive Director of NV Bekaert SA, Belgium.

Graham Allen 49 •

Managing Director, ICI Investment Management Limited. He joined ICI in 1974. He was Chairman of the NAPF Investment Committee from 1996 to 1998, and Vice President of NAPF from 1998 to 2000.

Michael Marks 58 ▲

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

Peter Meinertzhagen 54 ▲

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

Ian Plenderleith 56 •

Appointed Government Broker in 1989. An Executive Director of the Bank of England, responsible for financial market operations and a member of the Monetary Policy Committee. At the Bank of England since 1965, he has worked at the IMF in Washington DC and served on the Board of the European Investment Bank.

Simon Robertson 59

President, Goldman Sachs Europe Limited and a Managing Director of Goldman Sachs International. He is a Non-Executive Director of Invensys plc and of Inchcape plc. Previously Chairman of the Kleinwort Benson group.

Hector Sants 44

Global Head of International Equities, Donaldson Lufkin Jenrette and Chairman of DLJ International Securities. He was previously Vice Chairman, UBS Limited, responsible for UBS's equity operations.

Nigel Sherlock DL 60

Director of Brewin Dolphin Holdings plc and Chairman of its Wise Speke division. Previously Chief Executive, Wise Speke Limited, having been a partner from 1969 to 1987. He is a Director of Skipton Building Society, a Deputy Chairman of APCIMS, a Member of the Securities Institute and an Associate Member of the Institute of Investment Management and Research.

Management Committee

In addition to those Board members marked with ■ the following comprise the Management Committee:

Chris Broad
Allan Cameron
Maria Clohessy
Andrew McStravick
Tim Ward
Tim Wright

Financial review

The Exchange has had a successful year. Turnover was up £20.0 million to £164.0 million and contributed to profit before tax of £48.5 million, which was £26.2 million ahead of last year's restated results. The balance sheet remains healthy, with net assets growing by £8.1 million to £234.1 million.

High profitability and cash reserves have helped to finance: the early redemption of the 'A' shares, signalled in last year's annual report; investment in improving the facilities offered by our electronic order book; and the launch of techMARK and extraMARK.

Turnover

Turnover for continuing operations of £164.0 million was buoyed by very high trading volumes, particularly during the final quarter, leading to an increase of £13.6 million in Trading Services revenue to £54.1 million. The favourable market conditions also contributed to growth in Company Services revenue and, to a lesser extent, sales of Exchange data around the world.

Expenditure

Administrative expenses of £129.3 million were £8.0 million below last year's level, notwithstanding advisers' fees of £5.1 million incurred this year in respect of the demutualisation. Mainly as a result of securing higher rental income for some of our long-term leasehold properties, we have now been able to release £4.4 million of the provision in respect of these properties. There were 605 staff at the year-end, an increase of 8 per cent over last year. However, the passing of the Exchange's Listing Authority function to the FSA on 1 May 2000 resulted in the transfer of 11 per cent of staff numbers.

Final results

Profit on ordinary activities before taxation was £48.5 million, an increase of £26.2 million over last year's restated results, mainly because of increases in turnover. After tax of £14.6 million, we are transferring £33.9 million to reserves.

Balance sheet and cash flow

The net cash inflow for the year before financing was £25.7 million, £8.3 million above last year, with the inflow from operating activities exceeding the outflow for taxation and capital investment. During the year, £25.8 million was paid out in respect of the early redemption of the 'A' shares, leaving a balance of £8.8 million.

Notwithstanding the redemption of the 'A' shares, net assets have grown by £8.1 million to £234.1 million.

The Exchange's financial instruments comprise a £30 million debenture repayable in 2016 and surplus funds which are deposited at fixed rates over the short term.

Accounting developments

Under the new accounting standard on tangible fixed assets, FRS15, software development costs are now being capitalised and amortised over their useful lives. Last year's results have been restated accordingly, causing a reduction of £6.8 million in reported profit before tax. We have also opted to retain the current book amounts of our freehold properties at the valuations carried out in March 1997, less accumulated depreciation.

Under the terms of FRS3, the contribution of the Listing Authority, which transferred to the FSA on 1 May 2000, has been disclosed as a discontinued operation.

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.

Directors' report & accounts

Contents

Corporate governance

The Exchange has made further enhancements to its corporate governance arrangements and has applied the principles of the Combined Code on Corporate Governance throughout the year.

The Exchange's Board has a majority of non-executive directors, each one selected for the contribution which he can bring to the Exchange's development. Of the nine non-executive directors, three are considered to be fully independent under the Combined Code. The remaining six non-executive directors are involved in the Exchange's wider business and market community, either within securities firms or as users of the Exchange; given this they are not fully independent under the Combined Code. The Exchange considers that the benefits of the insight which they bring because of their market involvement outweigh any disadvantages of not meeting the independence requirements.

Subject to the comments regarding non-executive directors above, 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 2000.

Board of directors

The Board, at 31 March 2000, comprised the Chairman, Deputy Chairman (senior non-executive director), Chief Executive, two executive and eight non-executive directors. Reflecting the above comments on the Combined Code's independence requirements, Gary Allen, Graham Allen and Ian Plenderleith are considered to be fully independent.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below and the directors who serve on them are indicated on pages 24-25.

The Senior Appointments and Remuneration Committee is chaired by Michael Marks and comprises two other non-executive directors. The remuneration report on page 30 outlines the responsibilities of this committee.

The Audit Committee is chaired by Gary Allen and comprises three other non-executive directors. It meets at least twice a year, normally with the external auditors, to consider the audit plan, the interim and annual results, as well as any matters raised by the auditors. It reviews the adequacy and effectiveness of accounting systems and internal control. It also 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.

Management Committee

The Exchange's day to day management is conducted by the Management Committee which is chaired by the Chief Executive. This committee comprises Board members Gavin Casey, Jonathan Howell and Martin Wheatley, together with six other senior executives. The Management Committee reports regularly to the Board on the implementation of strategy and the management of the business.

Internal control

The Board confirms that, in respect of the financial year which commenced on 1 April 2000, the Exchange has established the procedures necessary to implement fully 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 system of internal control is 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. For the year ended 31 March 2000, the Exchange has adopted the transitional approach with respect to internal control disclosures.

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. An independent report to establish the detailed causes of this serious systems failure has been completed, the software fault has been addressed and a number of additional controls and rectification procedures have been implemented.

Internal financial control

The directors are responsible for the Company's system of internal financial control. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The directors, through the Audit Committee, have reviewed the effectiveness of the Company's system of internal financial control and are committed to its continual improvement. The framework is described under the following headings:

Delegation of authority – There are clearly defined matters which are reserved for Board approval only. The Board has delegated specific authorities to the Chief Executive and the Management Committee.

Financial reporting process – An annual budget is reviewed in detail by the Management Committee and is approved by the Board. Monthly financial reports compare actual performance with the annual budget and management action is taken where variances arise. Revised forecasts are prepared as required.

Audit Committee – Reports from internal and external auditors on aspects of internal control are reviewed by the Audit Committee and appropriate action taken, where necessary. No material weaknesses in internal financial controls have been identified over the past year.

Finance manual – Key procedures and controls for authorisation, reporting and investment appraisal are set out in a finance manual. This is reviewed and kept up-to-date to meet changing business needs.

Risk management – The operation of effective risk management is the responsibility of all line managers. This is kept under review in conjunction with the Exchange's internal auditors.

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.

Senior Appointments and Remuneration Committee

The Senior Appointments and Remuneration Committee comprises three non-executive directors who are appointed by the Board. The members at 31 March 2000 were:

Michael Marks (Chairman)
Peter Meinertzhagen
Ian Salter

The committee meets as required to:

- Review and present recommendations to the Board regarding the appointment, remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under any share scheme
- Perform the function of a Nomination Committee for the appointment of directors
- Review the remuneration of non-executive directors

(Recommendations are ratified by the Board.)

- Monitor the remuneration and conditions of service of members of the Management Committee who are not directors.

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 up to two appointments as non-executive directors of other companies with the prior formal approval of the Senior Appointments and 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, in future, eligibility to participate in any share scheme.

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 5 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 cash payment for achieving targets set each year. These targets are linked to the performance against objectives set for the director and the Company.

A share scheme was approved in March 2000, as part of the Company's reorganisation proposals. Shares and options may be awarded to executive directors under an Initial Plan and Annual Plan – no awards have been made in respect of the year to 31 March 2000.

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 payment of 22½ per cent 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 5 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.

Non-executive directors' fees

The standard fee for non-executive directors during the year was £15,000 per annum as approved by the Board. An additional amount is paid to the Deputy Chairman, as shown in the accounts, in relation to the further activities which he carries out for the Company in his non-executive role.

Directors' emoluments

Details of directors' remuneration and benefits are set out on pages 40-41, in note 5 to the financial statements.

Directors' report

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 2000.

The Exchange was incorporated as a private limited company in 1986 under the name of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited and changed its name in 1995 to London Stock Exchange Limited ('the Exchange').

Directors

The directors of the Company at 31 March 2000 are shown on pages 24-25.

Sir John Bond retired from the Board on 31 December 1999.

Don Cruickshank was appointed to the Board on 20 April 2000.

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

None of the directors had an interest in the shares or debentures of the Company as at 31 March 2000. 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 28-29.

Interests in share capital

At 31 March 2000 14,102 (1999, 14,091) 'B' shares of 5p each were held by The Stock Exchange (Holdings) Limited as the share trustee in accordance with the Company's Articles of Association. As a result of the reorganisation proposals, which were approved at the Extraordinary General Meeting on 15 March 2000, the 'B' shares held by The Stock Exchange (Holdings) Limited were purchased by the Exchange for £1 and cancelled.

During the year 2,579 'A' shares of 5p each were redeemed for a total consideration of £25.8 million. Following approval of the reorganisation proposals, the remaining 880 'A' shares were redeemed on 12 April 2000.

The directors are not aware of any person who is beneficially interested in three per cent or more of the issued share capital of the Company.

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. After the end of the financial year, the role of the 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 2000 was £48.5 million compared with a restated profit of £22.3 million for 1999 after reflecting the new accounting policy for the capitalisation of software developments.

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 9.

Post balance sheet event

On 3 May 2000 the Exchange announced plans to merge with the Deutsche Börse, subject to shareholders' approval. Information on the proposed merger will be provided to shareholders in due course.

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 2000 exceeded book value by approximately £42 million.

Employment

All new employees undergo an induction programme which includes training on health and safety. A range of training and development programmes is available for staff to develop their skills and knowledge. 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.

Donations

During the year the Exchange gave £108,000 (1999, £53,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

The Exchange's policy with suppliers is to agree payment terms when business transactions are agreed and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2000 trade creditors represented 35 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
25 May 2000

Directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 33, 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 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.

Auditors' report

To the members of the London Stock Exchange Limited

We have audited the financial statements on pages 34 to 52.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 32 the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom primarily by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 explanations we require for our audit, or if 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.

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 statement on pages 28-29 reflects the Company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority 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 affairs of the Company and the Group at 31 March 2000 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
25 May 2000

Consolidated profit and loss account

Year ended 31 March 2000

	Notes	2000 £m	Restated 1999 £m	1999 £m
Turnover				
Group and share of joint venture – Continuing operations		**164.0**	144.0	144.0
– Discontinued operations		**11.7**	9.2	9.2
Gross turnover		**175.7**	153.2	153.2
Less: share of joint venture's turnover – Continuing operations		**(4.5)**	(3.4)	(3.4)
Net turnover	2	**171.2**	149.8	149.8
Administrative expenses	3	**(129.3)**	(137.3)	(130.5)
Operating profit – Continuing operations		**36.7**	8.6	14.7
– Discontinued operations		**5.2**	3.9	4.6
	4	**41.9**	12.5	19.3
Provisions for restructuring and SETS		**–**	1.8	1.8
Share of operating profit of joint venture and income from other fixed asset investments		**0.3**	0.4	0.4
Net interest receivable	7	**6.3**	7.6	7.6
Profit on ordinary activities before taxation		**48.5**	22.3	29.1
Taxation on profit on ordinary activities	8	**(14.6)**	(7.6)	(9.7)
Profit for the financial year		**33.9**	14.7	19.4
Earnings per equity share	9	**114.1p**	49.5p	65.3p

Statement of total recognised gains and losses

	2000 £m	Restated 1999 £m	1999 £m
Profit for the financial year	**33.9**	14.7	19.4
Other recognised gains and losses for the year:			
Prior year adjustments (see note 26)	**13.4**	12.1	12.1
Total recognised gains and losses since last annual report	**47.3**	26.8	31.5

Note of historical cost profits and losses

	Notes	2000 £m	Restated 1999 £m	1999 £m
Profit on ordinary activities before taxation		**48.5**	22.3	29.1
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	18	**1.9**	1.9	1.9
Revaluation reserve realised on property disposal		**1.1**	–	–
Historical cost profit on ordinary activities before taxation		**51.5**	24.2	31.0
Historical cost profit retained after taxation		**36.9**	16.6	21.3

Balance sheets

31 March 2000

		Group		Company	
			Restated		Restated
		2000	1999	**2000**	1999
	Notes	**£m**	£m	**£m**	£m
Fixed assets					
Tangible assets	10	**114.4**	123.2	**114.4**	123.2
Investments in joint venture:					
Share of gross assets		**5.8**	2.2	**–**	–
Share of gross liabilities		**(3.7)**	(1.8)	**–**	–
	11	**2.1**	0.4	**1.5**	–
Other investments	11	**0.4**	0.4	**0.4**	0.4
		116.9	124.0	**116.3**	123.6
Current assets					
Debtors – amounts falling due within one year	12	**35.7**	27.7	**35.7**	27.7
Deferred tax – amounts falling due after more than one year	13	**1.2**	–	**1.2**	–
Investments – term deposits		**196.0**	194.0	**196.0**	194.0
Cash at bank		**4.4**	6.5	**4.4**	6.5
		237.3	228.2	**237.3**	228.2
Creditors: amounts falling due within one year	14	**59.1**	58.5	**59.1**	58.5
Net current assets		**178.2**	169.7	**178.2**	169.7
Total assets less current liabilities		**295.1**	293.7	**294.5**	293.3
Creditors: amounts falling due after more than one year	15	**30.0**	30.0	**30.0**	30.0
Provisions for liabilities and charges	16	**31.0**	37.7	**31.0**	37.7
Net assets		**234.1**	226.0	**233.5**	225.6
Capital and reserves					
Called up share capital	17	**–**	–	**–**	–
Reserves					
Revaluation reserve	18	**49.6**	52.6	**49.6**	52.6
Capital redemption reserve	18	**8.8**	34.6	**8.8**	34.6
Trade compensation reserve	18	**15.0**	15.0	**15.0**	15.0
Profit and loss account	18	**160.7**	123.8	**160.1**	123.4
Total shareholders' funds		**234.1**	226.0	**233.5**	225.6
Analysed between:					
Equity shareholders' funds	18	**225.3**	191.4	**224.7**	191.0
Non-equity shareholders' funds	18	**8.8**	34.6	**8.8**	34.6
		234.1	226.0	**233.5**	225.6

The financial statements on pages 34 to 52 were approved by the Board on 25 May 2000 and signed on its behalf by:

Gavin Casey, Chief Executive

Jonathan Howell, Director of Finance and Operations

Consolidated cash flow statement

Year ended 31 March 2000

	Notes	2000 £m	Restated 1999 £m
Net cash inflow from operating activities	20(i)	**45.0**	36.0
Returns on investments and servicing of finance			
Interest received		**10.6**	13.0
Interest paid		**(3.0)**	(3.1)
Dividends received		**0.1**	0.1
Net cash inflow from returns on investments and servicing of finance		**7.7**	10.0
Taxation			
Corporation tax paid		**(12.1)**	(3.1)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		**(14.7)**	(25.6)
Receipts from sale of tangible fixed assets		**1.2**	0.1
Receipts from sale of fixed asset investments		**0.1**	–
Net cash outflow from capital expenditure and financial investments		**(13.4)**	(25.5)
Acquisitions and disposals			
Payments to acquire shares in joint venture		**(1.5)**	–
Net cash inflow before use of liquid resources and financing		**25.7**	17.4
Management of liquid resources			
Increase in term deposits	20(ii)	**(2.0)**	(16.6)
Financing			
Redemption of ‘A’ shares		**(25.8)**	(1.7)
Decrease in cash in the year	20(ii)	**(2.1)**	(0.9)

Notes to the financial statements

1. Accounting policies

Change in accounting policy

Following the introduction of the new financial reporting standard on tangible fixed assets, FRS15, the Company changed its accounting policy in respect of software development costs during the year. Previously the Company charged all software development costs to the profit and loss account as incurred. The Company now capitalises software development costs within tangible fixed assets. The effect of this change in accounting policy is set out in note 26 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' expectation that no significant change in overhead expenses will arise from 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 their net assets is included in the consolidated balance sheet.

Tangible assets and depreciation

a) Freehold properties

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 FRS15 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

Leasehold improvements are included at cost and depreciated over the period of the lease or economic life as appropriate.

c) Plant and equipment

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 are assessed in accordance with the advice of an independent actuary. The accounting cost for providing 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. 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 22 to the financial statements.

Deferred taxation

Provision for deferred taxation is made using the liability method except where, in the opinion of the directors, a liability or recovery is unlikely to arise in the foreseeable future.

Notes to the financial statements

2. Turnover

	2000 £m	1999 £m
Analysis of turnover:		
Continuing operations		
Company services	**25.7**	20.4
Trading services	**54.1**	40.5
Information services	**72.9**	71.8
Other income	**11.3**	11.3
Discontinued operations	**164.0**	144.0
Competent authority	**11.7**	9.2
Gross turnover	**175.7**	153.2
Less: share of joint venture's turnover		
Information services	**(4.5)**	(3.4)
Net turnover	**171.2**	149.8

The Exchange's principal operations are in the United Kingdom.

3. Administrative expenses

	2000 £m	Restated 1999 £m	1999 £m
Continuing operations	**122.8**	132.0	125.9
Discontinued operations	**6.5**	5.3	4.6
	129.3	137.3	130.5

4. Operating profit

Operating profit is stated after charging the following amounts:	2000 £m	Restated 1999 £m	1999 £m
Depreciation of tangible assets	**22.2**	33.1	18.2
Operating lease rentals – properties	**5.2**	5.2	5.2
Auditors' remuneration for:			
Audit	**0.1**	0.1	0.1
Non-audit fees for other services (see note i)	**1.1**	0.4	0.4
Fees in respect of Company reorganisation – demutualisation (see note ii)	**5.1**	–	–
Fees payable to The Financial Services Authority	**1.0**	0.8	0.8
Expenditure on Year 2000 and EMU requirements (see note iii)	**2.2**	17.6	17.6
Release of property provision (see note 16)	**(4.4)**	–	–

Notes

i) Non-audit fees paid to PricewaterhouseCoopers during the year were £1.1m. These fees are primarily in respect of work on the Company reorganisation proposals, taxation, pensions, actuarial and consulting services.

ii) These fees include non-audit fees payable to PricewaterhouseCoopers in respect of the Company reorganisation proposals referred to in (i) above.

iii) The expenditure on Year 2000 and EMU requirements is primarily in respect of providing customer testing services and preparing the Exchange's own systems for the millennium and system changes required for trading in the euro.

Notes to the financial statements

5. Directors' emoluments

The report of the Board on directors' remuneration is on page 30.

	2000				1999				**2000**	1999
	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										
Sir John Kemp-Welch	250	–	4	**254**	250	–	3	253	**–**	–
Chief executive										
G F Casey	340	275	9	**624**	322	250	8	580	**73**	69
Executive directors										
J A G Howell from 25 March 1999	175	160	2	**337**	3	2	–	5	**23**	–
M Wheatley (note i) from 9 July 1998	190	185	10	**385**	120	109	2	231	**–**	–
Directors serving in the previous year – see below.*	–	–	–	**–**	260	–	12	272	**–**	–
	955	620	25	**1,600**	955	361	25	1,341	**96**	69

*During the year ended 31 March 1999, Mrs C L Dann's salary was £201,000 and her benefits were £12,000; Mr R P Kilsby's salary was £59,000 with no other benefits.

		2000 Total £000	1999 Total £000	**2000 Pensions £000**	1999 Pensions £000
Non-executive directors' fees					
Directors in office throughout both years					
I G Salter – deputy chairman		**25**	23	**–**	–
G J Allen		**15**	13	**–**	–
G K Allen		**15**	13	**–**	–
M J P Marks		**15**	13	**–**	–
P R Meinertzhagen		**15**	13	**–**	–
I Plenderleith		**15**	13	**–**	–
H W H Sants		**15**	13	**–**	–
N Sherlock		**15**	13	**–**	–
Directors who did not hold office for the whole of the two financial years					
Sir John Bond	until 31 December 1999	**11**	13	**–**	–
D H Brydon	until 9 July 1998	**–**	3	**–**	–
R A Metzler	until 9 July 1998	**–**	3	**–**	–
M H J Radcliffe	until 9 July 1998	**–**	3	**–**	–
S M Robertson	from 9 July 1998	**15**	9	**–**	–
B Solomons	until 9 July 1998	**–**	3	**–**	–
Total non-executive directors' fees (note ii)		**156**	148	**–**	–
Total directors' emoluments		**1,756**	1,489	**96**	69

5. Directors' emoluments (continued)

Notes

i) Pensions

Mr M Wheatley is a member of the Company's defined benefit scheme. The increase in his accrued pension during the year was £8,000 (1999, £9,000) and the accumulated accrued pension at the end of the year was £42,000 (1999, £35,000). Mr Wheatley is 41 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 made payments into a senior executive defined contribution pension scheme for G F Casey of £73,000 (1999, £69,000) and for J A G Howell of £23,000 (1999, £nil).

ii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £111,000 representing seven directors (1999, £94,000 representing seven directors).

iii) Waiver of emoluments

None of the directors waived emoluments during 1999 and 2000.

6. Employees

Employees of the Group and their employment costs are summarised below:	**2000**	1999
The number of employees was:		
At the year end	**605**	559
Average for the year	**588**	536

	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	**26.4**	22.5
Social security costs	**2.9**	2.3
Other pension costs	**0.8**	0.6
Total	**30.1**	25.4

Notes to the financial statements

7. Interest

	2000 £m	1999 £m
Interest receivable		
Bank deposits (see note i)	**11.1**	12.6
Other	**–**	0.2
Total	**11.1**	12.8
Interest payable		
On bank and other loans repayable after five years (see note ii)	**(3.0)**	(3.0)
Interest on discounted provision for leasehold properties (see note 16)	**(1.8)**	(2.2)
Total	**(4.8)**	(5.2)
Net interest receivable	**6.3**	7.6

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 is in respect of the £30m debenture repayable in 2016 (see note 15).

8. Taxation

	2000 £m	Restated 1999 £m	1999 £m
Corporation tax for the year at 30% (1999, 31%)	**17.8**	8.6	8.6
Deferred taxation (see note 13)	**(3.1)**	(0.9)	1.2
Adjustment for previous years:			
Corporation tax	**(1.0)**	(0.6)	(0.6)
Deferred taxation	**0.8**	0.4	0.4
Joint venture	**0.1**	0.1	0.1
Taxation charge	**14.6**	7.6	9.7

The adjustments for previous years for corporation tax are in respect of assessments now agreed with the Inland Revenue.

9. Earnings per equity share

Earnings per equity share of 114.1p (1999, restated 49.5p and prior to restatement 65.3p) are based on profit for the financial year of £33.9m (1999, restated £14.7m and prior to restatement £19.4m) and a weighted average number of Ordinary shares in issue of 29.7m (1999, 29.7m). The weighted average number of Ordinary shares in issue is the actual number of Ordinary shares in issue at the date of these financial statements and reflects the number of 'B' shares in issue on the reorganisation of the Company as adjusted for the bonus issue on 12 April 2000 of 99,999 Ordinary shares for each Ordinary share (previously 'B' share) held.

10. Tangible assets

	Land and buildings		Plant and	
	Freehold	Leasehold	equipment	Total
	£m	£m	£m	£m
GROUP AND COMPANY				
Cost or valuation:				
31 March 1999 as previously stated	156.0	4.7	62.9	223.6
Prior year adjustment (see note 26)	–	–	45.4	45.4
1 April 1999 restated	156.0	4.7	108.3	269.0
Additions	0.4	–	14.3	14.7
Disposals	(1.2)	(0.3)	(34.7)	(36.2)
31 March 2000	**155.2**	**4.4**	**87.9**	**247.5**
Depreciation:				
31 March 1999 as previously stated	67.0	4.7	47.8	119.5
Prior year adjustment (see note 26)	–	–	26.3	26.3
1 April 1999 restated	67.0	4.7	74.1	145.8
Provision for the year	3.8	–	18.4	22.2
Disposals	(0.1)	(0.3)	(34.5)	(34.9)
31 March 2000	**70.7**	**4.4**	**58.0**	**133.1**
Net book values:				
31 March 2000	**84.5**	**–**	**29.9**	**114.4**
1 April 1999 restated	89.0	–	34.2	123.2
Net book values at 31 March 2000 are analysed as follows:				
Valuations	76.9	–	–	76.9
Cost less depreciation	7.6	–	29.9	37.5
	84.5	**–**	**29.9**	**114.4**

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 2000, the aggregate cost of tangible assets was £209.0m (1999, restated £229.5m) and the aggregate depreciation was £144.2m (1999, restated £158.8m).

iii) Plant and equipment includes capitalised software with a net book value at 31 March 2000 of £18.3m (1999, £19.1m).

11. Fixed asset investments

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

	Joint venture note (i) £m	Other note (ii) £m	Total £m
GROUP			
Cost:			
1 April 1999	0.4	0.4	0.8
Additions – subscription for new shares	1.5	–	1.5
Share of retained profit	0.2	–	0.2
31 March 2000	**2.1**	**0.4**	**2.5**
COMPANY			
Cost:			
1 April 1999	–	0.4	0.4
Additions – subscription for new shares	1.5	–	1.5
31 March 2000	**1.5**	**0.4**	**1.9**

Notes

i) Joint venture

The Company owns 50 per cent of the 1000 £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 2000, the Company was owed £nil by FTSE International Limited (1999, £0.1m). The Group investment of £2.1m shown above represents the Exchange's share of the joint venture's net assets as at 31 December 1999, their accounting reference date.

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

	2000 £m	1999 £m
Royalties	**1.9**	1.8
Facilities management and other data services	**0.2**	0.2
Rent and service charges	**0.1**	0.1
	2.2	**2.1**

ii) 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.

iii) 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.

12. Debtors: amounts falling due within one year

	2000 £m	1999 £m
Trade debtors	**16.4**	13.9
Amounts owed by joint venture	**–**	0.1
Other debtors	**0.5**	0.5
Prepayments and accrued income	**18.8**	13.2
	35.7	27.7

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

	£m
31 March 1999 as previously stated	4.6
Prior year adjustment (see note 26)	(5.7)
1 April 1999 restated (see note 16)	(1.1)
Credit to profit and loss account during the year	2.3
31 March 2000	**1.2**

The deferred taxation balance is in respect of timing differences which are expected to reverse within the foreseeable future and comprises:

	2000 £m	1999 £m
Tax allowances available in excess of related depreciation	**0.8**	(1.8)
Other timing differences	**0.4**	0.7
	1.2	(1.1)
Potential deferred taxation assets, not recognised in these accounts, comprise:		
Tax allowances in excess of related depreciation	**5.1**	5.7
Other timing differences	**5.9**	7.1
	11.0	12.8

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

14. Creditors: amounts falling due within one year

	2000 £m	1999 £m
Trade creditors	**10.8**	7.8
Corporation tax	**14.3**	9.5
Other taxation and social security	**1.8**	2.9
Other creditors	**4.2**	3.4
Accruals and deferred income	**28.0**	34.9
	59.1	58.5

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

	2000 £m	1999 £m
Repayable in five years or more – otherwise than by instalments:		
10⅛% Mortgage Debenture Stock 2016	**30.0**	30.0

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

16. Provisions for liabilities and charges

	Deferred tax £m	Pensions £m	Property £m	Total £m
31 March 1999 as previously stated	–	1.5	35.1	**36.6**
Prior year adjustment (see note 26) – changing of debtor balance to net provision	1.1	–	–	**1.1**
1 April 1999 restated	1.1	1.5	35.1	**37.7**
Utilised during the year	–	(0.2)	(2.8)	**(3.0)**
Interest on discounted provision	–	–	1.8	**1.8**
Surplus provision released	–	–	(4.4)	**(4.4)**
Transfer to current taxation	(1.1)	–	–	**(1.1)**
31 March 2000	**–**	**1.3**	**29.7**	**31.0**

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 14 years to expiry. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting agreed during the year. The changes in other assumptions include the effect of applying a higher discount rate, following interest rate increases over the past year, which reduced the provision by £3m.

Deferred tax

The deferred tax provision at 1 April 1999 was credited to the profit and loss account during the year. At 31 March 2000 there is a deferred tax asset (see note 13).

17. Share capital

	2000	1999
Authorised		
'A' shares of 5p each – number	**5,601**	5,601
– £	**280**	280
'B' shares of 5p each – number	**14,399**	14,399
– £	**720**	720
Issued, called up and fully paid		
'A' shares of 5p each – number	**880**	3,459
– £	**44**	173
'B' shares of 5p each – number	**14,399**	14,399
– £	**720**	720

Each 'A' share of 5p could have been redeemed at a price of £10,000 in the case of a shareholder being a natural person by no later than 31 December 2002. 'A' shares held by a shareholder who was not a natural person were redeemed prior to or on 30 September 1999. The 'A' shares were non-voting and had a preferential right to be redeemed on a winding up. The premium on these redemptions was charged to the capital redemption reserve. The 'A' shares did not confer upon the holders thereof any right to attend and vote at any general meeting. The holders were not entitled to dividends or distributions, save for the redemption amount. At an Extraordinary General Meeting on 15 March 2000, which approved the restructuring of the Company's constitution, it was resolved that all outstanding 'A' shares should be redeemed. 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.

On 12 April 2000, 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 29.7m.

18. 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 1999 as previously stated	52.6	34.6	15.0	110.4	52.6	34.6	15.0	110.0
Prior year adjustment (see note 26)	–	–	–	13.4	–	–	–	13.4
1 April 1999 restated	52.6	34.6	15.0	123.8	52.6	34.6	15.0	123.4
Profit for the financial year	–	–	–	33.9	–	–	–	33.7
Premium paid to 'A' shareholders (see note 17)	–	(25.8)	–	–	–	(25.8)	–	–
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
Revaluation reserve realised on property disposal	(1.1)	–	–	1.1	(1.1)	–	–	1.1
31 March 2000	**49.6**	**8.8**	**15.0**	**160.7**	**49.6**	**8.8**	**15.0**	**160.1**

Equity shareholders' funds on the balance sheet comprise the issued share capital of 'B' shares together with the revaluation and trade compensation reserves and the profit and loss account. Non-equity shareholders' funds comprise the issued share capital of 'A' shares and the capital redemption reserve. As explained in note 17, 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.

19. Reconciliation of movements in shareholders' funds

	2000 £m	Restated 1999 £m
Profit for the financial year – (1999 restated, see note 26)	**33.9**	14.7
Redemption of 'A' shares during the year	**(25.8)**	(1.7)
Net addition to shareholders' funds	**8.1**	13.0
Opening shareholders' funds – (1999 restated, see note 26)	**226.0**	213.0
Closing shareholders' funds	**234.1**	226.0

20. Notes to the consolidated cash flow statement

	2000 £m	Restated 1999 £m
i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**41.9**	12.5
Depreciation of tangible assets	**22.2**	33.1
Increase in debtors	**(7.6)**	(2.2)
(Decrease)/increase in creditors	**(8.5)**	4.6
Provisions utilised during the year	**(3.0)**	(12.0)
Net cash inflow from operating activities	**45.0**	36.0
ii) Reconciliation of net cash flow to movement in net funds		
Decrease in cash in the year	**(2.1)**	(0.9)
Increase in liquid resources	**2.0**	16.6
Change in net funds	**(0.1)**	15.7
Net funds at 1 April 1999	**170.5**	154.8
Net funds at 31 March 2000	**170.4**	170.5

	At 1 April 1999 £m	Cash flows £m	**At 31 March 2000 £m**
iii) Analysis of changes in net funds			
Cash in hand and at bank	6.5	(2.1)	**4.4**
Debt due after more than one year	(30.0)	–	**(30.0)**
Current asset investments	194.0	2.0	**196.0**
Total net funds	170.5	(0.1)	**170.4**

21. Commitments

	2000 £m	1999 £m
Contracted capital commitments not provided for in the accounts	**0.1**	0.3
The contracted commitments were mainly in respect of computing equipment.		
Financial commitments under property operating leases at 31 March 2000 for payments in the year to 31 March 2001 are as follows:		
Leases expiring – in one year	**0.2**	–
– between two and five years	**–**	0.2
– in five years or more	**4.7**	4.8
	4.9	5.0

22. Pension costs

The Company operates a non-contributory pension plan providing benefits based on final pensionable pay. The assets of the plan are held separately from those of the Company and the funds are managed, on behalf of the trustee, by Schroder Investment Management Limited. Pension costs are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Company. The pension costs are determined by an independent qualified actuary on the basis of regular valuations using the attained age method.

The most recent actuarial valuation was carried out at 31 March 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in pensionable pay and pensions. The principal assumptions for the March 1997 valuation were that over the long term (i) the annual rate of return on equity investments would be two per cent above the real return on the Government's RPI-linked gilts, (ii) the increase in pensionable pay would be two per cent above inflation and (iii) pension increases would be in line with inflation. Contributions to the pension plan are made in accordance with advice given by an independent qualified actuary. These were paid at a rate of 16 per cent of pensionable payroll up to 31 August 1997 and, following the results of the actuarial valuation, no further contributions have been paid.

In addition to the Company's contributions to the pension plan, the Company matches certain additional voluntary contributions by employees; in the year to 31 March 2000 the cost of this match amounted to £0.2m (1999, £0.2m). As an alternative to being members of the pension plan, employees could opt for a personal pension. The Company will make contributions to these personal pensions instead of its contribution to the main plan. In the year to 31 March 2000 the cost of these contributions amounted to £0.8m (1999, £0.6m).

The actuarial valuation at 31 March 1997 showed that the market value of the plan's main assets was £115.0m, excluding investments valued at £6.4m bought with members' additional voluntary contributions and with matching contributions from the Exchange. The actuarial value of the main assets represented 135 per cent of the value of benefits that had accrued to the members, after allowing for expected future increases in earnings. Following the valuation, and following advice from the plan's actuary, the Exchange ceased contributions to the plan for the time being. The Exchange and the plan trustee are keeping the funding position of the plan under review.

Since July 1999, the Exchange has provided a new defined contribution scheme to all employees and this is now the only scheme open to new employees. A core contribution of 8 per cent of pensionable pay is provided and the Exchange will match employee contributions up to a maximum of 6 per cent of pensionable pay. The assets of this scheme are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Legal & General Investment Management Limited.

The total pension charge for the year was £0.8m (1999, £0.6m).

23. 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 Exchange's financial instruments are in respect of interest rate, credit and liquidity.

Interest rate management

The Exchange finances its operations through retained earnings and a £30m debenture. Details of the debenture are set out in note 15. 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 Exchange 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.

	2000	1999
	£m	£m
Financial assets		
Other fixed asset investments	**0.4**	0.4
Investments – term deposits	**196.0**	194.0
Cash at bank	**4.4**	6.5
	200.8	200.9
Maturing in:		
One year or less, or on demand	**200.4**	200.5
Weighted average period of fixed interest rates	**84 days**	106 days
Weighted average interest rate	**6.0%**	5.3%
Financial liabilities		
The Company's financial liabilities and their maturity profile are:		
10⅛% Mortgage Debenture Stock 2016, repayable in more than 5 years	**30.0**	30.0

	Book value 31 March 2000 £m	**Fair value 31 March 2000 £m**	Book value 31 March 1999 £m	Fair value 31 March 1999 £m
Fair values of financial assets and liabilities				
Other fixed asset investments	**0.4**	**0.4**	0.4	0.4
Investments – term deposits and cash	**200.4**	**200.4**	200.5	200.5
10⅛% Mortgage Debenture Stock 2016	**(30.0)**	**(49.5)**	(30.0)	(53.4)
	170.8	**151.3**	170.9	147.5

24. 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 are included in note 11.

Notes to the financial statements

25. Share interests of directors

During the year, no director or member of a director's immediate family was granted or exercised any right to subscribe for shares in or debentures of the Company or any other body corporate in the Group. During the year, G F Casey, Sir John Kemp-Welch, M J P Marks, P R Meinertzhagen, I G Salter, H W H Sants and N Sherlock each redeemed their single 'A' share of the Company for £10,000 in accordance with the Articles of Association.

26. Prior year adjustment

During the year the Company changed its accounting policy in respect of software development costs. Previously the Company charged all software development costs to the profit and loss account as incurred. The Company now capitalises software development costs within tangible fixed assets. The cost capitalised is amortised over the asset's estimated useful life, which is on average three years. The comparative figures have been restated to reflect this change in accounting policy.

	Year ended 31 March 1999 £m
Profit for the financial year as previously reported	19.4
Effect of change in accounting policy:	
Software development costs previously charged as administrative expenses	8.1
Amortisation of capitalised software development costs	(14.9)
Change in taxation charge	2.1
Profit for the financial year as restated	**14.7**
Net assets as previously reported at 31 March 1999	212.6
Effect of change in accounting policy:	
Net book amount of software development costs capitalised	19.1
Change in deferred tax balance in respect of software development costs capitalised	(5.7)
Net assets as restated at 31 March 1999	**226.0**

The effect of this change in accounting policy is to reduce profit after tax for the current year by £0.6m as follows:

	Year ended 31 March 2000 £m
Software development costs now capitalised	**9.6**
Amortisation of capitalised software development costs	**(10.4)**
Change in taxation charge in respect of software development costs capitalised	**0.2**
	(0.6)

27. Post balance sheet event

On 3 May 2000 the Company announced plans to merge with Deutsche Börse, subject to shareholders' approval. It is proposed that the merged company will consist of all of the Exchange's and Deutsche Börse's businesses, except for Deutsche Börse's 50 per cent stake in Clearstream. Information on the proposed merger, including financial information on the Exchange and Deutsche Börse, will be provided to shareholders for approval in due course.

London STOCK EXCHANGE

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

www.londonstockexchange.com

Registered in England and Wales No 2075721