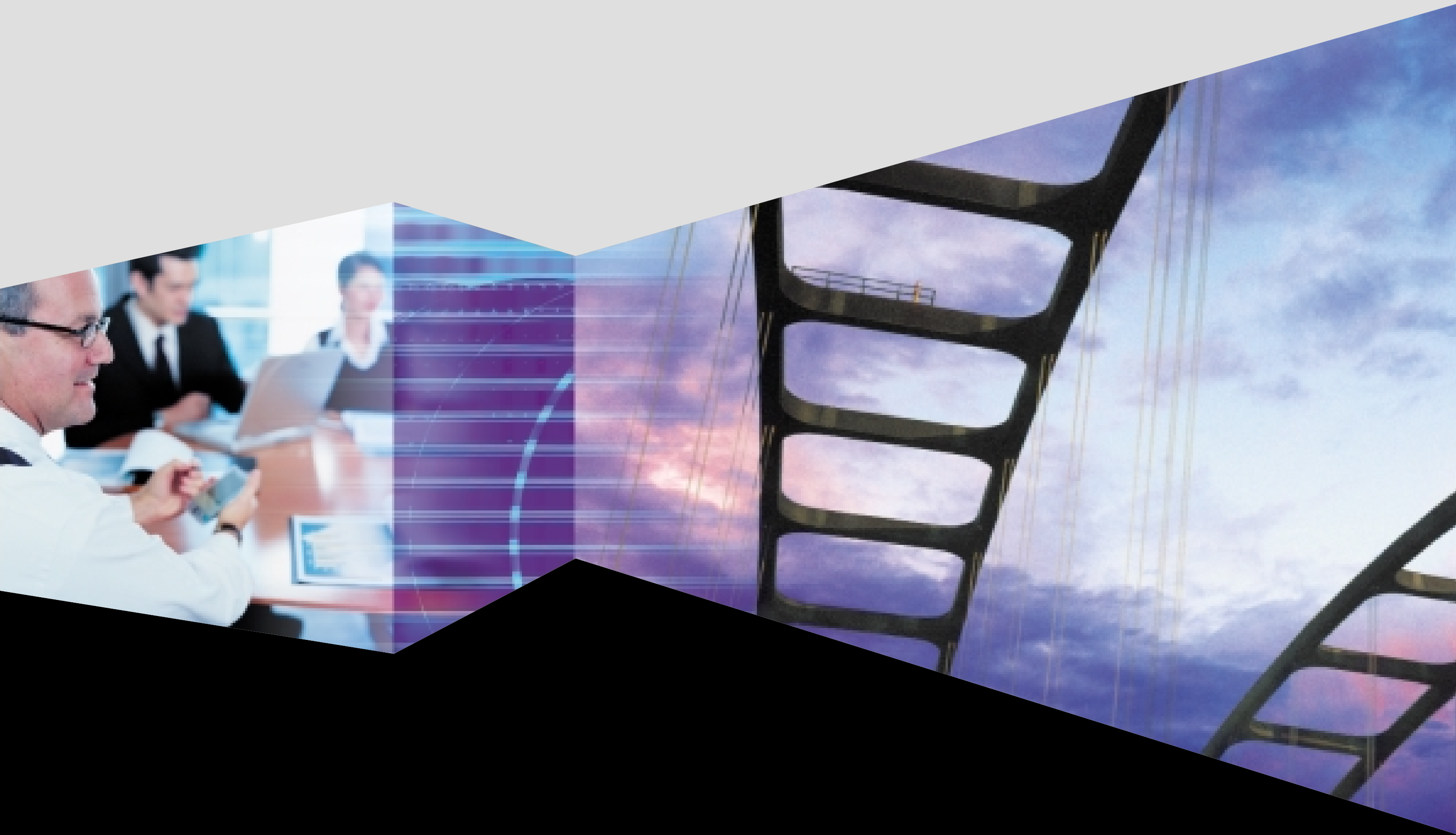
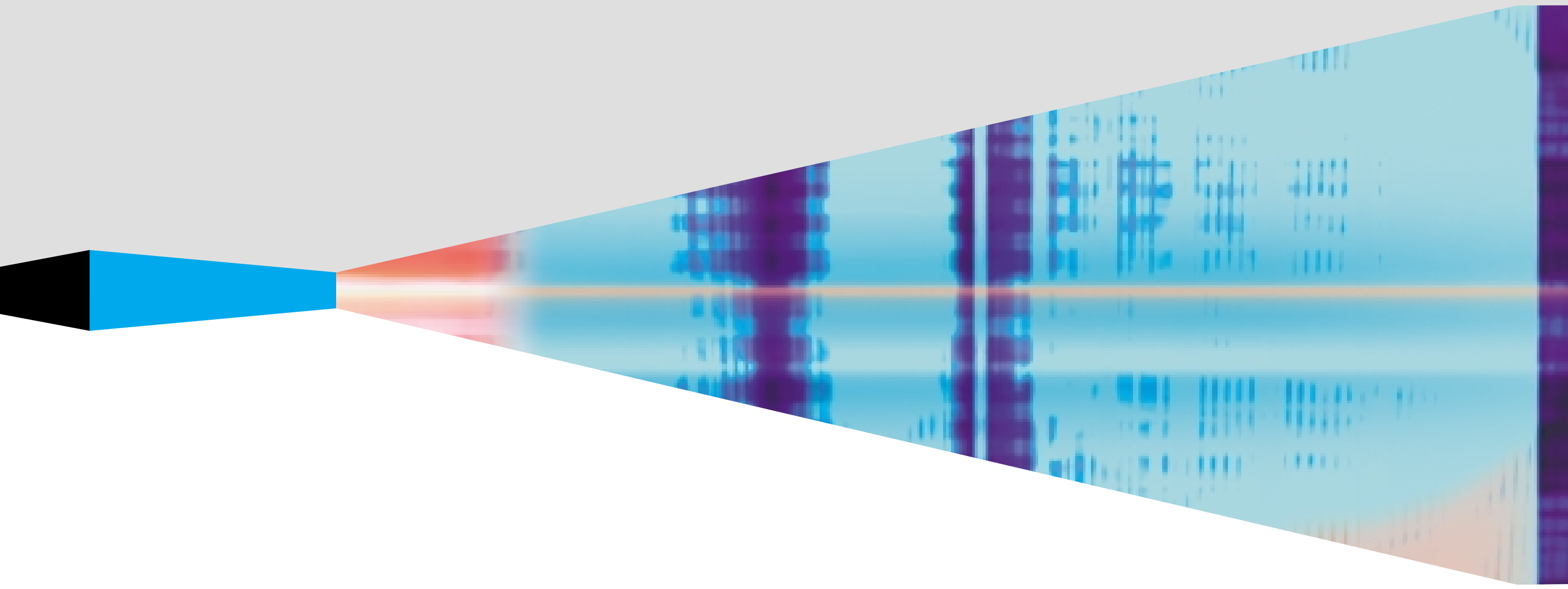
London
STOCK EXCHANGE

Developing a global marketplace

ANNUAL REPORT 2002



Our goal is to be Europe's leading exchange organisation and to shape the globalisation of capital markets through technology links and partnerships.



Contents

Delivering growth

turnover
£216m

profit before tax
£75m

adjusted earnings per share
18.3p

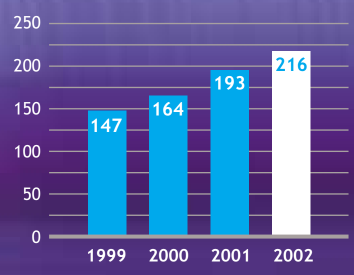
dividend per share
3.6p

- London Stock Exchange plc shares listed July 2001
- Highest ever trading levels recorded on our markets
- 66 per cent of all Western European IPOs achieved
- New trading services introduced
- International expansion of our markets continued
- Provision of technology services to JSE Securities Exchange South Africa
- Extranex™ global information network service launched

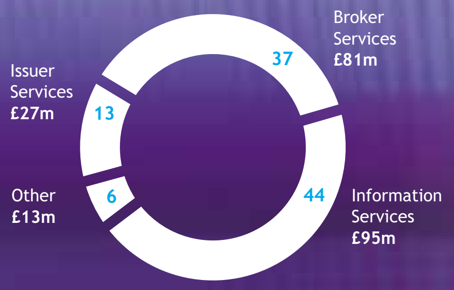
Substantial growth

	2001/2002	2000/2001	Growth
Turnover from continuing operations	**£216m**	£193m	**11%**
Operating profit from continuing operations before exceptional items	**£71m**	£58m	**22%**
Profit before tax	**£75m**	£30m	**147%**
Earnings per share	**17.1p**	5.1p	**235%**
Adjusted earnings per share	**18.3p**	15.2p	**20%**

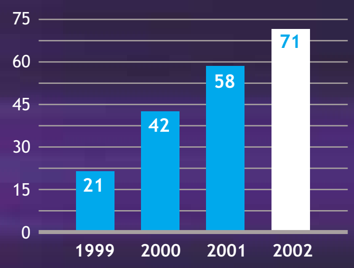
TURNOVER FROM CONTINUING OPERATIONS
YEAR ENDED 31 MARCH 2002 (£ MILLION)



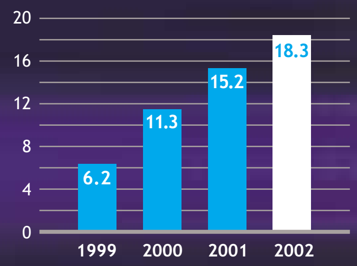
TOTAL REVENUE
YEAR ENDED 31 MARCH 2002 (%)

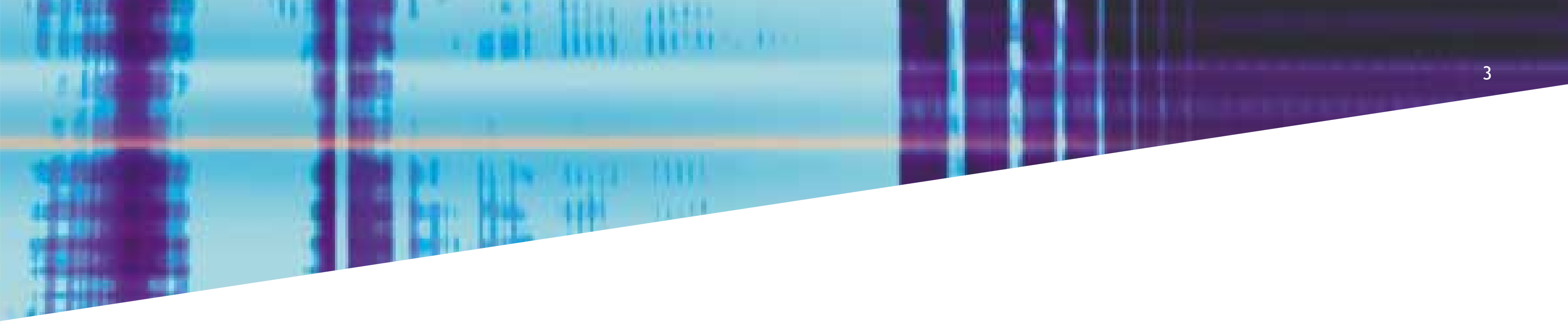


OPERATING PROFIT FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS
YEAR ENDED 31 MARCH 2002 (£ MILLION)



ADJUSTED EARNINGS PER SHARE
YEAR ENDED 31 MARCH 2002 (PENCE)





Our revenues derive from activities in three main business areas: Issuer Services, Broker Services and Information Services.

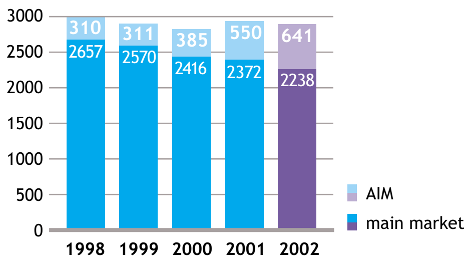
Issuer Services derives its revenue from fees for admission to trading and from annual fees.

Broker Services derives its revenue principally from charges levied on trades.

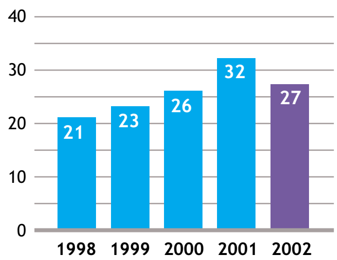
Information Services derives its revenue principally from charges levied on terminals with access to Exchange trade and price data.

ISSUER SERVICES

TOTAL NUMBER OF COMPANIES

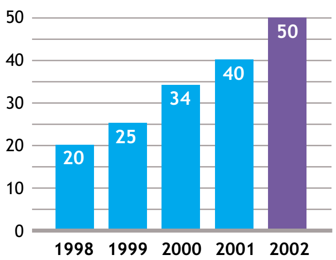


ISSUER SERVICES REVENUE
YEAR ENDED 31 MARCH 2002 (£ MILLION)

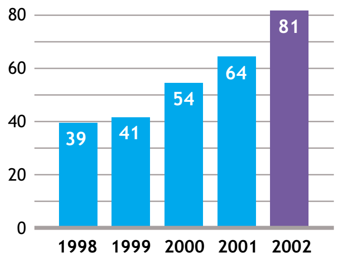


BROKER SERVICES

NUMBER OF EQUITY BARGAINS
(MILLION)

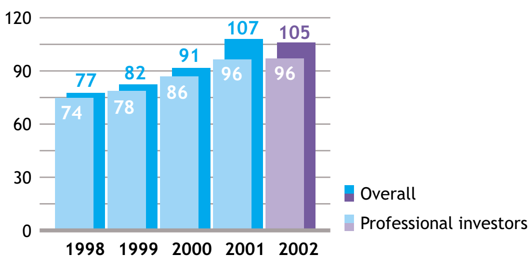


BROKER SERVICES REVENUE
YEAR ENDED 31 MARCH 2002 (£ MILLION)

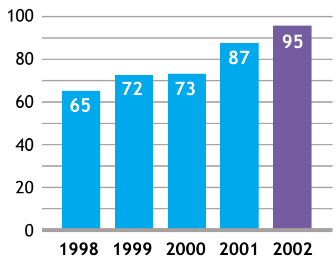


INFORMATION SERVICES

NUMBER OF TERMINALS
(THOUSAND)



INFORMATION SERVICES REVENUE
YEAR ENDED 31 MARCH 2002 (£ MILLION)



Changing the landscape

The London Stock Exchange is now a fully commercial public company and well positioned to compete effectively in a global market. In our first year as a listed company, we have delivered a strong financial performance that provides a solid platform for growth. As a result, we look to the future with confidence.

In support of our core business, we have used our influence as Europe's leading equity market to contribute significantly to the public policy initiatives aimed at developing a truly global capital market.

The values that we promote are customer choice, flexible market structures and high levels of transparency, disclosure and corporate governance. Those values and the goal of creating an integrated capital market in Europe, need even greater backing from public policy makers.

In the UK, our campaign to remove stamp duty on share transactions has won broad political and business support, but has been hindered by difficulties surrounding public finances. With a more competitive tax environment and with a greater degree of electronic shareholding, the UK would potentially host the most efficient electronic market in the world, and we continue to work towards this.

In Europe, we have forcefully put our case for more efficient clearing and settlement mechanisms, following the US model of a single system.

Our values have so far been significantly reflected in the early drafts of directives that will implement a single European market in securities trading.

We are also a keen sponsor of the continuing work of the International Accounting Standards Board to deliver global accounting standards.

A satisfactory outcome to each of these initiatives would lower the cost of capital for companies in the European Union, especially UK ones, and reduce trading costs for investors.

"We now have the commercial and financial flexibility to continue to build the business."

Listing

The successful listing of your company's shares in July on the main market of the London Stock Exchange has been very beneficial. As a fully listed company, we now have the commercial and financial flexibility to continue to build the business and explore all available opportunities for growth.

September 11

Given the close ties between the London and New York financial centres, the terrorist attacks in September were especially difficult to witness. In November, I spoke at the annual meeting of the United States' Securities Industry Association in Florida and passed on the condolences and support of those who work and invest in UK and European financial markets. Those attacks were aimed at the heart of the global capital market. However, business continued, demonstrating the growing strength and interdependence of the evolving global market.

200th anniversary

Our Bicentennial was marked by a series of well-attended events in support of The Trident Trust, our charitable partner. We were especially pleased that, in October, Her Majesty The Queen and His Royal Highness The Duke of Edinburgh visited the Exchange to share in the celebration of our anniversary. We raised over £200,000 for Trident and we look forward to continuing what has been a successful partnership.

I would like to express my appreciation to the staff of your company, who have been responsible for producing a strong year of growth. The support and backing of our shareholders has been critical to the transformation of the Exchange over the last two years. I anticipate no let up in the year ahead as we continue to grow the company and remain at the forefront of a highly competitive industry.

Don Cruickshank

Don Cruickshank
Chairman

Developing a global marketplace

This last year has been an outstanding one for the London Stock Exchange. We listed on our own market in July, completing the transformation of our business. We have a thriving business providing an important service to the most international financial services centre in the world.

Strategy

At the time of our listing, we set out a clear strategy to build on our existing business, to extend the scale and reach of our operations and to shape the globalisation of capital markets.

We have achieved much in this period. We have invested heavily in new technology to grow our market. We have upgraded our trading platforms to support an acceleration in volume growth and have built a new network to extend the reach of our services. We are introducing new services to support the retail market through a gateway, the introduction of a covered warrants market and the Retail Depositary Receipt, a trading mechanism for international issuers. We continue to lobby strongly and drive the debate on market efficiency.

In addition to these many initiatives, we had also hoped to broaden our product range through the acquisition of the LIFFE derivatives exchange. While LIFFE chose to go a different route, it remains our aim to expand our product base rapidly.

We continue to develop our core services and enhance our strong position in the UK equity market – this remains key to our success. We will continue to use the leading position of the UK equity market in Europe to influence change and improve the efficiency of Europe's capital markets; this will be a spur to our growth. We continue to explore how we can best connect global pools of liquidity to support our international customer base. Our aim is to create value not just within our own time zone, but to serve an increasingly global market.

66% of all Western European IPOs

Financial strength

The year was also one of strong financial growth in turnover and earnings. Despite economic uncertainty, turnover from continuing operations increased 11 per cent to £215.6 million and operating profit from continuing operations before exceptional items grew 22 per cent to £70.5 million. Earnings per share increased 235 per cent from 5.1 pence to 17.1 pence per share, while adjusted earnings per share rose 20 per cent to 18.3 pence per share.

Our strong financial performance is testament to the improvement in our competitive position, the breadth of our product range and the quality of our customer base. Our financial position has been further strengthened through significantly higher cash flows, leaving us well placed to evaluate and develop opportunities for expanding our business.

Management team

We have strengthened the senior executive team over the last year and were delighted to welcome Marc Bailey, David Lester, Phil Bruce and Nick Gammage to that team. We now have management expertise from across the securities industry, adding to the depth of experience within the company. The new management team is leading a programme of change and growth across the business with enthusiasm and vigour.

Market activity

Overall trading levels reached a daily average of 200,000, an increase over the last year of 25 per cent. The success of the SETS™ electronic order book, which trades the UK's most liquid securities, has underpinned the growth in trades with a record daily average of 69,000 electronic bargains – an increase of 86 per cent on the year.

A total of 289 companies were admitted to our markets, including 141 Initial Public Offerings (IPOs). Although lower in absolute numbers than last year's high levels, these represented 66 per cent of the total Western European IPO market. The IPO market has been driven by the growth of AIM™. With 85 IPOs in the last year, AIM alone accounted for nearly 40 per cent of Western European IPOs.

86% increase in electronic trades

Issuer Services

The focus of Issuer Services is on attracting new UK and overseas companies to our markets and supporting the companies whose shares are issued and traded here. AIM is now widely regarded as the most dynamic market for smaller companies in the world and we are keen to build further on its success. We are committed to increasing the international status of our markets. In particular, we have marketed heavily in countries with enormous growth potential such as China and India. Last year, we amended our eligibility criteria to allow secondary-listed international companies to join techMARK™ and the new techMARK mediscience™. The arrival of companies such as Swiss natural resources group Xstrata plc shows that London is ideally placed as the cross-border market of choice.

Broker Services

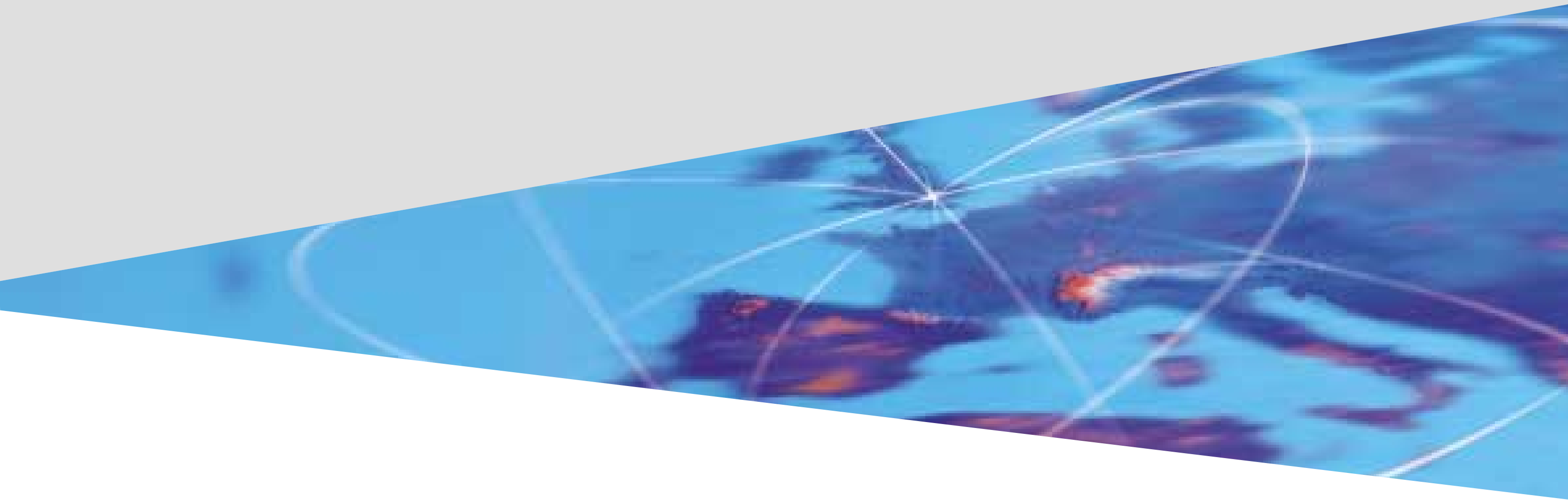
Broker Services has three main objectives. The first is to promote the growth of trading through SETS. We strongly believe that the impressive growth of the last year would be further increased by removal of stamp duty and greater electronic shareholding. The second is to increase participation in the central trading market by all of our customers. We believe the introduction of the RSP Gateway, for example, will help by reducing access costs for private client brokers. The third is to reduce settlement costs by offering a new CREST network service, introducing a netting capability with CRESTCo and LCH, and partnering with Euroclear.

Information Services

The customer reach of Information Services has been strengthened by the introduction of Extranex, our new global information network service, which has increased the information product range that we can offer and widened the customer base to which we can sell it. Our website has been upgraded and the number of hits it received more than doubled during the last year to reach 847 million. It is now an invaluable means by which to access key products and services.

20%
increase in adjusted earnings per share

"London is ideally placed as the cross-border market of choice."



New revenue streams

We are broadening our business in two key areas. The first of these will leverage our capabilities as a technology sales and services business. Since May 2002, we have been running and operating the JSE Securities Exchange South Africa equity market through our trading systems in London. We are working on a number of similar opportunities. We have also launched a commercial Regulatory News Service (RNS™). It is our firm intention to build on the strong position we have today to become a leading information provider in this field and expand the range of information products that we offer.

New headquarters

We have signed a lease agreement for new headquarters in the City of London. The move to the eight storey self-contained building at King Edward Court, Paternoster Square, which will take place in 2004, will keep us at the heart of the City and close to a large part of our customer base. In addition, we have appointed architects to review different options for enhancing the value of our current Old Broad Street freehold. They will assist us in securing a planning application for the Tower site.

Looking ahead

In my first full year of running the business, I have been particularly struck by the array of business opportunities open to the London Stock Exchange and the commitment of our staff to securing and accelerating our growth.

The London advantage is clear. We have the most robust technology of any major equity market in the world; we are the gateway to Europe, an area in which equity investment is expected to grow dramatically in the next 10 years; we possess a renowned framework for market rules and regulation; we serve the most international financial markets community in the world; and London is host to the world's largest pool of investment funds. I am convinced that our core business strengths, coupled with the extremely attractive London market environment, provide the foundation for a thriving future.

Clara Furse
Chief Executive

Managing for growth

Our new management team, led by Clara Furse, is focused on growing the business, drawing on wide-ranging experience of the securities industry.

1 Martin Wheatley
Deputy Chief Executive

Martin Wheatley (43) oversees Strategy and Corporate Development. He joined the Exchange in 1985 and has since played a leading role in the development of our trading markets. He was the driving force behind the introduction of the SETS electronic order book to the London market in October 1997. The success of SETS has had a significant impact in positioning the London Stock Exchange at the forefront of the world's securities markets.

2 Phil Bruce
Head of Corporate Strategy

Phil Bruce (47) plays a leading role in shaping the Exchange's strategy and has specific responsibility for formulating our position on clearing and settlement infrastructure. Before joining the Exchange in 2001, he was Managing Director of Strategy and Development at the London Clearing House (LCH). Before that, he spent 14 years at LIFFE in leading policy and strategy roles.

3 Jonathan Howell
Director of Finance

Jonathan Howell (39) is responsible for Finance, Investor Relations and Business Operations. Appointed Director of Finance in 1999, Jonathan played an integral role in the Exchange's transition to a fully listed company and is responsible for the development of the company's financial strategy. He joined the Exchange in 1996 from PricewaterhouseCoopers.

4 Marc Bailey
Director of Business Development

Marc Bailey (37) leads the Issuer Services and Broker Services divisions.

He is also responsible for the Marketing department and for developing, marketing and selling the ever growing range of Exchange products and services. Marc joined the Exchange in 2001, having accumulated senior level experience in a range of financial markets including equities, fixed income and derivatives. He has worked at CIBC, where he was Executive Director of the Global Trading Group and JP Morgan, where he developed a successful derivatives brokerage business.

5 David Lester
Chief Information Officer

David Lester (35) is responsible for the Information Services division and Technology.

He oversaw the recent implementation of the upgrade to the SEQUENCE™ trading platform and the introduction of the new Internet Protocol communications network. David is also managing the provision of technology services to the JSE Securities Exchange South Africa. Before joining the Exchange in 2001, David gained considerable experience in financial technology and information with the Primark Corporation.

6 Andrew McStravick
Director of Operations

Andrew McStravick (38) is in charge of the Exchange's Market Regulation division. He has also led the transformation of RNS, the UK's leading distributor of company news, into a new commercial environment. Andrew has over a decade of experience in the Exchange's regulatory division and was instrumental in developing IMAS, our electronic real-time trade surveillance system.

7 Nick Gammage
Director of Communications

Nick Gammage (43) is responsible for Media Relations, Public Affairs and the City Media Centre™, the Exchange's broadcasting and presentation facilities. He joined the Exchange in 2001 from the Consumers' Association where he was responsible for media relations, campaigning and policy development. He held a number of senior communications posts in Whitehall departments, before moving to the telecoms regulator OFTEL as Director of Communications. He began his career as a newspaper journalist.

A strong executive management team committed to taking the company forward.

Selling our markets to companies around the world

We provide a wide range of markets and services to attract and support UK and overseas companies wishing to raise capital and have their securities traded on a world-class market.

The Issuer Services division manages our relationship with the companies traded on our markets. It also seeks to attract companies from the UK and overseas that wish to have their shares traded on an equity market, and develops new markets and services to meet the needs of issuers. The division offers two primary markets:

- The main market offers trading in the securities of 2,238 companies, including 447 overseas issuers from 60 countries. The main market provides the majority of Issuer Services' revenue.
- AIM is our international market for smaller, growing companies with 641 constituents, including 42 overseas companies.

In addition, Issuer Services offers a range of attribute-led markets, such as techMARK, our market for innovative technology companies.

During the year, we introduced new markets and products, such as techMARK mediscience and Retail Depositary Receipts.

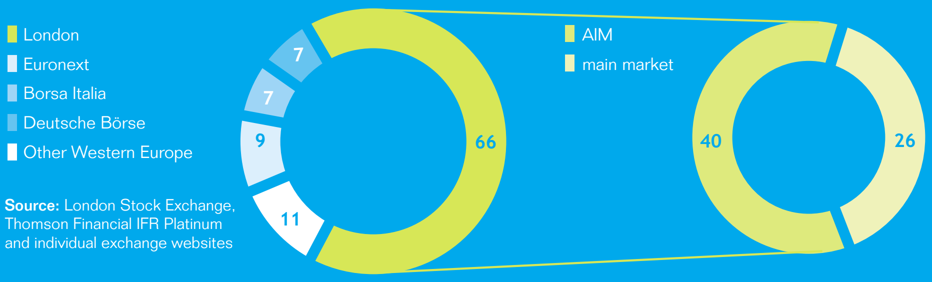
The division's revenue is derived from fees paid by issuers for initial admission to trading and subsequent issues of securities. All companies on our primary markets also pay annual fees.

Issuer Services generated £26.9 million of revenue during the year, down 16 per cent on the previous year. The decline resulted from the reduction in the number of Initial Public Offerings (IPOs) and new issues of securities, a result of the difficult stock market conditions seen throughout the world.

Despite these conditions, a total of £196 billion was raised by companies. We attracted 289 companies to our markets, including 141 IPOs. This accounted for 66 per cent of all IPOs in Western Europe, up from 47 per cent the previous year.

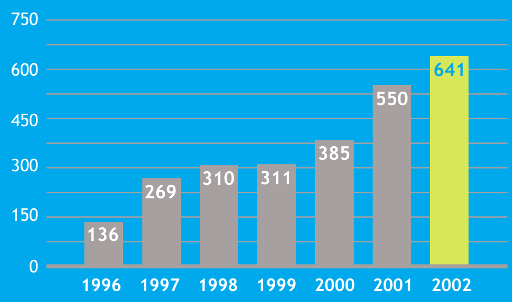
PERCENTAGE OF WESTERN EUROPEAN IPOS YEAR ENDED 31 MARCH 2002 (%)

PERCENTAGE OF WESTERN EUROPEAN IPOS TRADING IN LONDON (%)



Source: London Stock Exchange, Thomson Financial IFR Platinum and individual exchange websites

NUMBER OF AIM COMPANIES YEAR ENDED 31 MARCH 2002



revenue

£26.9m

AIM – leading the IPO market

AIM is the most dynamic market for smaller companies in the world. While its competitors have suffered from the global downturn, AIM has continued to attract new companies. The market attracted 170 companies, including 85 IPOs. AIM accounted for 40 per cent of all Western European IPOs. In December alone, 14 UK and three international companies joined.

techMARK mediscience – the world's first healthcare market

techMARK has consolidated its position as Europe's premier market for innovative technology companies.

To continue the development of techMARK, we launched techMARK mediscience in November to create the world's first market specifically for healthcare companies. The market includes listed companies from the biotechnology, specialist pharmaceuticals, diagnostics, drug delivery and medical technology industries. We have supported this initiative with a new index from FTSE. techMARK mediscience helps to focus even greater investor attention on one of the world's leading healthcare sectors.

landMARK – providing a regional focus

landMARK™, our market for regional companies, was successfully launched across the UK and Ireland in the summer. It is dedicated to highlighting the potential of quoted companies and encouraging growth in the liquidity of their shares. Since its launch, the dedicated landMARK website has become established as a key source of information about local companies and the professional community that supports them.

The London Advantage – attracting international companies

We have 489 international companies (including AIM), more than any other stock exchange. Over the year, we have continued to promote our markets worldwide. We have focused our efforts on those countries with strong growth potential, particularly Japan, India, China, South Africa and Australia. During the year, we attracted 26 international companies, including seven from Australia and three from Japan.

By introducing innovative products such as Retail Depositary Receipts (RDRs), we will continue to increase international participation in our markets. RDRs are certificates which represent ownership of shares in a company and which can be listed and traded independently from the underlying share. In particular, they offer international investors a higher level of investor protection with more rigorous listing rules than the conventional Global Depositary Receipt.

Accessing North America

We have 88 companies from the US and Canada on our international market and we continue to promote our markets widely in North America. Three companies joined in the last year. In October, we welcomed US Bancorp Piper Jaffray Capital Markets Ltd as our first US Nominated Adviser (Nomad) on AIM and Canaccord Capital (Europe) Ltd in December as our first Canadian Nomad.

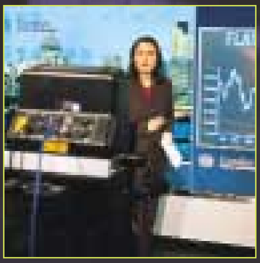
Yoshinori Uda, COO of NTT DoCoMo, Inc, one of Japan's leading mobile communications operators, at the London listing ceremony in March.

Gateway to Europe

There are 188 (non-UK) European companies on our market. During the year we attracted 10 European companies and, in March, Swiss natural resources group Xstrata plc chose London for its primary listing. We also completed a series of successful roadshows and seminars throughout Europe, highlighting the benefits of listing in London. In particular, we are dedicated to exploring the huge growth potential of the Nordic region, where enthusiasm for the AIM market is high.

We have campaigned in Europe to ensure that directives introduced to accelerate completion of the European single market in securities trading support and promote our markets. In particular, we have so far lobbied effectively to amend the proposed Prospectus Directive.

The City Media Centre



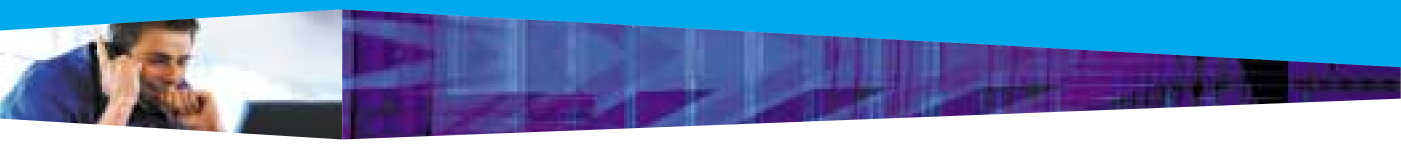
Our broadcasting and presentation facilities are located in the City Media Centre. Its profile continues to grow with companies, investors and viewers of financial news. This will continue to develop as it attracts more customers, such as BBC, CNN and CNBC demanding a higher number of broadcasts. During the year, there were 6,852 broadcasts (571 per month) which represented 136 per cent annual growth.

The Presentation Suite, launched in January 2001, is now viewed as one of the premier City locations to hold briefings or announce results. It hosts companies such as Smith & Nephew plc, Taylor Nelson Sofres plc, Chubb plc, Bradford & Bingley plc, Allders plc and Avis International plc.

The associated services we offer to companies continue to grow. We now offer courses on media training, presentation skills and the workings of the equity markets.

Leading the way in fast, efficient, cost-effective trading

We are continually upgrading our product and service offering to a wide range of customers – from the largest investment bank to the private investor.



The Broker Services division develops our trading markets and related products and services, and attracts and admits new customers to our markets. These customers are wholesale and retail broking firms from around the world. Broker Services' principal revenue stream is earned from the processing of trades between members, and admission and service fees.

We currently have 298 member firms from 13 different countries and overseas territories. During the last year, we attracted members from two new countries, Italy and Switzerland. The expanding range of new tailored products and services being introduced, such as the RSP Gateway, will support the anticipated increase in trading volumes and help underpin revenue growth by meeting the future needs of our customers.

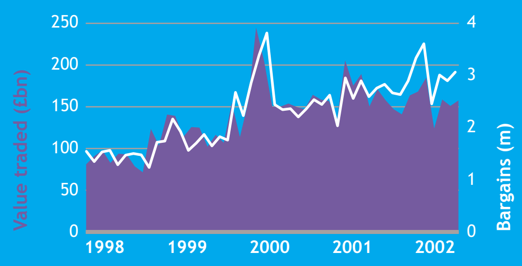
The division enjoyed a year of strong growth, increasing annual revenue by 26 per cent to £81.2 million. The daily average number of equity bargains rose 25 per cent to 200,000. Our trading systems, with uninterrupted access, proved resilient in a year of volatile global trading conditions.

Rapid growth in electronic trading

The SETS electronic order book, which trades the most liquid UK securities, has been central to the rapid growth in trading activity. The daily average number of SETS trades was a record 69,000, outstripping the previous year's 37,000 by 86 per cent. Since its introduction in 1997, SETS has greatly reduced the cost of trading, for example by halving the spread between buy and sell orders.

To support this growth and ensure that customers continue to get the high performance and reliability standards that are so critical to electronic trading, we increased SETS trading capacity threefold during the year.

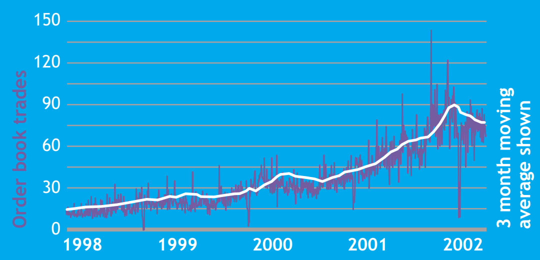
MONTHLY UK EQUITY TRADING VOLUMES
YEAR ENDED 31 MARCH 2002



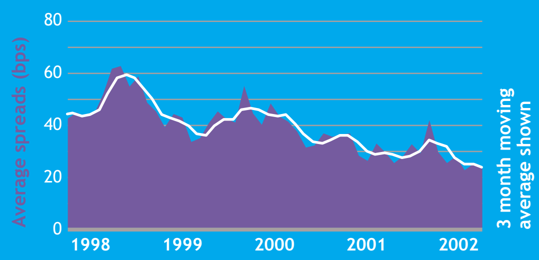
revenue

£81.2m

NUMBER OF ORDERS ENTERED ONTO SETS
YEAR ENDED 31 MARCH 2002 (THOUSANDS)



FTSE 100 AVERAGE VOLUME WEIGHTED SPREADS
ENTERED ONTO SETS YEAR ENDED 31 MARCH 2002



Increasing access to the central market

In June 2002, we are introducing the Retail Service Provider (RSP) Gateway. It will benefit existing and new entrant RSPs by significantly reducing their costs of access to the central market. Brokers will benefit through greater choice from consolidated technical access to RSPs and the competition of more price makers. The service will be free to brokers and RSPs will pay an annual access fee, while overall lower industry costs should help to increase the number of bargains executed.

The RSP Gateway infrastructure has the potential to be extended to service the needs of institutions and investment banks and to support markets beyond UK equities – opportunities we will actively explore in the year ahead.

Delivery of new products

We are planning to launch a covered warrants market in the UK. A covered warrant is an instrument issued on an underlying security or market that gives the holder the opportunity to gain or lose from market movements in the underlying. Revised regulations from the Financial Services Authority (FSA) mean that covered warrants can now be offered cost-effectively to retail investors, and are eligible for settlement in the CREST settlement service on a delivery-versus-payment basis. In order to maximise revenues, we will ensure that there is strong retail participation in the new market.

26% increase in revenue

Reducing settlement costs

Our commitment to reduce settlement costs, both domestic and cross-border, will help to drive overall trading levels on our markets.

CRESTCo settles trades in both UK and Irish securities. From May 2002, we have chosen to become a CREST network provider and to offer our customers access to the CREST settlement service at highly competitive rates. We can deliver the CREST network service on an extremely cost-efficient basis, allowing competitive pricing. The new service will provide significant cost savings for many of our customers.

We will also make the clearing and settlement of SETS trades more efficient. Building on the successful introduction of the central counterparty – with CRESTCo and LCH – we plan to introduce a netting capability in summer 2002. This will allow our customers to have just one net settlement per security per day, irrespective of the number of trades dealt on SETS. It will reduce their administrative costs and operational risk.

In addition, we are planning to offer our customers the opportunity to settle trades for both UK and non-UK securities in Euroclear, the Brussels-based settlement organisation. This will complement the service already provided by CRESTCo. The new service will help reduce costs for cross-border transactions and increase choice and competition for settlement services.

Cutting the cost of cross-border investment

Through the International Order Book (IOB) and the International Retail Service (IRS), we provide increasingly attractive low-cost international markets.

The IOB offers electronic trading to professional investors in our most liquid international securities and now provides a total of 88 stocks from 12 countries.

For retail investors, the IRS supports trading in nearly 300 international blue-chips, including 50 US stocks. Over 165 of our members currently subscribe and the service has ensured that the cost of investing in international stocks has been substantially reduced.

Promoting high quality regulation

We run well-regulated markets with high standards of fairness and integrity. This is crucial in providing the necessary confidence and protection to those who invest through our markets.

Over the past year, we have worked with the FSA to integrate these high standards into the new regulatory environment, established following the introduction of the Financial Services and Markets Act in December. The Act consolidates and enhances the framework of financial regulation in the UK, in particular creating a new market abuse regime. We have worked with the FSA to ensure that a co-ordinated approach is applied in the event of breaches by market participants.

As a Recognised Investment Exchange, we are subject to, and impose, high quality regulation across our markets. This enables us to remain a market leader in terms of price transparency and disclosure of corporate information. By using state of the art technology, we are able to provide unobtrusive and cost-effective real-time monitoring of market activity. This ensures that all participants operate on a level playing field.

The next year will see further changes to the European regulatory landscape as the European Union looks to develop and introduce a range of directives in relation to the securities markets. We have worked with customers, practitioner groups and the European Commission to promote open and accessible trading practices and internationally respected standards of market regulation.

Increased revenue through technology services

The ongoing development of our trading and information systems and network supports an increasing flow of trading, and allows us to increase the number of different overseas markets that harness our technology.

SEQUENCE — world-class trading platform

Our trading platform – called SEQUENCE – supports a wide range of market models, such as the SETS electronic order book and the SEAQ™ quote-driven system. It also supports trading in all currencies. In December, we upgraded SEQUENCE to new Compaq Tandem hardware, which trebled our trading capacity. This allows us to accommodate the continued growth in trading volumes on our markets. It also enables us to grow our technology sales by leasing extra capacity to overseas markets.

Introducing the IP network

We have installed a high-capacity Internet Protocol (IP) network, which will communicate our market data more efficiently. The IP network increases the capacity, flexibility and reach of SEQUENCE. It also provides the key component of Extranex, our new global information network service, which we introduced in April 2002. The new IP-based communication infrastructure will also increase the attractiveness of SEQUENCE to overseas markets looking to connect to London.

Technology sales

We continue to sell access to our SEQUENCE trading platform, including SETS, on an Application Service Provider (ASP) basis to other exchanges globally.

ASP enables us to benefit from economies of scale through using our existing technology and operations to process trades from other markets. Our offering is attractive to customers, not only in terms of the stability, reliability and functionality that SEQUENCE provides, but also in terms of its cost-effectiveness.

A unique selling point of our technology offering is the potential for customers to derive business-related synergies. These include reciprocal arrangements relating to remote access and market information dissemination. The shared infrastructure will, for example, increase the choice of markets available and reduce the costs of accessing information.

Since May 2002, we have been running and operating the JSE Securities Exchange South Africa equity market through our trading systems in London. The venture is expected to generate £11.2 million in revenue over the next five years, with an opportunity to earn in excess of this figure depending on transaction volume growth.

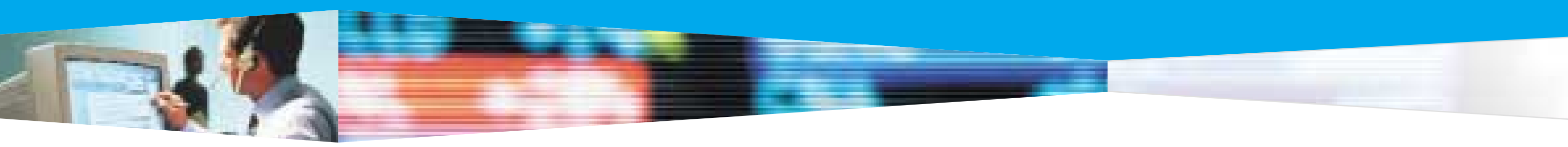
THE JSE EQUITY MARKET
YEAR ENDED 31 MARCH 2002

Number of listed companies	535
Market capitalisation of listed companies	£117 billion
Value of domestic trades	£38 billion
Number of equity transactions	3,992,579

The JSE Securities Exchange South Africa building in Johannesburg.

Information and networks that power trading across the globe

We are committed to enlarging the pool of investors, information vendors and companies that access our data and networks. We invest heavily in our information infrastructure to create the capacity to increase the number of products we can deliver.



Accurate, real-time price data is essential for the users of our markets and a valuable resource for the Exchange. The Information Services division sells price data and other specialist securities information to companies, investors and information vendors. It also enables customers to access our technology networks, including the new Extranex network, as well as the STX™ private telephone service for market participants. Information Services revenue rose by nine per cent to reach £94.9 million in 2002.

Provision of market data

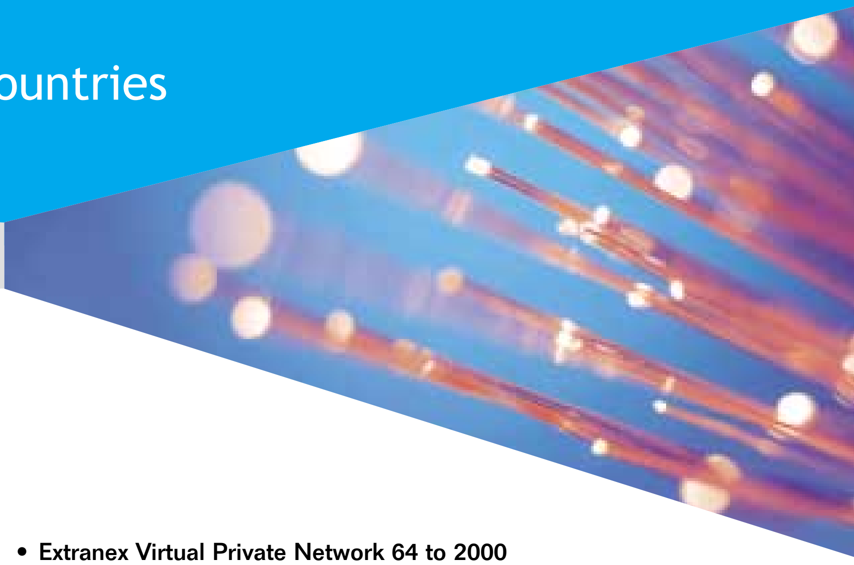
The Exchange has over 300 vendors of its real-time and delayed data. These vendors supply real-time information to customers in 100 countries – from Australia to Korea and France to China. The total number of terminals receiving our data has been broadly maintained at 105,000 during a year of volatile market conditions. The number of those terminals used by professional investors stayed at 96,000.

COUNTRIES RECEIVING DATA FROM THE LONDON STOCK EXCHANGE (HIGHLIGHTED IN CORAL)

revenue

£94.9m

data provided to terminals in 100 countries



Extranex – a global network service

In April 2002, using new Internet Protocol (IP) technology, we introduced Extranex, our new global information network service. Customers can choose from different access levels when they subscribe to Extranex:

- **Extranex 64** – for customers who require access to current trading services only, although it can support a number of new trading and settlement services.
- **Extranex 128 to 2000** – for customers who have a greater capacity need and require current, new and enhanced information services and who may also require trading and/or settlement services.
- **Extranex Virtual Private Network 64 to 2000** – for international customers who require an alternative means of connecting to the Exchange. It provides the performance of a high capacity, dual circuit connection, using dedicated capacity within a shared global IP network.

Extranex has increased the information product range we can develop and widened the customer base to which we can sell it. While the current X25 Communications Service is 90 per cent UK-based, the new network gives us the ability to provide more cost-effective services to any recognised financial centre in the world.

9% increase in revenue

Added value real-time information services

We already provide added value information to our customers in the form of closing prices, snapshots, mid-prices and the Daily Official List price, via our London Market Information Link (LMIL)™. Extranex will enable us to respond further to the demand for additional data on our markets by offering:

- Volume Weighted Average Price (VWAP) messages which are based on SETS order book trades and broadcast to the market throughout the trading day
- an Enhanced Best Price message which, in addition to providing the best bid and mid-prices, also details the number and volume of orders at best price
- cumulative volumes showing the cumulative number and volume of automatic and manual trades
- uncrossing Price and Volume, indicating both the uncrossing price and volume corresponding to that price.

By developing these services, we aim to meet the needs of our customers – to save time, increase efficiency and improve their information product range. We have also been active in developing:

- new packages of stock situation and valuation data
- an online calendar, which will allow customers to track all forthcoming corporate events affecting UK securities traded on the Exchange
- a tick data service, which provides historical intra-day tick-by-tick trading data (time and sales information).

www.londonstockexchange.com – selling products online

The popularity of our website continues to grow appreciably, with the number of hits rising from 363 million to 847 million during the year. www.londonstockexchange.com can now be accessed by customers wishing to purchase from our range of information products or subscribe to RNS Insight™ online to search and analyse two years of regulatory announcements.

RNS — the UK's leading distributor of company news

RNS is the UK's leading distributor of company news and aims to deliver even more value in a new competitive environment.

RNS is our company news service for companies traded on our markets. We publish several hundred regulatory disclosure announcements each day to a global audience of 250,000 investor terminals, as well as key financial websites. We also target information geographically within the UK via our landMARK service.

Until April 2002, RNS was the sole distributor of companies' regulatory announcements in the UK. Since April, the market has been opened up to commercial service providers approved by the Financial Services Authority.

By ensuring that RNS responds positively to the needs of customers and continues to be the leading source of company information, we are transforming a well-respected service into a valuable new revenue stream. Our unrivalled UK market expertise, high quality service and integrated investor relations products position us strongly to succeed in the new environment.

Introducing new services

We have introduced a package of services to complement the core regulatory disclosure service. These enable customers to deliver marketing messages, target their most important audiences and ensure that webcasts gain the attention of the investment community:

- **RNS Reach**™ – our investor communications service for non-regulatory announcements.
- **RNS Alert**™ – an e-mail-based service that customers use to target key industry contacts and send them details of the announcement at the same time as it is published to the market.
- **RNS Mediastream**™ – enables video and audio content to be communicated alongside RNS announcements.
- **RNS Insight**™ – a web-based service that companies, media and analysts use to monitor, search and analyse RNS announcements.

Meeting customer requirements

The reliability, speed and proven track record of RNS give its customers confidence that their announcements are in safe hands. By continually developing the service in response to customer requirements, we aim to further develop our market-leading position in the new commercial environment.

Working with the community

We set out the breadth of our corporate responsibilities, both in our approach to our employees and in our broader interaction with the surrounding community.

Our people

We continue to invest in the development of our people, providing them with structured training to achieve a broad base of skills and knowledge. We promote a working environment that encourages everyone's abilities and talents. All employees undergo an induction programme, which includes training on their roles and responsibilities on health, safety and security matters. All of our managers attend regular formal training events as part of their ongoing development.

We have launched a new appraisal system that provides a simple, effective review of the performance of our people and links individual contribution to the overall objectives of the business. Over 90 per cent of our employees are now members of share schemes, enabling them to further share in the success of our business.

We are committed to maintaining positive policies to promote equal opportunities in employment, including the employment, training and retention of disabled people. Our internal communications approach makes information on matters of concern freely available and readily accessible to our employees through a variety of paper-based, electronic and oral media.

The environment

Although the environmental impact of our operations is in itself limited, we are committed to the reduction of waste across our business and to promoting energy efficiency. We recycle all glass and paper used in our property and we give careful consideration to the environmental performance of our suppliers as part of our selection and purchasing process. We are continually improving our energy efficiency, while maintaining effective and safe operational conditions for staff and market services.

Architect's impression of our new headquarters in Paternoster Square.

200 YEARS London Stock Exchange

supporting The Trident Trust

New headquarters

We will be relocating our headquarters in 2004 to purpose-built premises in Paternoster Square, near St Paul's Cathedral. This visible location, at the heart of the City, will keep us close to our customers. We are designing an attractive, modern and efficient working environment, which is being built to exacting standards and will offer easy access to all staff and visitors alike. In keeping with our drive to improve energy efficiency, the building will be designed, for example, to minimise carbon emissions and incorporate energy recovery techniques for winter operation.

Investing in the community

We have an active and successful community programme. We currently donate £100,000 per year to charity projects through our Community Programme Board (CPB), which is chaired by our Deputy Chairman, Ian Salter. An important part of the programme's responsibility is to support the fundraising efforts of our staff by matching all charitable donations. In recent years, the CPB has focused its support on some of the UK's most deprived areas which surround the City of London.

Partnership with The Trident Trust

This year, in addition to the CPB programme, we formed a partnership with The Trident Trust, an educational charity based in the City of London and active across the country. Trident improves the employment opportunities of school children – mainstream and those with special needs – through personal development programmes and work experience. Fundraising for Trident has been the focus of our 200th anniversary celebrations with events held throughout the year. Staff, customers and suppliers have worked closely together to raise in excess of £200,000. We offer our congratulations and thanks to all those who have worked extremely hard to make such a success of our partnership with Trident.

FTSE4Good

We are a member of FTSE4Good, the index for socially responsible investment created by FTSE. As a member, we are committed, for example, to developing positive and constructive relationships with our stakeholders.

Financial review

Financial performance for the year ended 31 March 2002 has been strong. We achieved growth in turnover, improved our operating profit margin and increased our cash flows, despite a period of economic uncertainty.

Turnover from continuing operations increased 11 per cent to £215.6 million (2001: £193.4 million), operating profit from continuing operations before exceptional items grew 22 per cent to £70.5 million (2001: £57.9 million) and adjusted earnings per share rose 20 per cent to 18.3p per share (2001: 15.2p). Earnings per share increased from 5.1p to 17.1p per share, reflecting higher levels of exceptional charges in 2001.

Turnover

Broker Services turnover grew 26 per cent to £81.2 million (2001: £64.2 million), reflecting an increase in the overall level of trading activity on the Exchange's markets.

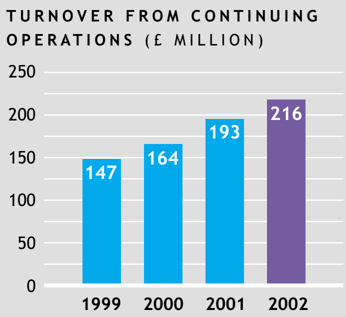
The total number of equity bargains increased 25 per cent to 50.1 million (2001: 40.2 million), a daily average of 200,000 (2001: 160,000). Over the same period, there was rapid growth in the daily average number of equity bargains transacted on the SETS order book, which increased 86 per cent to 69,000 (2001: 37,000).

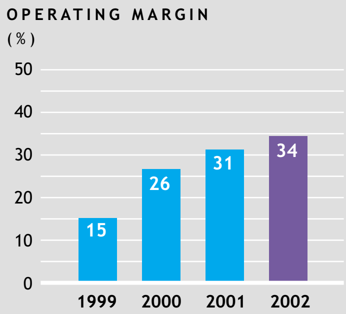
Issuer Services turnover for the year decreased by 16 per cent from £31.9 million to £26.9 million, reflecting weaker conditions in the IPO market. At 289, the number of new issues during the year was substantially lower than the high levels recorded in the previous year of 467. As at 31 March 2002, there were 2,879 companies traded on the Exchange's markets, only a modest decline on the prior year (2001: 2,922). The number of companies on AIM, our international market for smaller, growing companies, increased 17 per cent to 641 (2001: 550).

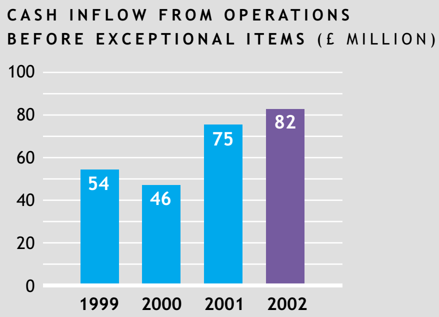
Information Services turnover was up nine per cent to £94.9 million from £87.0 million, reflecting continued resilience in demand for Exchange market data despite difficult market conditions. At 31 March 2002, the total number of terminals receiving Exchange data on a real-time basis was 105,000 (2001: 107,000), of which 96,000 terminals (2001: 96,000) were attributable to the professional user base. The decline in overall terminal numbers reflected a reduction in the number of lower-yield private investors' terminals (2002: 9,000/2001: 11,000).

Expenditure

During the year the Company grew in many dimensions, with investment in a number of key areas, including SETS, the new Extranex network and the RSP Gateway. The increase in administrative expenses for continuing operations was five per cent at £136.1 million, reflecting good cost management. The exceptional costs of £3.6 million relate to the Company's introduction to the Official List in July 2001. As a result of growth in turnover and cost management, the Exchange increased operating margin again to 34.1 per cent (2001: 30.9 per cent).







Profit for the year

Growth in turnover and operating margin led to an improvement of 22 per cent in operating profit from continuing operations before exceptional items to £70.5 million (2001: £57.9 million).

After exceptional items and net interest received, profit before taxation reached £75.2 million, 147 per cent higher than the £30.4 million last year.

The taxation charge for the year was £25.3 million, slightly above the standard tax rate due to certain expenses being disallowed for the purposes of tax provision. After tax, the resulting profit for the year was £49.9 million, compared to £15.2 million last year. The Directors have proposed a dividend increase of 13 per cent to 3.6p per share (2001: 3.2p per share), giving a total distribution of £10.6 million (2001: £9.5 million).

Balance sheet and cash flow

The business increased further its cash generation with cash inflow from operating activities before exceptional items of £82.4 million, up from £74.5 million in the previous year. At 31 March 2002 sterling cash resources stood at £189.9 million (2001: £147.9 million) with no debt to finance.

The Exchange invests the majority of its funds in fixed term deposits with banks, for periods of up to one year. No derivative contracts were entered into during the year.

Accounting developments

The Exchange complies with all current UK accounting standards. The transitional disclosures required by FRS 17 on Retirement Benefits are included in the financial statements. The valuation of the pension plan at 31 March 2002 under the requirements of FRS 17 shows a deficit of £18.9 million. The Exchange contributes to the plan in accordance with the advice of the actuary.

Going concern

After making appropriate enquiries, the Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The accounts are, therefore, prepared on the going concern basis.

Jonathan Howell

Jonathan Howell
Director of Finance

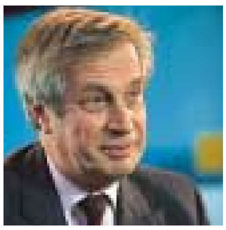
Your board

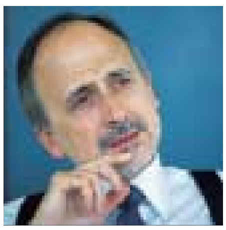










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1 Don Cruickshank 59 ■
Chairman

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

3 Jonathan Howell 39
Director of Finance

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

5 Ian Salter 59 ● ■
Deputy Chairman

Non-Executive Deputy Chairman since 1990. He is a Managing Director of SG Investment Management Ltd. He is also a member of the Lloyd's of London Authorisation Committee, the Financial Reporting Council and the Code Committee for the Take-Over Panel.

7 Baroness (Janet) Cohen 61 ● ▲ ■
Non-Executive Director

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

9 Peter Meinertzhagen 56 ▲
Non-Executive Director

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

11 Oscar Fanjul 53 ● ■
Non-Executive Director

Chief Executive of Omega Capital. Formerly Chairman and CEO of Repsol and Chairman of Hidroeléctrica del Cantábrico. Non-Executive Director of Acerinox, Técnicas Reunidas, Marsh & McLennan and Advisory Director of Unilever. He is also a member of the Advisory Board of the Carlyle Group and a member of the International Advisory Board of The Chubb Corporation.

2 Clara Furse 44
Chief Executive

Appointed Chief Executive in January 2001. Formerly Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. Director of LIFFE from 1990 to 1999, Deputy Chairman from 1997 to 1999. At Phillips & Drew/UBS (now UBS Warburg) from 1983 to 1998; became a Director in 1988, Executive Director in 1992, Managing Director in 1995, Global Head of Futures in 1996. Appointed Non-Executive Director of RICS Foundation in 2002.

4 Martin Wheatley 43
Deputy Chief Executive

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

6 Michael Marks 60 ● ■
Non-Executive Director

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

8 Gary Allen CBE DL 57 ●
Non-Executive Director

Chairman, IMI plc since May 2001, Chief Executive from 1987 to January 2001. Board Director of IMI plc since 1978, having joined the company in 1965. He is a Non-Executive Director of N V Bekaert SA, Belgium, The National Exhibition Centre Ltd and Temple Bar Investment Trust plc.

10 Robert Webb QC 53 ▲
Non-Executive Director

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

12 Nigel Stapleton 55 ▲
Non-Executive Director

Chairman, Uniq plc, previously Chairman of Veronis Suhler International Ltd from 1999 to 2001, Chairman of Reed International plc from 1997 to 1999, Co-Chairman of Reed Elsevier plc from 1996 to 1998, Chief Financial Officer of Reed Elsevier plc from 1993 to 1996.

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

Corporate governance

Subject to the comments below regarding the independence of non-executive directors and the composition of Board committees, the Company's Board is satisfied that it has complied with the provisions of the Combined Code – Principles of Good Governance and Code of Best Practice ('the Combined Code') during the year ended 31 March 2002.

Board of directors

The Board has six scheduled meetings a year and meets more frequently as required. At 31 March 2002, the Board comprised nine non-executive directors, including the Chairman and Deputy Chairman and three executive directors. Of the non-executive directors, Gary Allen, Janet Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb are considered to be fully independent within the meaning of the Combined Code. The senior non-executive director, who is not regarded as being independent, is Ian Salter.

Board committees

Until 23 May 2001, the Board committees concerned with the governance of the Company comprised a majority of directors who were involved in the Company's wider business and market community. On 23 May 2001, the composition of these committees was reviewed in order to increase the representation of independent non-executive directors, while ensuring a necessary degree of continuity, and these changes brought the Company closer to the requirements of the Combined Code. At the same time, the Company's Senior Appointments and Remuneration Committee was replaced by separate Remuneration and Nomination Committees.

Directors serving on the Board's committees are identified on pages 30 to 31.

The Remuneration Committee is chaired by Nigel Stapleton and comprises three other non-executive directors. One member of the Committee is not regarded as being independent and, in this respect, the Company does not comply fully with the Combined Code. The Committee has written terms of reference and meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes. A separate Remuneration Report is set out at pages 34 to 35.

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

In order to ensure an appropriate balance between cost effectiveness, objectivity and independence, the Audit Committee also reviews the nature of all services provided by the external auditors each year. Factors taken into consideration include: cost, appropriate use of the auditors' existing business knowledge and their procedures for ensuring compliance with professional and regulatory requirements. The Company normally expects to retain the external auditors to provide audit related services, including work in relation to shareholder (and other) circulars and transaction related work, and certain tax and similar services. The external auditors have provided no general consulting or internal audit services during the year.

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

Internal control

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

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

The principal features of the Company's control framework are described under the following headings:

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

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

Audit Committee – Reports from the Company's internal audit department on the effectiveness of key risk management and internal control procedures are reviewed by the Audit Committee and appropriate action taken, where necessary. The Audit Committee also receives reports from the Company's external auditors.

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

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

Health, safety and the environment

The Company's report on 'Working with the community' (pages 26 and 27) summarises our corporate responsibilities towards our people, the environment and the community. It is the Company's policy to maintain healthy and safe working conditions and to operate in an environmentally responsible manner, and significant health, safety and environmental issues are escalated to senior management in accordance with the risk management process described above.

An Environmental Policy Statement is set out on our website (www.londonstockexchange.com) and includes a framework for developing and reviewing environmental objectives and targets.

Our Health and Safety policy has recently been reviewed in detail and includes procedures for the safe handling of toxic and environmentally damaging materials. Compliance with the policy is overseen by an internal Health and Safety group. This group, with representation from each business area, meets on a regular basis and considers changes in legislation and related matters. There were no reportable fatalities, injuries, illnesses or dangerous occurrences during the year, nor were any Health and Safety enforcement notices or convictions received.

Following the recent publication of guidelines by the Association of British Insurers, the Department of Environmental, Food and Rural Affairs and other interested parties, the Company intends to further develop its corporate responsibility statement in subsequent Annual Reports.

Remuneration report

Scope of report
The Remuneration report sets out the Company's remuneration policy and, particularly, its approach for directors. It also explains how the Company applies the principles of good corporate governance in relation to directors' remuneration as defined in the Combined Code, and explains any areas of non-compliance.

Details of directors' remuneration and benefits are set out in note 7 (pages 46 to 49) to the financial statements.

Shareholders will be provided with an opportunity to vote on the remuneration policy as set out in this Annual Report at the forthcoming Annual General Meeting. Further details will be contained in the notice of AGM.

Remuneration Committee
The Remuneration Committee comprises four non-executive directors who are appointed by the Board. The Committee meets as required and at least twice a year to determine on behalf of the Board the framework of executive remuneration, and the specific remuneration of the executive directors including the award of entitlements under the performance related incentive schemes. The members of the Committee are:

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

Prior to the Company's listing in July 2001 the composition of the Remuneration Committee was reviewed to increase the number of independent non-executive directors, while at the same time providing the necessary degree of continuity. For the purposes of the Combined Code, Peter Meinertzhagen, a member of the former Senior Appointments and Remuneration Committee, is the sole member not regarded as being independent.

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

The Committee obtains advice from the remuneration consultants, Mercer Human Resource Consulting Ltd. The results of market surveys and other analysis from external sources are also made available to the Committee. When appropriate, the Committee also invites the views of the Chief Executive, Chairman and Director of Finance.

The Committee's terms of reference are reviewed regularly and approved by the Board.

Remuneration policy
Since last year's listing, the Remuneration Committee has embarked upon a full review of remuneration for senior executives. The objective has been to establish a transparent framework covering all elements of remuneration that retains, motivates and incentivises senior executives.

In a competitive and consolidating marketplace the Company must attract and retain a talented 'top team' to ensure it is positioned to deliver its business plans and maximise returns for shareholders.

The Company is committed to paying for performance. A significant proportion of executive remuneration is variable and dependent on the achievement of challenging performance targets which align with shareholders' interests. In 2001/02 over two-thirds of executives' pay was performance related.

The Remuneration Committee continually reviews executive remuneration practices and levels in relation to market practice as defined by a group of peer companies. This peer group is comprised of specialist financial services and information technology companies, and is kept under review to reflect corporate events and ongoing suitability. Specifically, total remuneration is benchmarked at market median or slightly above this peer group.

The principle components of executive directors' remuneration are as follows:

Fixed components
- base salary and benefits, set by reference to the peer group.

Performance related components
- annual bonus, through a cash and in certain circumstances deferred award of shares for the achievement of corporate and individual objectives
- share option grants to reward the creation of long-term shareholder value.

These components of executive directors' remuneration are set out in more detail below.

Base salary
Salaries are reviewed annually with effect from 1 April. Adjustments may be made to reflect changes in responsibilities and to ensure salary levels remain competitive against the peer group of companies.

Annual Bonus Plan
Executive directors are eligible to participate in the Annual Bonus Plan. Under this plan bonuses are determined by two factors:

- the performance of the Company against annual financial targets which include operating profit, earnings per share and cashflows
- individual performance against personal objectives.

Bonus levels for executives for achievement of stretching performance targets and objectives are typically 100 per cent of base salary, with the potential for higher awards to incentivise and reward outstanding performance. Similarly, executive directors will not be eligible for a bonus if the Company fails to meet its annual financial targets.

Awards over 100 per cent of salary are in part deferred as share awards, which are delivered in two tranches after 12 and 24 months of award date, subject to continued service.

Long-term incentive schemes

In March 2000, shareholders approved the Initial and Annual Plans under which all previous share scheme awards have been made. These Plans were introduced to develop quickly a stronger commercial culture following the Company's demutualisation and to align senior management's interests and actions with the interests of shareholders.

Following listing in July 2001, the Board considered it appropriate to replace the Annual and Initial Plans with a new equity based incentive plan that is tied to corporate financial performance and incorporates best practice and guidance published by institutional investor associations. These new incentive arrangements, under which future awards will be made, will be presented to shareholders for approval at the 2002 AGM and will take the form of a share option scheme. No further awards will be made under the previously approved Initial and Annual Plans.

Share options

Future long-term incentives will be made up entirely of share options. Executive directors will be considered for awards of options over ordinary shares on an annual basis. Subject to approval of the proposed option scheme by shareholders at the forthcoming AGM, the maximum value of shares placed under option to an individual in the financial year ending 31 March 2003 will be 100 per cent of annual salary.

Awards will only become exercisable, providing the Company achieves the performance criteria set by the Board during the initial three-year period. If the criteria have not been met when the options are due to vest then the options will lapse and there will be no opportunity for re-testing. In addition, all options will expire after 10 years.

Options granted in the financial year 2002/03 under the proposed new share option scheme will not normally become exercisable unless the growth in the Company's earnings per share (adjusted for certain items including exceptional items and the amortisation of goodwill) exceeds the retail price index over the initial three-year period after award by an average of at least four per cent per annum.

Earnings per share growth has been chosen as a good measure of value creation; it is aligned with the Company's corporate strategy and business goals and with the interests of shareholders. The Remuneration Committee will review performance measures and targets on an annual basis to ensure that they remain suitably challenging and aligned with shareholder value creation.

Share ownership guidelines

To qualify for future awards under long-term incentive schemes, executive directors and other senior executives are required to build up and then hold shares with a value at least equal to their base salary.

All employee SAYE Share Option Scheme

All UK permanent employees, including executive directors, are eligible to participate in the Inland Revenue approved SAYE Share Option Scheme. Under the scheme rules, participants can save up to £250 each month for a period of five years and savings plus interest may be used to acquire shares by exercising the related option.

The options may be granted at an exercise price which represents a 20 per cent discount to market value.

Pensions

Martin Wheatley, who was appointed prior to 1989, participates in the Company's final salary pension arrangements. This provides a core benefit, which is non-contributory, of 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).

All other executive directors have a proportion of their base salary paid into an appropriate defined contribution pension scheme.

Only base salary is used to calculate pension entitlement and no other pension supplements apply.

Executive directors

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

The executive directors receive a range of benefits in kind, which include private medical insurance, and life insurance on a similar basis to other senior executives.

Executive directors are allowed to accept appointments as non-executive directors of other companies with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Company'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 Company.

Non-executive directors' remuneration

None of the non-executive directors are employees of the Company and apart from the Chairman, the non-executive directors receive no benefits or entitlements other than fees and do not participate in any of the Company's Incentive Schemes. The Board as a whole determines the fees of the non-executive directors. The Company does not make any contribution to the pension arrangements of non-executive directors.

Don Cruickshank was appointed on 25 May 2000, initially until the 2003 AGM, as an Executive Chairman. In this capacity he received shares and options under the Initial Plan in November 2000. On becoming non-executive Chairman he has foregone his entitlement to be considered for further awards under the Exchange's incentive schemes. He retains an entitlement to medical insurance which was part of his original terms and conditions.

Directors' report

The directors of London Stock Exchange plc ('the Company') are pleased to present their annual report to shareholders, together with the financial statements for the year ended 31 March 2002.

Principal activities and results

The principal activities of the Company and its subsidiaries are the admission of securities to trading, the delivery of trading systems, the organisation and regulation of markets in securities and the provision of associated information services.

The profit of the Group on ordinary activities before taxation for the year ended 31 March 2002 was £75.2 million (2001: £30.4 million), after charging exceptional items of £3.6 million (2001: £36.5 million).

The strategic developments and operations of the business are described in the Chairman's statement, the Chief Executive's review and the operating and financial reviews on pages 4 to 25.

Dividend

The directors are recommending a final dividend of 2.5p (2001: 2.2p) per share for the year which, together with the interim dividend of 1.1p (2001: 1.0p) per share paid in January 2002, produces a total dividend of 3.6p (2001: 3.2p) per share amounting to £10.6 million (2001: £9.5million). The profit retained of £39.3 million (2001: £5.7 million) has been transferred to reserves.

Share capital

Details of the Company's share capital and the bonus issue made during the year are set out in note 18 to the accounts on page 54.

Substantial shareholding

As at 23 May 2002 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Fidelity International Limited	9.17%
UBS AG	4.07%

Directors

The directors of the Company at 31 March 2002 are set out on pages 30 and 31.

The directors who will, according with the Company's Articles of Association, retire at the forthcoming AGM and, being eligible, offer themselves for reappointment are Gary Allen, Jonathan Howell, Michael Marks and Peter Meinertzhagen. The unexpired term of the service contract for Jonathan Howell is 12 months. The other directors seeking reappointment do not have a service contract with the Company.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2002 according to the register maintained under the Companies Act 1985 are set out in note 7 to the financial statements on pages 46 to 49. 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 Company's corporate governance statement is set out on pages 32 and 33.

Land and buildings

All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts less depreciation. Following the implementation of FRS 15, no further revaluations of freehold properties will be made in the financial statements. In the opinion of the directors, the market value of freehold properties at 31 March 2002 exceeded book value by approximately £30 million. This is based on an existing use valuation which does not take into account any change of use for any of the properties.

Employees

Information on the Company's employment policies is given on pages 26 and 27.

Donations
During the year the Company gave £119,000 (2001: £100,000) to charitable organisations. No donations were made to political parties.

Supplier payment policy
It is the Company's policy to agree payment terms with suppliers when business transactions are negotiated and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2002 trade creditors represented 30 days of annual purchases by the Company.

Auditors
A resolution to reappoint PricewaterhouseCoopers as the Company's auditors will be proposed at the AGM.

By Order of the Board

L M Condron

Secretary

23 May 2002

Directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the auditors' report on page 39, is made with a view to distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

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

Accounting policies
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.

Accounting records
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.

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

Independent auditors' report

To the members of London Stock Exchange plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

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

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
23 May 2002

Consolidated profit and loss account

Year ended 31 March 2002

		Notes	2002 £m	2001 £m
Turnover				
Group and share of joint venture	– Continuing operations		**215.6**	193.4
	– Discontinued operations		**–**	1.2
Gross turnover			**215.6**	194.6
Less: share of joint venture's turnover	– Continuing operations		**(9.0)**	(6.2)
Net turnover		2	**206.6**	188.4
Administrative expenses	– Operating costs	3	**(136.1)**	(129.7)
	– Exceptional items	4	**(3.6)**	(18.9)
			(139.7)	(148.6)
Operating profit	– Continuing operations – before exceptional items	5	**70.5**	57.9
	– after exceptional items		**66.9**	39.0
	– Discontinued operations		**–**	0.8
			66.9	39.8
Share of operating profit of joint venture and income from other fixed asset investments			**1.0**	0.3
Net interest receivable/(payable)	– Before exceptional items	8	**7.3**	7.9
	– Exceptional item	8	**–**	(17.6)
			7.3	(9.7)
Profit on ordinary activities before taxation			**75.2**	30.4
Taxation on profit on ordinary activities		9	**(25.3)**	(15.2)
Profit for the financial year			**49.9**	15.2
Dividends		10	**(10.6)**	(9.5)
Retained profit for the financial year			**39.3**	5.7
Earnings per share		11	**17.1p**	5.1p
Diluted earnings per share		11	**17.0p**	5.1p
Adjusted earnings per share		11	**18.3p**	15.2p
Dividend per share			**3.6p**	3.2p

There were no other recognised gains and losses during the two years ended 31 March 2002 and 2001.

Note of historical cost profits and losses

	Notes	2002	2001
Profit on ordinary activities before taxation		**75.2**	30.4
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	19	**1.9**	1.9
Historical cost profit on ordinary activities before taxation		**77.1**	32.3
Historical cost profit retained after taxation		**51.8**	17.1

Balance sheet

31 March 2002

	Notes	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Tangible assets	12	**115.4**	117.1	**115.4**	117.1
Investments					
Investments in joint venture:					
Share of gross assets		**8.6**	7.1	**–**	–
Share of gross liabilities		**(7.1)**	(4.8)	**–**	–
	13	**1.5**	2.3	**1.5**	1.5
Other investments	13	**12.1**	10.1	**12.1**	10.1
		13.6	12.4	**13.6**	11.6
		129.0	129.5	**129.0**	128.7
Current assets					
Debtors					
Debtors – amounts falling due within one year	14	**38.9**	37.3	**38.9**	37.3
Deferred tax – amounts falling due after more than one year	15	**7.9**	10.7	**7.9**	10.7
		46.8	48.0	**46.8**	48.0
Investments – term deposits		**186.0**	143.0	**186.0**	143.0
Cash at bank		**3.9**	4.9	**3.9**	4.9
		236.7	195.9	**236.7**	195.9
Creditors – amounts falling due within one year	16	**62.7**	58.8	**62.7**	58.8
Net current assets		**174.0**	137.1	**174.0**	137.1
Total assets less current liabilities		**303.0**	266.6	**303.0**	265.8
Provisions for liabilities and charges	17	**21.7**	24.6	**21.7**	24.6
Net assets		**281.3**	242.0	**281.3**	241.2
Capital and reserves					
Called up share capital	18	**14.9**	1.5	**14.9**	1.5
Reserves					
Revaluation reserve	19	**45.8**	47.7	**45.8**	47.7
Profit and loss account	19	**220.6**	192.8	**220.6**	192.0
Total equity shareholders' funds		**281.3**	242.0	**281.3**	241.2

The financial statements on pages 40 to 59 were approved by the Board on 23 May 2002 and signed on its behalf by:

Clara Furse, Chief Executive
Jonathan Howell, Director of Finance

Consolidated cash flow statement

Year ended 31 March 2002

	Notes	2002 £m	2001 £m
Net cash inflow/(outflow) from:			
– ongoing operating activities	21(i)	**82.4**	74.5
– exceptional items	21(i)	**(3.8)**	(22.4)
Net cash inflow from operating activities		**78.6**	52.1
Returns on investments and servicing of finance			
Interest received		**8.8**	12.1
Interest paid		**–**	(4.1)
Premium on redemption of debenture		**–**	(17.6)
Dividends received		**0.2**	0.1
Net cash inflow/(outflow) from returns on investments and servicing of finance		**9.0**	(9.5)
Taxation			
Corporation tax paid		**(15.8)**	(20.6)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		**(15.8)**	(22.7)
Payments to acquire own shares		**(5.0)**	(10.0)
Receipts from sale of fixed asset investments		**0.7**	–
Net cash outflow from capital expenditure and financial investments		**(20.1)**	(32.7)
Dividends paid		**(9.7)**	(3.0)
Net cash inflow/(outflow) before use of liquid resources and financing		**42.0**	(13.7)
Management of liquid resources			
(Increase)/decrease in term deposits	21(ii)	**(43.0)**	53.0
Financing			
Redemption of mortgage debenture		**–**	(30.0)
Redemption of 'A' shares		**–**	(8.8)
(Decrease)/increase in cash in the year	21(ii)	**(1.0)**	0.5

Notes to the financial statements

1. Accounting policies

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 actively traded 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. Turnover is recognised in the period when the service or supply is provided:

a) annual fees are recognised over the 12-month period to which the fee relates

b) admission fees are recognised at the time of admission to trading

c) data, transaction and Exchange charges are recognised in the month in which the data is provided or the transaction is effected.

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

Fixed asset investments
Shares in the Company held under Employee Share Ownership Plans are stated at cost less amortisation. The cost of these shares is written down to realisable value over the periods of service in respect of which options and awards are granted. Other fixed asset investments are stated at cost less any provision required for impairment in value.

Tangible assets and depreciation
a) Freehold properties, including related fixed plant, have been revalued by external chartered surveyors and are included in the financial statements at the revalued amounts. Following the implementation of FRS 15 no revaluations of freehold properties after March 1997 will be made.

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

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

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

d) The Group selects its depreciation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances.

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 when incurred. Provision is made in the accounts for lease commitments, less income from sub-letting, for properties which are surplus to business requirements.

Notes to the financial statements

1. Accounting policies (continued)

Pension costs
Pension costs for the defined benefit plan are assessed in accordance with the advice of an independent actuary. The accounting cost for providing defined benefit pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Pension costs under the defined contribution plan are charged as incurred. Further details of the Company's pension schemes and the basis upon which the charge to the profit and loss account is determined are set out in note 23 to the financial statements.

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

Employee Share Ownership Plan (ESOP)
Details of the Company's Employee Share Ownership Plan are set out in note 25 to the financial statements on page 59. Costs for the Initial Share Plan are being charged to the profit and loss account over three years from the date of award. Costs for the Annual Share Plan are charged in the year to which the awards relate.

2. Turnover

	2002 £m	2001 £m
Analysis of turnover:		
Continuing operations		
Issuer Services	**26.9**	31.9
Broker Services	**81.2**	64.2
Information Services	**94.9**	87.0*
Other income	**12.6**	10.3*
	215.6	193.4
Discontinued operations		
Competent authority	**–**	1.2
Gross turnover	**215.6**	194.6
Less: share of joint venture's turnover	**(9.0)**	(6.2)
Net turnover	**206.6**	188.4

* The comparative figures for 2001 have been restated to include RNS turnover of £1.7m within Information Services, which was previously classified as Other income.

For the purposes of Segmental Reporting, the directors consider that the Company has one class of business with the three principal revenue streams noted above derived from that business, with principal operations being in the United Kingdom.

3. Administrative expenses

	2002 £m	2001 £m
Continuing operations	**136.1**	129.3
Discontinued operations	**–**	0.4
	136.1	129.7

4. Exceptional items

	2002 £m	2001 £m
Fees in respect of the Company's introduction to the Official List	**3.6**	–
Fees in respect of the proposed merger with Deutsche Börse AG and in defence of the bid from OM Gruppen	**–**	18.9
	3.6	18.9

5. Operating profit

Operating profit before exceptional items is stated after charging the following amounts:	2002 £m	2001 £m
Depreciation of tangible assets	**17.5**	19.9
Operating lease rentals – properties	**4.4**	5.1
Auditors' remuneration for:		
Audit	**0.1**	0.1
Non-audit services (see below)	**0.7**	1.0
Release of property provision (see note 17)	**(1.5)**	(4.7)

Non-audit fees paid to PricewaterhouseCoopers during the year were £0.7m (2001: £1.0m). These fees are primarily in respect of taxation, pensions, actuarial and transaction related services. In addition, non-audit fees of £0.2m (2001: £1.2m) were payable in respect of the exceptional items included in note 4 above.

6. Employees

Employees of the Group and their employment costs are summarised below:	2002	2001
The number of employees was:		
At the year end	**524**	545
Average for the year	**552**	534
	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	**31.9**	26.3
Social security costs	**4.1**	2.9
Other pension costs	**2.7**	1.6
Total	**38.7**	30.8

Notes to the financial statements

7. Directors' emoluments

The Remuneration report of the Board is on pages 34 and 35.

	2002				2001				**2002**	2001
	Salary £000	Performance Bonus* £000	Benefits £000	**Total £000**	Salary £000	Performance Bonus £000	Benefits £000	Total £000	**Pensions (Note ii) £000**	Pensions (Note ii) £000
Chairman										
D G Cruickshank (note i)	350	–	1	**351**	432	250	1	683	**–**	–
Chief Executive										
C H F Furse	319	475	1	**795**	57	50	–	107	**26**	8
Executive directors										
J A G Howell	210	320	2	**532**	211	260	2	473	**25**	24
M Wheatley (note ii)	235	300	10	**545**	215	270	10	495	**–**	–
Previous directors										
Sir John Kemp-Welch – until 25 May 2000	–	–	–	**–**	42	–	1	43	**–**	–
G F Casey – until 15 September 2000	–	–	–	**–**	170	138	9	317	**–**	37
	1,114	1,095	14	**2,223**	1,127	968	23	2,118	**51**	69
Compensation for termination of contract										
G F Casey				**–**				950	**–**	–
				2,223				3,068	**51**	69

* In addition to the cash bonus above, share awards under the Annual Bonus Plan will be made after the year end as set out on page 47.

		2002	2001
Non-executive directors' fees			
Directors in office throughout both years			
I G Salter – Deputy Chairman		**50**	25
G J Allen		**30**	15
M J P Marks		**30**	15
P R Meinertzhagen		**30**	15
Directors who did not hold office for the whole of the two financial years			
G K Allen	until 28 February 2001	**–**	14
J Cohen	from 1 February 2001	**30**	5
O Fanjul	from 1 February 2001	**30**	5
I Plenderleith	until 28 February 2001	**–**	14
S M Robertson	until 20 March 2001	**–**	15
H W H Sants	until 19 March 2001	**–**	15
N Sherlock	until 31 March 2001	**–**	15
N J Stapleton	from 1 February 2001	**30**	5
R S Webb QC	from 1 February 2001	**30**	5
Total non-executive directors' fees (note iii)		**260**	163
Total directors' emoluments		**2,483**	3,231

Total directors' emoluments pensions: **51** (2002), 69 (2001)

7. Directors' emoluments (continued)

Notes

i) Chairman

The bonus, share awards and grant of options to D G Cruickshank were in relation to his capacity as Executive Chairman. D G Cruickshank became Non-Executive Chairman with effect from 24 January 2001.

ii) Pensions

M Wheatley is a member of the Company's defined benefit scheme. The increase in his accrued pension during the year was £3,000 (2001: £9,000) and the accumulated accrued pension at the end of the year was £55,000 (2001: £51,000). M Wheatley is 43 years old and the scheme's normal retirement age is 60 years. His pension increases in payment each year in line with inflation subject to a maximum of five per cent and a minimum of three per cent a year and has an attaching 50 per cent spouse's pension.

The Company contributed to the senior executive defined contribution pension plan for C H F Furse of £26,000 (2001: £8,000), and for J A G Howell of £25,000 (2001: £24,000).

iii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £110,000 representing three directors (2001: £90,000 representing six directors).

iv) Waiver of emoluments

None of the directors waived emoluments during 2001 and 2002.

Directors' share interests

Share schemes for 2002 onwards

Annual Bonus Plan

As part of the short term incentive scheme, described in the Remuneration report on pages 34 and 35, a proportion of the annual bonus is deferred as shares, delivered after 12 and 24 months, subject to continued service. Awards of shares under this scheme are set out below:

	Number of shares					
Share awards	**At start of year**	**Awarded during year**	**Vested during year**	**At end of year**	**Price at award date (£)**	**Final vesting date**
C H F Furse	–	3,440	–	3,440	3.65	25/06/03
J A G Howell	–	12,360	–	12,360	3.65	25/06/03
M Wheatley	–	13,720	–	13,720	3.65	25/06/03

Shares awarded during the year under the Annual Bonus Plan vest in two equal tranches on 25 June 2002 and 25 June 2003.

In addition to the cash bonus for the year to 31 March 2002, share awards under the Annual Bonus Plan will be made after the year end. The share awards will amount to 40,793 shares for C H F Furse, 32,634 shares for J A G Howell and 23,310 shares for M Wheatley and will vest over the following two years.

Proposed Share Option Plan

As described in the Remuneration report on pages 34 to 35, the Company will present a new long term incentive scheme to shareholders for approval at the AGM. Under the new plan, all future long term incentives will be made up entirely of share options.

Notes to the financial statements

7. Directors' emoluments (continued)

Share option grants and Share awards in 2001 and prior

The following grants and awards were made under the long term incentive scheme (comprising the Initial and Annual Share Plans) approved by shareholders in March 2000. These plans are now closed and no further grants or awards will be made under them.

	Number of options						
Share option grants	**At start of year**	**Granted during year**	**Exercised during year**	**At end of year**	**Option price per share (£)**	**Date of grant**	**Expiry date**
D G Cruickshank	181,950	–	–	**181,950**	2.37	16/11/00	16/11/10
	134,750	–	–	**134,750**	2.97	16/11/00	16/11/10
	316,700	–	–	**316,700**			
C H F Furse	285,450	–	–	**285,450**	2.52	25/01/01	25/01/11
	211,450	–	–	**211,450**	3.15	25/01/01	25/01/11
	–	3,430	–	**3,430**	3.65	25/06/01	25/06/11
	496,900	3,430	–	**500,330**			
J A G Howell	242,600	–	–	**242,600**	2.37	16/11/00	16/11/10
	179,700	–	–	**179,700**	2.97	16/11/00	16/11/10
	–	12,350	–	**12,350**	3.65	25/06/01	25/06/11
	422,300	12,350	–	**434,650**			
M Wheatley	272,950	–	–	**272,950**	2.37	16/11/00	16/11/10
	202,150	–	–	**202,150**	2.97	16/11/00	16/11/10
	–	13,720	–	**13,720**	3.65	25/06/01	25/06/11
	475,100	13,720	–	**488,820**			

The options set out above become exercisable between one year and five years of the date of grant, at 20 per cent in each year.

	Number of shares					
Share awards	**At start of year**	**Awarded during year**	**Vested during year**	**At end of year**	**Price at award date per share (£)**	**Vesting Date**
D G Cruickshank	50,550	–	–	**50,550**	2.37	16/11/03
	50,550	–	–	**50,550**		
C H F Furse	79,300	–	–	**79,300**	2.52	25/01/04
	–	1,720	–	**1,720**	3.65	25/06/04
	79,300	1,720	–	**81,020**		
J A G Howell	67,400	–	–	**67,400**	2.37	16/11/03
	–	6,180	–	**6,180**	3.65	25/06/04
	67,400	6,180	–	**73,580**		
M Wheatley	75,820	–	–	**75,820**	2.37	16/11/03
	–	6,860	–	**6,860**	3.65	25/06/04
	75,820	6,860	–	**82,680**		

The market price of the shares on 31 March 2002 was £4.33 and the range during the year was from £2.81 to £4.35.

7. Directors' emoluments (continued)

Directors' interests in shares

The directors who held office at 31 March 2002 had the following other interests in the shares of the Company:

	Ordinary shares 2002	Ordinary shares 2001
D G Cruickshank	**25,000**	25,000
C H F Furse	**100,000**	–
J A G Howell	**12,500**	12,500
M Wheatley	**17,500**	17,500
O Fanjul	**28,000**	–
I Salter	**12,000**	4,000

8. Net interest receivable/(payable)

	2002 £m	2001 £m
Interest receivable		
Bank deposit and other interest (see i)	**8.5**	12.4
Interest payable		
On bank and other loans repayable after five years (see ii)	**–**	(2.8)
Interest on discounted provision for leasehold properties (see note 17)	**(1.2)**	(1.7)
Total	**(1.2)**	(4.5)
Net interest receivable – before exceptional item	**7.3**	7.9
Exceptional item		
Premium on redemption of mortgage debenture	**–**	(17.6)
Net interest receivable/(payable) – after exceptional item	**7.3**	(9.7)

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

(ii) The interest payable on loans repayable after five years was in respect of the £30m debenture repayable in 2016 which was redeemed on 8 March 2001.

9. Taxation

	2002 £m	2001 £m
Current tax:		
Corporation tax for the year at 30% (2001: 30%)	**25.2**	15.0
Adjustments in respect of previous periods	**(3.1)**	(1.4)
	22.1	13.6
Deferred taxation (see note 15)	**2.8**	1.5
Joint venture	**0.4**	0.1
Taxation charge	**25.3**	15.2

The adjustments for previous years are mainly in respect of timing differences, the effect of which was previously dealt with in deferred taxation, and reflect revised assumptions for the allowance of certain expenses.

Notes to the financial statements

9. Taxation (continued)

Factors affecting the current tax charge for the year
The current tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before tax	**75.2**	30.4
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**22.6**	9.1
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	**2.5**	6.8
Accounting deduction (less)/greater than capital allowances – timing difference	**(0.5)**	0.3
Movement in provisions	**0.6**	(1.2)
Adjustments to tax charge in respect of previous periods	**(3.1)**	(1.4)
Corporation tax charge	**22.1**	13.6

Factors that may affect future tax charges
The disposal of properties at their revalued amount would not give rise to a tax liability.

10. Dividends

	2002 £m	2001 £m
Interim paid: 1.1p (2001: 1.0p) per Ordinary share	**3.2**	3.0
Final proposed: 2.5p (2001: 2.2p) per Ordinary share	**7.4**	6.5
	10.6	9.5

11. Earnings per share

Earnings per share is presented on three bases: earnings per share; diluted earnings per share; and adjusted earnings per share. Earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects of share options and share awards under the Employee Share Ownership Plan (ESOP). Adjusted earnings per share excludes discontinued operations and exceptional items to enable comparison of the underlying earnings of the business with prior periods.

	2002	2001
Adjusted earnings per share	**18.3p**	15.2p
Earnings per share	**17.1p**	5.1p
Diluted earnings per share	**17.0p**	5.1p
	£m	£m
Profit for the financial year	**49.9**	15.2
Adjustments:		
Exceptional items	**3.6**	18.9
Exceptional interest costs – redemption of debenture	**–**	17.6
Discontinued operations	**–**	(0.8)
Tax effect of exceptional items and discontinued operations	**–**	(5.9)
Adjusted profit for the financial year	**53.5**	45.0
Weighted average number of shares – million	**291.8**	295.7
Effect of dilutive share options and awards – million	**2.1**	0.3
Diluted weighted average number of shares – million	**293.9**	296.0

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 291.8m (2001: 295.7m). For diluted earnings per share, the weighted average number of shares assumes share options and share awards granted to employees either convert or vest. The weighted average number of shares for 2001 has been adjusted for the 9 for 1 bonus issue of shares that was made on 20 July 2001.

12. Tangible assets

	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 2001	155.5	4.4	98.3	258.2
Additions	0.1	1.5	14.3	15.9
Disposals	(0.3)	(0.4)	(8.0)	(8.7)
31 March 2002	**155.3**	**5.5**	**104.6**	**265.4**
Depreciation:				
1 April 2001	73.9	4.4	62.8	141.1
Provision for the year	3.3	–	14.2	17.5
Disposals	(0.3)	(0.4)	(7.9)	(8.6)
31 March 2002	**76.9**	**4.0**	**69.1**	**150.0**
Net book values:				
31 March 2002	**78.4**	**1.5**	**35.5**	**115.4**
1 April 2001	81.6	–	35.5	117.1
Net book values at 31 March 2002 are analysed as follows:				
Assets at valuation less depreciation	70.3	–	–	70.3
Assets at cost less depreciation	8.1	1.5	35.5	45.1
	78.4	**1.5**	**35.5**	**115.4**

(i) Freehold land and buildings includes freehold properties and 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 2002, the aggregate cost of tangible assets was £226.9m (2001: £219.7m), the aggregate depreciation was £157.3m (2001: £150.3m) and the aggregate net book value was £69.6m (2001: £69.4m).

(iii) Plant and equipment includes capitalised software with a net book value at 31 March 2002 of £21.9m (2001: £20.4m).

Notes to the financial statements

13. Fixed asset investments

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

	Joint venture (i) £m	Shares held in the Company (ii) £m	Other (iii) £m	Total £m
Group				
1 April 2001	2.3	9.7	0.4	12.4
Additions – purchase of own shares	–	5.0	–	5.0
Shares awarded and charge to the profit and loss account	–	(2.3)	–	(2.3)
Disposal of shares on vesting	–	(0.7)	–	(0.7)
Share of retained profit	(0.8)	–	–	(0.8)
31 March 2002	**1.5**	**11.7**	**0.4**	**13.6**
Company				
1 April 2001	1.5	9.7	0.4	11.6
Additions – purchase of own shares	–	5.0	–	5.0
Shares awarded and charge to the profit and loss account	–	(2.3)	–	(2.3)
Disposal of shares on vesting	–	(0.7)	–	(0.7)
31 March 2002	**1.5**	**11.7**	**0.4**	**13.6**

(i) Joint venture

The Company owns 50 per cent of the 1,000 £1 issued equity shares in FTSE International Ltd, a company incorporated in Great Britain which distributes financial information. FTSE International Ltd is a joint venture owned together with The Financial Times Ltd, a subsidiary of Pearson plc. The Group investment of £1.5m shown above represents the Company's share of the joint venture's net assets as at 31 December 2001, their accounting reference date.

The Company is entitled, under a shareholders' agreement, to receive royalties from FTSE International Ltd.

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

	2002 £m	2001 £m
Royalties	**2.2**	1.7
Rent and service charges	**0.2**	0.1
	2.4	1.8

At 31 March 2002, there was £1.2m indebtedness by FTSE International Ltd to the Company representing the dividend declared for the year to 31 December 2001 (2001: £nil).

(ii) Shares held in the Company

Shares held in the Company are in a separately administered trust for the purposes of the ESOP. The difference between the purchase price of shares and the exercise price of awards/grants is charged to the profit and loss account over the period of service for which the awards and options are granted. Details of the ESOP are set out in note 25 to the financial statements.

(iii) Other investment

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

(iv) Subsidiary undertakings

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

14. Debtors: amounts falling due within one year

	2002 £m	2001 £m
Trade debtors	**14.4**	15.1
Amounts owed by joint venture	**1.2**	–
Other debtors	**1.5**	0.9
Prepayments and accrued income	**21.8**	21.3
	38.9	37.3

The Company is in the process of making claims to HM Customs & Excise for VAT paid between 1997 and 2001. Although the outcome of the claims cannot be known with certainty they could result in the repayment of up to £7m of VAT.

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

	2002 £m	2001 £m
1 April 2001	**10.7**	12.2
Transfer to the profit and loss account during the year	**(2.8)**	(1.5)
31 March 2002	**7.9**	10.7
The deferred taxation balance comprises:		
Tax allowances available in excess of related depreciation	**5.4**	5.6
Provisions and other timing differences	**2.5**	5.1
	7.9	10.7

The deferred tax asset is recoverable against future taxable profits.

16. Creditors: amounts falling due within one year

	2002 £m	2001 £m
Trade creditors	**10.2**	10.9
Corporation tax	**13.6**	7.3
Other taxation and social security	**0.9**	0.8
Other creditors	**5.8**	6.3
Accruals and deferred income	**24.8**	27.0
Proposed dividend	**7.4**	6.5
	62.7	58.8

Notes to the financial statements

17. Provisions for liabilities and charges

	Pensions £m	Property £m	Total £m
1 April 2001	1.1	23.5	24.6
Utilised during the year	(0.2)	(2.4)	(2.6)
Interest on discounted provision	–	1.2	1.2
Surplus provision released to profit and loss account	–	(1.5)	(1.5)
31 March 2002	**0.9**	**20.8**	**21.7**

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.

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 12 years to expiry. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting and lower future costs.

18. Share capital

		2002	2001
Authorised			
Ordinary shares of 5p each	– number	**500,000,000**	40,000,000
	– £	**25,000,000**	2,000,000
Issued, called up and fully paid			
Ordinary shares of 5p each	– number	**297,000,000**	29,700,000
	– £	**14,850,000**	1,485,000

At an Extraordinary General Meeting on 19 July 2001 shareholders approved the adoption of new Articles of Association required to effect the Introduction to the Official List and a 9 for 1 bonus issue, increasing the number of issued shares to 297.0m.

19. Reserves

	Group		Company	
	Revaluation £m	Profit and loss account £m	Revaluation £m	Profit and loss account £m
1 April 2001	47.7	192.8	47.7	192.0
Retained profit for the financial year	–	39.3	–	40.1
Bonus issue of new shares	–	(13.4)	–	(13.4)
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
31 March 2002	**45.8**	**220.6**	**45.8**	**220.6**

All reserves are classified as equity shareholders' funds, as they are all attributable to Ordinary shareholders.

20. Reconciliation of movements in shareholders' funds

	2002 £m	2001 £m
Profit for the financial year	**49.9**	15.2
Dividends	**(10.6)**	(9.5)
Redemption of 'A' shares during the year	–	(8.8)
Net addition/(reduction) to shareholders' funds	**39.3**	(3.1)
Opening shareholders' funds	**242.0**	245.1
Closing shareholders' funds	**281.3**	242.0

21. Notes to the consolidated cash flow statement

	2002 £m	2001 £m
(i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**66.9**	39.8
Depreciation of tangible assets	**17.5**	19.9
Increase in debtors	**(0.7)**	(1.3)
Decrease in creditors	**(3.3)**	(3.2)
Provisions utilised during the year	**(2.6)**	(3.4)
Amortisation of own shares	**0.8**	0.3
Net cash inflow from operating activities	**78.6**	52.1
Comprising:		
Ongoing operating activities	**82.4**	74.5
Exceptional items (see note 4)	**(3.8)**	(22.4)
Net cash inflow	**78.6**	52.1
(ii) Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash in the year	**(1.0)**	0.5
Increase/(decrease) in liquid resources	**43.0**	(53.0)
Redemption of debenture	**–**	30.0
Change in net funds	**42.0**	(22.5)
Net funds at 1 April 2001	**147.9**	170.4
Net funds at 31 March 2002	**189.9**	147.9

	At 1 April 2001 £m	Cash flows £m	At 31 March 2002 £m
(iii) Analysis of changes in net funds			
Cash in hand and at bank	4.9	(1.0)	**3.9**
Current asset investments	143.0	43.0	**186.0**
Total net funds	147.9	42.0	**189.9**

Notes to the financial statements

22. Commitments

	2002 £m	2001 £m
Contracted capital commitments not provided for in the financial statements	**0.7**	0.6
The contracted commitments were mainly in respect of computing equipment.		
Financial commitments under property operating leases at 31 March 2002 for payments in the year to 31 March 2003 are as follows:		
Leases expiring – between two and five years	**0.6**	0.9
– in five years or more	**3.5**	3.8
	4.1	4.7

23. Pension costs

The Company operates one pension plan which includes separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes are held separately from those of the Company and the funds are managed by Schroder Investment Management Limited and Legal & General Investment Management Limited respectively.

Defined benefit scheme

The defined benefit scheme is non-contributory and provides benefits based on final pensionable pay. Pension costs are determined by an independent qualified actuary on the basis of regular valuations using the projected unit method and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

A full actuarial valuation of the scheme was carried out at 31 March 2000 by an independent qualified actuary. The market value of the plan's assets for the scheme was £162m, representing 107 per cent of the value of benefits that had accrued to members, after allowing for expected future increases in salaries.

Defined contribution scheme

The Company's defined contribution scheme is now the only scheme open to new employees. A core contribution of eight per cent of pensionable pay is provided and the Company will match employee contributions up to a maximum of six per cent of pensionable pay.

Pension contributions

Following a contribution holiday for the defined benefit and defined contribution schemes, contributions recommenced in March 2001. The contribution rate for the defined benefit scheme is currently 31.2 per cent of pensionable salaries less £1.1m amortisation of the scheme surplus. As the defined benefit scheme is closed to new members, under the projected unit method the current service cost will increase as a percentage of pensionable salaries as the members approach retirement.

At 31 March 2002 contributions of £0.3m (2001: nil) were paid in advance to the defined benefit scheme.

The pension charge for the year ended 31 March 2002 was:

	2002 £m	2001 £m
Defined benefit contribution	**1.2**	0.9
Release of pension provision (see note 17)	**(0.2)**	(0.2)
Defined contribution costs	**1.7**	0.9
Total pension charge	**2.7**	1.6

Financial Reporting Standard (FRS) 17 – Retirement Benefits

The Company continues to account for pension costs in accordance with SSAP 24 – Accounting for Pension Costs. The following information is provided under the transitional disclosure requirements of FRS 17 – Retirement Benefits.

The costs for the defined contribution scheme are unchanged by FRS 17 and are as set out above.

23. Pension costs (continued)

Defined benefit valuation

The actuarial valuation as at 31 March 2000 was updated at 31 March 2001 and 2002 by an independent qualified actuary to provide the information required by FRS 17.

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount of estimated cash flows and the rates of increase in salaries and pensions, as set out below:

	31 March 2002	31 March 2001	Actuarial valuation 31 March 2000
Inflation assumption	**2.5%**	2.7%	2.9%
Rate of increase in salaries	**4.5%**	4.7%	4.9%
Rate of increase in pensions in payment	**3.7%**	3.7%	3.7%
Discount rate	**6.0%**	6.0%	5.9%

Defined benefit assets and liabilities

The fair value of the assets and net position in the defined benefit scheme, with the assumed expected rate of return at 31 March 2002 and 2001 are as follows:

	31 March 2002 £m	Long term expected rate of return	31 March 2001 £m	Long term expected rate of return
Equities	**40.8**	7.75%	71.0	6.25%
Bonds	**107.3**	5.57%	80.0	5.25%
Total market value of assets	**148.1**		151.0	
Present value of liabilities	**167.0**		163.0	
Deficit in the plan	**(18.9)**		(12.0)	
Related deferred tax asset	**5.7**		3.6	
Net pension liability	**(13.2)**		(8.4)	

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2002 would have been reduced by £12.6m (2001: £7.6m) being the deficit of the pension scheme based on assumptions at that date of £13.2m less the existing pension provision and related deferred tax asset. During the year, the trustees of the plan re-allocated the plan's investments so that approximately 25 per cent was invested in equities and 75 per cent in bonds by 31 March 2002 and they plan to move gradually to 100 per cent investment in bonds over the longer term.

Defined benefit charges to the profit and loss account

On the basis required by FRS 17, the charges would be as follows:

	Year ended 31 March 2002 £m
Current service cost	**(2.0)**
Other service costs	**–**
Total costs	**(2.0)**
Finance income and costs	
Interest cost, being the expected increase in the present value of scheme liabilities	**(9.8)**
Expected return on assets in the scheme	**8.6**
Net finance cost	**(1.2)**

Notes to the financial statements

23. Pension costs (continued)

Defined benefit other recognised gains and losses

The following items reflect movements between the net assets/liabilities of the pension scheme during the year and would be recognised in the Statement of Total Recognised Gains and Losses.

	%	Year ended 31 March 2002 £m
Difference between the expected and actual return on assets		**(8.5)**
Percentage of scheme assets	(5.7%)	
Experience gains and losses arising on the scheme liabilities		**3.6**
Percentage of scheme liabilities	2.2%	
Effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities		**(0.3)**
Total		**(5.2)**
Percentage of scheme liabilities	(3.1%)	

24. 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 year. The main risks arising from the Company's financial instruments are in respect of interest rate, credit and liquidity.

Interest rate management

There are no floating rate financial assets or liabilities. Term deposits with banks are for fixed rates for the period of the deposit.

Liquidity and credit management

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

	2002 £m	2001 £m
Financial assets		
Other fixed asset investments (excluding own shares)	**0.4**	0.4
Investments – term deposits	**186.0**	143.0
Cash at bank	**3.9**	4.9
	190.3	148.3
Maturing in:		
One year or less, or on demand	**189.9**	147.9
Weighted average period of fixed interest rates	**113 days**	153 days
Weighted average interest rate	**4.0%**	5.7%

	Book value 31 March 2002 £m	Fair value 31 March 2002 £m	Book value 31 March 2001 £m	Fair value 31 March 2001 £m
Fair values of financial assets				
Other fixed asset investments (excluding own shares)	**0.4**	**0.4**	0.4	0.4
Investments – term deposits and cash	**189.9**	**189.9**	147.9	147.9
	190.3	**190.3**	148.3	148.3

Borrowing facilities

At 31 March 2002, the Company had in place a multicurrency revolving loan facility for £250m. The facility is not drawn down and is available up to 23 May 2004.

25. Employee Share Ownership Plans (ESOP)

As referred to in the Remuneration report on pages 34 and 35, the Company is proposing a new long term incentive scheme to shareholders at the forthcoming AGM. This will set out the arrangements for future long term incentive awards of share options.

The previous long term incentive scheme (comprising the Initial and Annual Share Plans) was approved by shareholders in March 2000 and option grants and share awards were made based on approvals prior to the Company's listing in July 2001. No further option grants or share awards will be made under this scheme apart from the SAYE scheme available to all staff. The Company established an ESOP discretionary trust to administer the original, and the proposed new, share scheme and to acquire the Company's shares to meet commitments to employees.

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

Under the Annual Share Plan, awards of shares and grants of options to staff were made in November 2000 and June 2001, based on individual performance and potential. The share awards have a vesting period of three years and share options become exercisable at 20 per cent per annum over five years.

The SAYE scheme provides for grants of options to employees who enter into a SAYE savings contract. As provided under UITF 17, no charge is made in the accounts in respect of the SAYE scheme.

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

At the balance sheet date, 5,309,967 shares (2001: 4,240,000 shares) were held by the trust, at an initial cost of £14.0m. This was funded by an interest free loan from the Company. At the balance sheet date, the market value of these shares was £23.0m (2001: £12.3m). Dividends on shares held in respect of share awards have not been waived by the trust. In accordance with UITF 13, the assets, liabilities, income and costs of the ESOP trust have been included in the Company's financial statements.

As at 31 March 2002 outstanding awards of shares and grants of options were:

	Date granted	Subscription /option price per share (£)	Exercisable from	Number of shares for which right is exercisable 2002	2001
Share awards	16/11/00	–	16/11/03	**862,010**	908,190
	25/1/01	–	25/1/04	**79,300**	79,300
	25/6/01	–	25/6/02	**31,250**	–
	25/6/01	–	25/6/03	**31,250**	–
	25/6/01	–	25/6/04	**404,240**	–
	8/11/01	–	8/11/04	**31,922**	–
Share options	16/11/00	2.37	16/11/01	**2,709,470**	2,907,300
	16/11/00	2.97	16/11/01	**1,703,820**	1,819,900
	25/1/01	2.52	25/1/02	**285,450**	285,450
	25/1/01	3.15	25/1/02	**211,450**	211,450
	25/6/01	3.65	25/6/02	**928,810**	–
	25/6/01	4.56	25/6/02	**169,880**	–
	8/11/01	3.72	8/11/02	**114,919**	–
	8/11/01	4.65	8/11/02	**85,125**	–
SAYE scheme – share options	7/12/00	1.90	7/12/05	**1,359,258**	1,460,260
	16/8/01	2.79	16/8/06	**435,446**	–
Total share awards and options				**9,443,600**	7,671,850

26. Transactions with related parties

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

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

Financial record

Profit and loss account

	Year ended 31 March 2002 £m	Year ended 31 March 2001 £m	Year ended 31 March 2000 £m	Year ended 31 March 1999 £m
Turnover – Continuing operations				
– Issuer Services	**26.9**	31.9	25.7	23.1
– Broker Services	**81.2**	64.2	54.1	40.5
– Information Services	**94.9**	87.0	72.9	71.8
– Other income	**12.6**	10.3	11.3	11.3
Gross turnover	**215.6**	193.4	164.0	146.7
Administrative expenses – operating costs for continuing operations	**(136.1)**	(129.3)	(117.7)	(122.3)
– exceptional items	**(3.6)**	(18.9)	(5.1)	(17.6)
Operating profit for continuing operations before exceptional items	**70.5**	57.9	41.8	21.0
Profit on ordinary activities before taxation	**75.2**	30.4	48.5	18.1
Profit on ordinary activities after taxation	**49.9**	15.2	32.1	11.0
Earnings per share	**17.1p**	5.1p	10.8p	3.7p
Diluted earnings per share	**17.0p**	5.1p	10.8p	3.7p
Adjusted earnings per share	**18.3p**	15.2p	11.3p	6.2p

Balance sheet

Fixed assets	**129.0**	129.5	116.9	124.0
Net current assets	**174.0**	137.1	189.2	181.4
Creditors: amounts falling due after more than one year	**–**	–	(30.0)	(30.0)
Provisions for liabilities and charges	**(21.7)**	(24.6)	(31.0)	(36.6)
Net assets	**281.3**	242.0	245.1	238.8

Cash flow

Net cash inflow from operating activities before exceptional items	**82.4**	74.5	46.4	53.6

Other information

Operating margin for continuing operations and excluding joint ventures	**34.1%**	30.9%	26.2%	14.7%
Share price – high	**£4.35**	£3.15	–	–
– low	**£2.81**	£1.93	–	–
Total dividend per share	**3.6p**	3.2p	–	–

Shareholder information

Financial calendar

Half year end	**30 September 2002**
Financial year end	**31 March 2003**

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.londonstockexchange.com/ir/financials/calendar.asp for up-to-date details.

Registered office

London Stock Exchange plc
London
EC2N 1HP

Registered company number

2075721

Investor Relations contacts

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

Email: irinfo@londonstockexchange.com
Shareholder helpline: +44 (0)20 7797 3322
Website: www.londonstockexchange.com

Registrar information

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone: +44 (0)870 600 3964
Website: www.lloydstsb-registrars.co.uk

Substantial shareholders

(notified of 3% holding or more)

As at 23 May 2002 the Company had been notified of the following substantial interests in accordance with Sections 198 to 208 of the Companies Act 1985:

Fidelity International Limited	9.17%
UBS AG	4.07%

Share trading

Shares in London Stock Exchange plc were listed on the main market of the Exchange on 20 July 2001.

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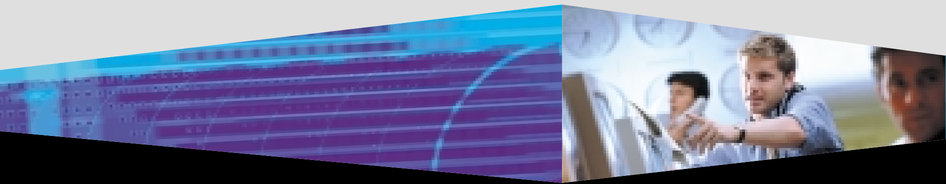
London
STOCK EXCHANGE



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

www.londonstockexchange.com