INTERNATIONAL CHOICE..

London **STOCK EXCHANGE**

ANNUAL REPORT 1998/99

Events of the year 1998/99

3 June
Record capital raising – SPT Telecom of the Czech Republic becomes the largest ever global depositary receipt to list on the London Stock Exchange.

7 July
The London Stock Exchange and Frankfurt's Deutsche Börse announce the formation of a European Alliance.

16 September
In readiness for the euro, the Exchange launches euro depositary receipts, euro convertible bonds and euro-denominated eurobonds.

8 October
Long-term ties with China are strengthened with the signing of a new Memorandum of Understanding with the Shanghai Stock Exchange.

4/5 November
Seminars are held in London and Frankfurt to outline the first phase of the European Alliance.

7 December
The world's first euro depositary receipt lists in London – Croatian bank, Zagrebačka Banka.

1 January
London Stock Exchange chairman, John Kemp-Welch, is knighted in the New Year's Honours List.

4 January
A new shelf registration system is introduced for UK companies.

31 January
The value of UK and international trading on the London Stock Exchange reaches record levels in January – with shares worth £366 billion changing hands in just 20 days of trading, an average of £18 billion a day.

17 February
The Exchange welcomes its 100th global depositary receipt, issued by the first Estonian company to join its markets, AE Eesti Telecom.

Contents

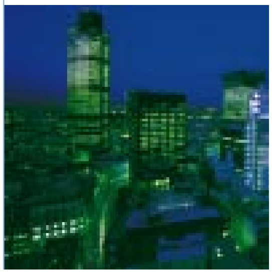
International Choice

The London Stock Exchange is at the centre of the international stock market of choice.

The Exchange:

- has enabled international companies from more than 60 countries to raise capital – more than any other exchange
- accounts for more turnover in worldwide equities than any exchange throughout the world.

As the world's trading markets continue to evolve, we are more committed than ever to providing efficient, flexible and cost-effective equity markets for all our customers.



CHAIRMAN'S STATEMENT

SIR JOHN KEMP-WELCH – CHAIRMAN, LONDON STOCK EXCHANGE

The year 1998/99 was a busy and turbulent one for world financial markets. The economic and financial difficulties which began in Asia in 1997 deepened in 1998, spreading to Russia and South America. The effects were felt throughout the global financial system. Against this background the Exchange's markets, in spite of periods of volatility, put in a good performance with the major UK indices rising to all-time highs and both UK and international equity turnover growing to new record levels.

Important developments

A significant development in Europe's financial landscape was the introduction of the euro on 4 January 1999, bringing profound implications for Europe's capital markets. By reducing the economic importance of national boundaries, the euro is accelerating the continuing shift in worldwide investment patterns and is likely to lead to a substantial growth in equity-related business.

Although the UK is not participating in the current stage of Economic and Monetary Union, it is vital that we, as part of the City of London, work to maintain and, if possible, to enhance London's position in relation to this change. As part of this work we initiated with Deutsche Börse a European Alliance as the first step towards the development of an efficient pan-European equity market. Since the end of our financial year, six other European exchanges have signed a Memorandum of Understanding to support the project, which we believe, over time, will deliver significant benefits to the users of our markets.

During the year there has been much comment on the issues facing smaller companies which make up a significant proportion of our listed companies, and we continue to work with market participants and the Government on these issues. We continue our efforts to encourage private investment in equities and launched our first 'Share Aware' week in Leeds. This was successful and we intend to continue the programme in other cities.

International

We welcomed several major international companies which came to list in London, including South African Breweries, the world's fourth largest brewery group, Zagrebačka Banka, which issued the world's first EDR, and SPT Telecom, the largest GDR. We also continued to develop our contacts overseas and among our most prominent missions were those to China, Egypt, India, Poland, South Africa, South America, Tunisia and South Korea where I was pleased to meet President Kim Dae-jung.

Major visits

We were pleased to welcome HRH The Prince Philip, Duke of Edinburgh who visited the Exchange in November. Other notable visitors included from the DTI the Rt Hon Stephen Byers MP, Secretary of State and The Lord Simon of Highbury CBE, Minister for Trade and Competitiveness in Europe, and from the Treasury the Rt Hon Alan Milburn MP, Chief Secretary and Patricia Hewitt MP, Economic Secretary.

We also welcomed Xiang Huaicheng, Chinese Minister of Finance, Zhou Zhengqing, the Chairman of the China Securities Regulatory Commission and HE Maqbool bin Ali Sultan, Minister of Commerce and Industry of Oman.

“WE REMAIN DEDICATED TO SERVING OUR CUSTOMERS’ NEEDS.”

Committees

As part of the broad consultative process with the users of our markets, our advisory committees continue to play an important role in the development of policy. They act as a valuable forum for the exchange of ideas and advice between the Exchange and its users.

The Secondary Markets Committee played an important part in discussions on the development of the European market. Helpful contributions were also made by the Private Investors’ Advisory Committee to the ‘Share Aware’ campaign, and by the Primary Markets Committee (now the Listing Authority Advisory Committee) to our Listing Rules amendments.

I would like to thank the members of all our advisory committees for their continuing help and advice.

Board and management

The 1998/99 year was a busy and fruitful one for the Exchange and I would like to express my thanks both to the Board for their help and support and to the executive management and the staff for their hard work and commitment during a very demanding period.

Christine Dann retired from the Board in March, after 23 years with the Exchange, five of these as a director. She made an outstanding contribution both to the Exchange and to the wider financial world. In particular, she was responsible for the delivery of the Sequence project, successfully completed in 1996, as well as for the transition from Talisman to CREST, and more recently for our relationships with the private investor community. We will greatly miss her professionalism, her determination, her courtesy and her friendship.

Jonathan Howell, Director of Regulation, was appointed to the Board in March and shareholders will be asked to confirm his appointment at the forthcoming AGM.

Redemption of ‘A’ Shares

We are proposing the redemption of the remaining ‘A’ shares, which were created as a result of the reorganisation of the ownership of the Stock Exchange in 1986. This will mean that instead of having to wait until they reach the age of 60, the remaining ‘A’ shareholders will be able to receive their £10,000 this year.

This proposal, which we are recommending to shareholders, will simplify the Exchange’s structure and is made possible by our strong balance sheet. Arrangements for an Extraordinary General Meeting to consider this proposal are set out separately.

Looking forward

The pace of change accelerates and the scale of the demands we face is increasing. Significant further challenges lie ahead as the continuing rapid advance of technology is creating its own momentum. It is essential that we are responsive both to this fast-changing environment and to the rapidly changing needs of market users.

Our priority remains that of providing efficient and cost-effective markets which are capable of attracting the depth of liquidity that characterises all successful markets. Whatever changes we face, the need to play our part in maintaining London’s competitive position as a pre-eminent financial centre will continue to be our central objective. We remain dedicated to serving our customers’ needs and to working closely with the users of our markets in order to achieve this.

John Kemp-Welch

Sir John Kemp-Welch
Chairman, London Stock Exchange

CHIEF EXECUTIVE'S REVIEW

Last year's Annual Report highlighted the strategic and operational goals we had set ourselves for the year under review in order to manage our business more effectively.

We have made substantial progress in each of these areas, which can be evaluated under four headings:

- Developing our markets – preparing for the new business environment created by the advent of the euro, launching the European Alliance, further enhancing our trading services and stepping up the promotion of our markets
- Regulating our markets – developing the way in which companies are able to use our markets to meet their funding needs and continuing to improve the regulation of our secondary markets
- Delivering our markets – providing consistently reliable services to market users, ensuring a smooth transition to the euro and preparing our systems for the Year 2000
- Managing our own business – maintaining the effectiveness of our operations and strengthening the management team.

Developing our markets

The euro

To prepare for the launch of the euro we took steps to ensure that our markets were even more attractive to world investors, putting in place a series of arrangements that would enable customers to raise capital and trade in the new currency.

Over a month before the launch, we listed our first depositary receipt designed specifically to be denominated in euro. By the end of March 1999 turnover conducted in euro accounted for a significant proportion of total trading, underlining the high concentration of 'euro-zone' funds managed in London.

The European Alliance

In July 1998, we announced a European Alliance, initially with Frankfurt's Deutsche Börse, but with the aim of widening the agreement to include other national exchanges across Europe. This initiative, which is intended to lead ultimately to the development of a single pan-European trading platform, responded to a number of important trends.

Europe's national governments are looking more and more to move their pension and welfare liabilities into the private sector, thus increasing the potential long-term demand for shares as an investment medium. The advent of Economic and Monetary Union will also result in rising cross-border investment and trade, while continuing privatisations across Europe will help to boost future equity issuance. Major investors are building their investment strategies around pan-European industry sectors rather than countries.

Given this background, a single pan-European share market for the most liquid European securities should best meet customers' needs. London and Frankfurt, which together represent a significant proportion of equity trading in Europe, are ideally placed to drive the process forward. But this cross-border share market will be inclusive, involving other national exchanges sharing the same vision.

Detailed work is proceeding on the many aspects of this complex project and we will continue to work closely with market participants on major structural and technical issues.

Trading systems

Our information and trading platform gives us the flexibility to offer a range of trading methods, including the quote-driven


GAVIN CASEY – CHIEF EXECUTIVE, LONDON STOCK EXCHANGE

“THE EUROPEAN ALLIANCE IS INTENDED TO LEAD ULTIMATELY TO THE DEVELOPMENT OF A SINGLE PAN-EUROPEAN TRADING PLATFORM.”

system both for UK stocks outside the FTSE 100 and for international securities. The Exchange’s electronic order book for leading UK stocks continued to develop during 1998/99, with liquidity and market share rising in the period. Research studies conducted by market specialists during the year confirmed that the expected benefits of falling transaction costs, increased liquidity and narrower spreads are being achieved.

Promoting our markets

The Exchange has been very active in raising the profile of its markets, helping to sustain the flow of new listings. During 1998/99, 236 companies joined the Exchange’s markets, of which 126 UK companies and 33 international companies joined the main market, and 77 companies joined AIM.

London continued to attract many smaller companies during the year – of the 203 UK businesses joining the Exchange’s markets, 196 were smaller companies. High-tech companies, which account for almost a third of London’s total markets by capitalisation, saw the sector’s value rise by 89 per cent in the 1998 calendar year.

The year also saw the launch of our ‘Share Aware’ campaign, aimed at encouraging share investment by private individuals. We intend this to be a long-standing development, pressing home the message that, over the long-term, shares have outperformed most forms of investment.

Our international promotional activities were also strengthened with the objective of increasing awareness of the attractions of our markets both for companies and investors. In total during the year, we made over 40 major marketing visits to 35 countries worldwide, including both developed and developing countries – on many occasions in partnership with our customers.

Among these visits, we were delighted to be asked to accompany the Prime Minister, Tony Blair, on his mission to China in late 1998. The visit helped us forge closer links with the Shanghai Stock Exchange, and set the scene for a return visit by the China Securities Regulatory Commission early in 1999.

Regulating our markets

One element which is critical to the attractiveness of our markets is the quality of our regulation. Issuers need to be able

CASE STUDY: **CHINA – MEMORANDUM OF UNDERSTANDING**

THE LONDON STOCK EXCHANGE'S STRONG LINKS WITH CHINA WERE FURTHER REINFORCED WITH THE SIGNING OF A NEW MEMORANDUM OF UNDERSTANDING WITH THE SHANGHAI STOCK EXCHANGE IN NOVEMBER. THE AGREEMENT, WHICH BUILDS ON AN EARLIER MOU FROM 1996, WAS SIGNED ON THE TRADING FLOOR OF THE SHANGHAI STOCK EXCHANGE BY CHIEF EXECUTIVE, GAVIN CASEY – WHO WAS A MEMBER OF AN HIGH-LEVEL BUSINESS DELEGATION WHICH ACCOMPANIED PRIME MINISTER TONY BLAIR ON HIS VISIT TO CHINA AT THE END OF 1998.

PICTURED RIGHT: SIGNING A MEMORANDUM OF UNDERSTANDING WITH THE SHANGHAI STOCK EXCHANGE – (L-R) EXCHANGE CHIEF EXECUTIVE, GAVIN CASEY, PRIME MINISTER, TONY BLAIR AND PRESIDENT OF THE SHANGHAI STOCK EXCHANGE, TU GUANG SHAO.

to raise capital as easily as possible, and investors need to be protected effectively. During the year, high standards of regulation were maintained and we further enhanced certain of our regulatory systems and services.

Primary markets

We need to continue to ensure that companies listing on our markets are able to access our markets simply and effectively. With this in mind, we pursued a drive towards a disclosure-based approach to regulation, with the introduction of a number of changes to our Listing Rules. These included 'shelf registration', which allows a company to avoid the expense of reproducing the relevant information contained in its Annual Report when making a share issue. We have also introduced new guidance notes to help market participants interpret complex areas of our rules.

Secondary markets

To ensure that our markets remain orderly and secure we keep all market activity under continuous surveillance throughout the trading day. Significant investment was committed during the year to improve further our ability to monitor any unusual movement in share prices.

We also continued to develop our regulatory structure in order to take account of changes in market practice. Throughout the year we continued to work closely with the Financial Services Authority, sharing specialist market information to help ensure an effective regulatory environment.

Delivering our markets

We continued to deliver high levels of service and made a major investment for the year ahead. At the turn of the year, the transition to the euro was smooth both in the London market in general and in the Exchange's markets. Our programme of preparations for the Year 2000 includes a customer testing service for computer links with the Exchange, in addition to the testing of our own systems. A full market rehearsal for the millennium weekend will be held later this year, drawing on the experience of the successful euro conversion.

Managing our own business

During the year, our financial position remained strong. We continued to manage our costs rigorously while the buoyancy of the market helped grow our revenues. At the same time, we invested strongly in developing the European stock market, as well as in our regulatory systems and preparations for EMU and the Year 2000.

We are pleased to be able to bring forward the redemption of the outstanding 'A' shares at this time. Our sound financial performance last year and the strength of our balance sheet have allowed us to take this step, while ensuring that we can continue to make the significant investments which will be needed at this time of change.

Management and staff

High-quality people are crucial to our future. During 1998/99 we continued to strengthen our management team, both by promoting able people from within the organisation and, where necessary, by recruiting skills and expertise from outside. This policy will continue. On a personal note, I would like to say what a pleasure it continues to be to work with such a good team and I would like to thank everyone for all their hard work during the year.

The agenda

Our principal tasks in the coming year are:

• to continue to pursue the opportunities

presented by the euro, including the development of the European Alliance

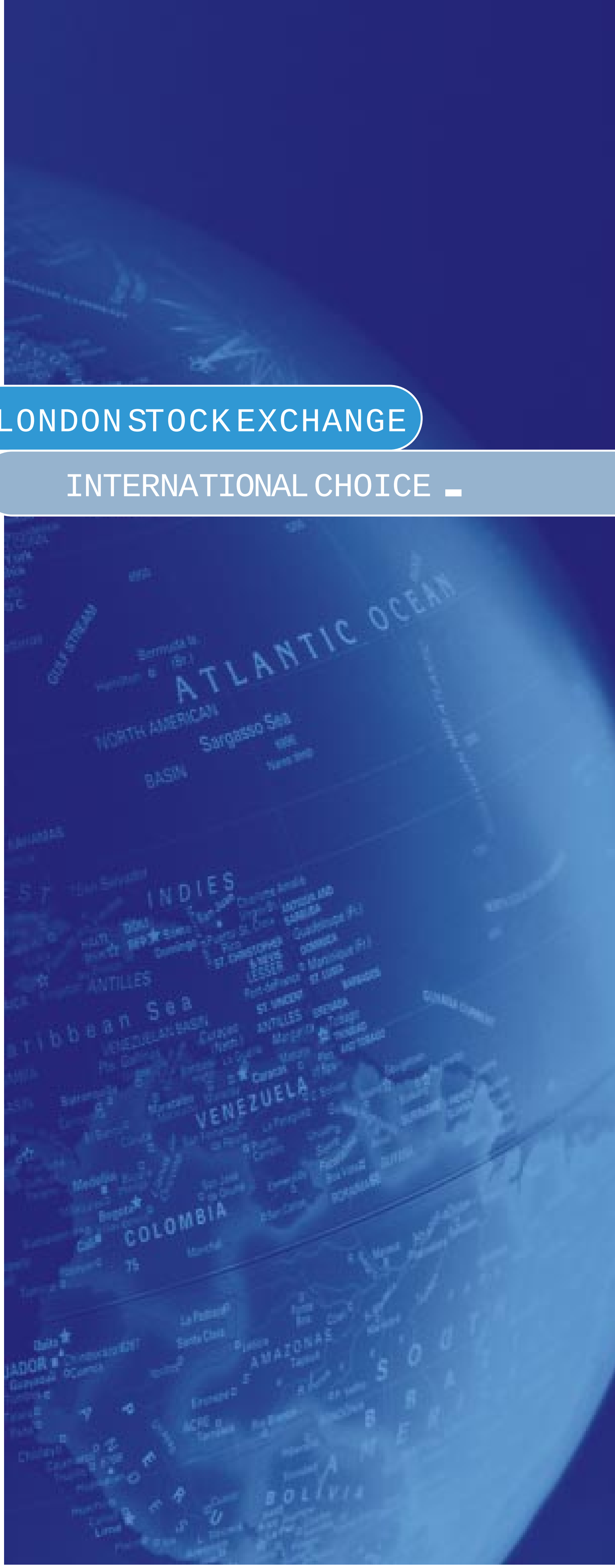
- to develop further our trading systems and regulatory activities in line with market demands
- to build on the past year's successful marketing activities
- to ensure that our systems achieve a smooth transition to the Year 2000
- to continue the efficient management of our business, with regard to the needs of market users and to our regulatory responsibilities.

The past year was an important one, but I believe that 1999/2000 will bring just as much change and opportunity. Our work so far has put us in a strong position. We will continue to build on this in the coming months.

Gavin Casey
Chief Executive, London Stock Exchange

THE LONDON STOCK EXCHANGE

INTERNATIONAL CHOICE



...AT THE HEART OF THE WORLD'S BIGGEST FUND MANAGEMENT CENTRE.

COCA-COLA BEVERAGES PLC

“By listing on the London Stock Exchange, the world’s most international market, we have benefited from global visibility and worldwide recognition.”

E NEVILLE ISDELL
CHAIRMAN / CHIEF EXECUTIVE

DEVELOPING OUR MARKETS

During 1998/99, we made further progress in the continuing drive to develop our markets and to enhance and extend the services we provide to all our customers.

A very important development for the long-term was our announcement in July 1998 of the European Alliance, which will ultimately form the basis for a seamless pan-European share market. This initiative, which was launched initially with Frankfurt's Deutsche Börse, but has expanded to include other continental European exchanges as well, is set to transform the landscape of equity trading across Europe.

The formation of the European Alliance in July was followed in November by twin seminars for securities firms in London and Frankfurt, giving details of how they would have direct access to each exchange's electronic trading system. The move to a single point of liquidity for the trading of major UK and German stocks was also introduced successfully on 4 January 1999. Since then, detailed work has proceeded in a range of areas and the publication in March 1999 of our joint consultation paper on harmonising our markets underlined the continuing progress which is being made.

The creation of the European Alliance, together with the positive response which our securities firms and other European exchanges have given to the initiative, have been widely seen as marking a watershed in the development of Europe's capital markets. By coming together with another leading exchange in this way, and by welcoming the subsequent involvement of the other major European exchanges, the Exchange has laid the foundations for the cross-border European securities market of the future, while also helping to ensure that London will retain its position as the leading financial centre in the European time-zone.

Building our core business

At the same time as progressing the European Alliance, the Exchange has maintained its focus on developing its existing operations and services. The electronic order book, launched in October 1997, has continued to grow in market share, and currently accounts for

CASE STUDY: **EUROPEAN ALLIANCE**

IN 1998, THE EXCHANGE TOOK THE FIRST STEP TOWARDS DEVELOPING A SINGLE PAN-EUROPEAN TRADING PLATFORM. THE EUROPEAN ALLIANCE WE ANNOUNCED IN JULY – INITIALLY WITH FRANKFURT'S DEUTSCHE BÖRSE, BUT SUBSEQUENTLY TO INCLUDE OTHER EUROPEAN EXCHANGES – AIMS TO ACHIEVE ONE MARKET FOR THE MOST LIQUID EUROPEAN BLUE CHIP SECURITIES BEYOND THE YEAR 2000. IN NOVEMBER, UK AND GERMAN BROKERS WERE BRIEFED AT ROADSHOWS IN LONDON AND FRANKFURT ON THE FIRST PHASE OF THE ALLIANCE – WHICH ALLOWED LONDON'S SETS PARTICIPANTS AND FRANKFURT'S XETRA MEMBERS ACCESS TO ONE ANOTHER'S TRADING SYSTEM. FOLLOWING EXTENSIVE COMMUNICATION WITH THE MARKET, THIS PHASE WENT LIVE ON 4 JANUARY. IN MAY 1999, A FURTHER SIX EXCHANGES – AMSTERDAM, BRUSSELS, MADRID, MILAN, PARIS AND SWITZERLAND – FORMALLY CONFIRMED THEIR DESIRE TO CREATE A UNIFIED MARKET FOR EUROPE'S LEADING SECURITIES, WHEN THEY SIGNED A MEMORANDUM OF UNDERSTANDING IN MADRID.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1. GAVIN CASEY, CHIEF EXECUTIVE, LONDON STOCK EXCHANGE, SPEAKING AT THE EUROPEAN ALLIANCE SEMINAR IN LONDON.
2. FROM LEFT: – WERNER SEIFERT, CHIEF EXECUTIVE, DEUTSCHE BÖRSE, WITH THE LONDON STOCK EXCHANGE'S GAVIN CASEY AND MARTIN WHEATLEY, DIRECTOR, MARKETING AND DEVELOPMENT.
3. LEADERS OF EIGHT EUROPEAN EXCHANGES SIGN UP TO THE EUROPEAN ALLIANCE WITH A MEMORANDUM OF UNDERSTANDING IN MADRID.

an average of around 50 per cent of all trading in FTSE 100 shares. At the same time, the anticipated narrowing in spreads and decrease in trading costs has continued. With the order book now an established element of the market infrastructure, the Exchange remains committed to refining it on an ongoing basis in response to feedback from market users. An example of this occurred during the year, when we made a technical change to the price formation mechanism in order to reduce the degree of price volatility during the final ten minutes of trading.

The markets

Ongoing business in the market was influenced, as in all the world's major stock markets, by global volatility as the economic crisis which struck Asia in 1997 manifested itself in countries such as Russia and Brazil. However, stocks in London held up relatively well, and in mid-March 1999 the FTSE 100 index – at over 6300 – was at an all-time high for the year 1998/99. Much of the market's buoyancy was related to merger activity, which was especially prevalent. Equity trading was strong throughout the year, especially in blue chips, with FTSE 100 turnover rising to an average of around one billion shares a day in the early part of 1999.

New issue activity was less buoyant, partly due to the prevailing economic uncertainty which overhung the global economy for most of the year. However, there were a number of highlights for the Exchange. These included the largest global depositary receipt issued so far in London, when the Czech Republic telecom company, SPT Telecom, raised over £2.5 billion in June 1998, and the first euro-denominated depositary receipt (EDR), issued in December by Croatia's Zagrebačka Banka d.d. Further positive developments included the decision by South African Breweries to make London its primary listing.

Marketing initiatives

To support our markets, the Exchange stepped up its marketing efforts during the year, not only in scope but in visibility, both in the UK and abroad. In the UK, our activities focused on the particular needs of UK listed companies, of smaller quoted companies, private investors and high-technology businesses. Following the report of its own working party, the Exchange continued to look into what can be done to raise understanding of smaller quoted companies among investors and increase liquidity in their shares. The profile of smaller companies among the investment community is also being raised through a number of initiatives, including a new magazine – *PubLiCity* – published by the Exchange and a series of investor relations seminars throughout the country.

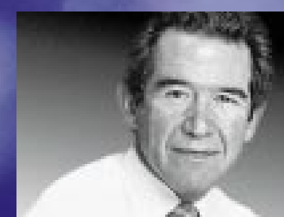
In the interests of extending information about our markets to widening audiences, we also entered into an agreement with British Airways to have screen-based market data available to business travellers through their terminal lounges at Heathrow.

As part of our drive to strengthen links with our investors, the Exchange hosted a major conference in London with the TraderForum, a US-based grouping of major institutional investors. The conference, which brought together key investors from Europe and the US, is expected to become an annual event.

Among the most high-profile promotional initiatives during the year was a series of events coordinated by the Exchange to raise awareness in the UK of the benefits and opportunities of share investment. This drive, under the title 'Share Aware', seeks to promote long-term share ownership among the general public. 'Share Aware' included a newspaper advertising and poster campaign in June 1998, followed by a highly successful week-long series of events and seminars in Leeds in October. Further similar roadshows around the UK are being planned. Listed companies and retail broking firms joined the Exchange in backing and promoting the 'Share Aware' campaign, and helped by devoting substantial management time and advertising expenditure to ensure its success.

International marketing

On the international front, the Exchange continued its efforts to promote the benefits of listing in London to companies worldwide, with a series of high-profile missions and visits to over 35 countries including Argentina, Brazil, Egypt, Poland, South Africa and South



BP AMOCO PLC

“We were able to complete the BP Amoco transaction in record time thanks to the London Stock Exchange's responsiveness and flexibility during closing. Liquidity in our stock remains good, with around half the shares in the company held in the UK.”

SIR JOHN BROWNE
CHIEF EXECUTIVE

CASE STUDY: **SHARE AWARE**

THE EXCHANGE'S 'SHARE AWARE' CAMPAIGN GAINED STRONG SUPPORT FROM UK INDUSTRY AND SECURITIES FIRMS. LAUNCHED IN JUNE 1998, 'SHARE AWARE' PROMOTES LONG-TERM SHARE OWNERSHIP TO THE UK PUBLIC THROUGH NATIONWIDE ADVERTISING, A SERIES OF NEW EASY-TO-READ BOOKLETS AND A WEBSITE SPECIFICALLY FOR THE PRIVATE INVESTOR (WWW.SHARE-AWARE.CO.UK). THE UK'S FIRST 'SHARE AWARE' WEEK, LAUNCHED BY TV PERSONALITY CAROL VORDERMAN IN LEEDS LAST OCTOBER, PROVED SUCH A SUCCESS WITH THE PUBLIC THAT SIMILAR EVENTS WILL BE ROLLED OUT IN THE MIDLANDS AND SCOTLAND DURING 1999.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1 AND 2. LEEDS 'MEET THE COMPANY DAY'.
3. TV PERSONALITY CAROL VORDERMAN LAUNCHES THE LEEDS 'SHARE AWARE' WEEK.

Korea. These included a visit to China in October 1998 by a team including the Exchange's Chief Executive, Gavin Casey, accompanying a delegation led by the UK Prime Minister, Tony Blair. While in China, Mr Casey signed an accord with the president of the Shanghai Stock Exchange. In addition, the Exchange signed Memoranda of Understanding with the exchanges of Cairo and Alexandria, Tunis and Tallinn.

The Exchange's resources in the marketing arena were further augmented during the year, with the recruitment of several new high-quality marketing personnel to help support and implement our initiatives on both the international and domestic stages. In line with our international outlook, this recruitment was conducted both in the UK and overseas. During the year, we took on new marketing specialists who are fluent in a wide range of languages.

In the global depositary receipt market during 1998/99, the Exchange listed 24 companies and celebrated the listing of its 100th GDR (Eesti Telecom from Estonia) since the launch of the market in 1994. This figure also includes the listing of the largest-ever capital raising GDR in London – SPT Telecom of the Czech Republic.

International companies from more than 60 countries are listed on the Exchange, more than any other exchange worldwide. During the year, we listed our first companies from Romania, Estonia and Malawi. We also continued to support developing market stock exchanges with tailored training programmes in China, the Czech Republic and Poland.

Our efforts to win new international listings business have been further aided by the lead which we established during the year with the announcement of our euro-denominated products in September 1998. The euro products include euro-denominated depositary receipts (EDRs) and euro-denominated bonds. The London Stock Exchange welcomed the world's first EDR in December 1998.

.. ACCESS TO THE WORLD'S MOST LIQUID SECONDARY MARKET IN INTERNATIONAL EQUITIES .

ARM HOLDINGS PLC

“As a high growth and high-tech company, we decided to list our company on both the London and NASDAQ stock exchanges. We found the staff at the London Stock Exchange very helpful and have been pleased with the share performance, which has grown more than four-fold in our first year as a public company. The London Stock Exchange has become the primary market for ARM trading.”

ROBIN SAXBY
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

...PROVIDING COST-EFFECTIVE AND RELIABLE MARKETS.

FIDELITY

“The London Stock Exchange is a key marketplace for Fidelity and its global equity business. It has the infrastructure, the technology, the people, the stock and the liquidity, plus it’s a very well-regulated market. For any international company looking to list I would say consider London.”

SARAH LONG
HEAD OF TRADING

REGULATING OUR MARKETS

The Exchange maintains a strong framework of investor protection, while also ensuring that our quoted companies benefit from a fair and orderly marketplace. During the year, which has been an active one in terms of regulatory developments, we continued to fulfil our responsibilities with a combination of rigour and responsiveness to changes both in our customers' requirements and in the wider corporate environment.

Primary markets

In the Exchange's primary markets, which involve companies issuing and listing shares, the most significant regulatory developments were a set of refinements to the Exchange's Listing Rules. These changes continue our movement towards a more disclosure-based approach to regulation. A further review was also made to the Rules for the AIM market.

One significant element of the changes to the Listing Rules was the introduction of a disclosure system based on shelf registration. This system – which more closely aligns the Exchange with exchanges in the US, Canada, Japan and France – had previously been regarded as legally unworkable in the UK. However, after working closely with HM Treasury to overcome the potential legal hurdles, the Exchange has successfully introduced shelf registration, which will serve to benefit both investors and listed companies.

Under shelf registration, a company is permitted to publish an annual document containing most of the standing information required in listing particulars. This shelf document then acts as a reference point for the rest of the year. So when shares are actually issued later in that same year, the company need only publish a brief note specifying details of the issue, including anything which has changed since the information contained in the shelf document was compiled. The result is a considerable saving in time and cost to the company, especially if the company elects to publish its shelf document directly from its Annual Report. Shareholders also benefit because they receive a much more focused document explaining the share issue, while having the detailed information available in the shelf document.

CASE STUDY: **IMAS REDEVELOPMENT**

SINCE 1993, THE EXCHANGE'S INTEGRATED MONITORING AND SURVEILLANCE SYSTEM (IMAS) HAS HELPED OUR MARKET REGULATION AND ENFORCEMENT DEPARTMENT TO IDENTIFY POTENTIAL CASES OF INSIDER DEALING AND OTHER MARKET ABUSE. THIS SOPHISTICATED COMPUTER SYSTEM MONITORS TRADING ON THE EXCHANGE'S MARKETS – ISSUING ALERTS WHEN IT DETECTS UNUSUAL PATTERNS OR PRICE MOVEMENTS. ALREADY ONE OF THE WORLD'S MOST ADVANCED MARKET MONITORING SYSTEMS, IMAS WAS REFINED DURING THE YEAR TO IMPROVE THE QUALITY OF THE ALERTS IT RAISES – RESULTING IN A LOWER VOLUME, BUT HIGHER QUALITY OF ALERTS FOR THE MARKET REGULATION TEAM TO INVESTIGATE.

1. THE MARKET REGULATION TEAM CONDUCTS REAL-TIME MONITORING OF TRADING.
2. IMAS – ONE OF THE WORLD'S MOST ADVANCED MARKET MONITORING SYSTEMS.

Two related regulatory developments, both of which should also help make life easier for investors, were introduced during the year. Firstly, listed companies' shelf documents are available via the Internet, on the Exchange's UK Listing Authority website. This is the first time that transaction and issue-related information has been disseminated in this way, allowing shareholders and potential investors greater access to information, while also lightening the burden on companies to send out paper-based information.

A further innovation has been a review and redesign of the Exchange's listing-related information and marketing documentation, a process which has included the production of handy and accessible 'user guides' on continuing obligations, shelf registration and listing specialist securities. These, along with the full range of material which the Exchange publishes in its statutory role as the UK's Competent Authority for Listing, are now branded as 'UK Listing Authority'.

Continuing our drive to ensure that all market participants are as well-informed as possible, we are also introducing a range of new guidance notes to help our customers interpret certain areas of the rules and to understand their application more clearly and easily. The first of these guidance notes, issued during the year, covered important issues related to disclosure by companies of Year 2000 risks. Exchange staff have also taken part in a series of advisory seminars around the country, enabling market professionals, listed companies and potential joiners to gain a deeper insight into the workings of the market and the current trends in listing and trading activity.

New provisions were introduced into the Listing Rules during the year which require listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code of Corporate Governance. These rules replaced the earlier requirements introduced following the work of the previous corporate governance committees.

During the year, further activities in the area of primary markets regulation included the Exchange's participation in the Department of Trade & Industry's ongoing long-term review of UK company law. We were also involved in the Monopolies and Mergers Commission (MMC) enquiry into underwriting services. Its recommendations were published in February 1999, and we will consult on the MMC's proposals which recommend changes to our Listing Rules.

During the year we also enhanced our monitoring of companies' adherence to their continuing obligations. The enhancements have helped highlight to our quoted companies some of the more common regulatory problems experienced. The enhancements have also resulted in a more focused approach to investigations of potential breaches of the Listing Rules and the penalties which may be imposed as a result.

In 1998/99, the Exchange revised its rules for the AIM market. The changes have the effect that companies seeking admission to AIM are now compelled to make greater disclosures about anyone with a financial interest in their flotation. Also, the duty of nominated advisers to ensure that companies are appropriate for the market was made clearer and they are additionally required to review regularly the actual trading performance of the companies for which they act against any profit estimate, forecast or projection.

Secondary markets

In the secondary markets, the Exchange's Market Regulation department continued to pursue its three key areas of responsibility – development of the regulatory regime, front-line trading supervision and post-event investigations. Its activities helped to ensure that the operation of the Exchange's markets remained orderly and efficient throughout the year.

Responding to market changes

The Exchange continued to review and fine-tune its regulatory regime in order to keep pace with market developments and maintain the fairness and attractiveness of the Exchange's markets. In this, the Market Regulation department worked in close co-operation with Markets Development personnel to ensure that the Exchange's markets remained dynamic, flexible, responsive and fair.

CASE STUDY:
LISTING AUTHORITY REBRANDED

A NEW UK LISTING AUTHORITY BRAND WAS LAUNCHED DURING THE YEAR TO EMPHASISE THE CLEAR SEPARATION BETWEEN THE EXCHANGE'S COMPETENT AUTHORITY ROLE AND ITS OTHER MARKET FUNCTIONS. A NEW DISTINCTIVE LOGO WAS CREATED TO MAKE THIS FUNCTION MORE UNDERSTANDABLE AND ACCESSIBLE AND IS BEING USED ON ALL DOCUMENTS RELATED TO OUR LISTING ROLE. FOLLOWING AGREEMENT WITH HM TREASURY, THE NEW LOGO APPEARED FOR THE FIRST TIME IN SEPTEMBER 1998 ON OUR CONSULTATION PAPER RELATED TO THE AMENDMENT 13 LISTING RULE CHANGES.

In particular, the Exchange continued to adapt the rules for the UK equity market to cater for developments in trading on the Stock Exchange electronic order book (SETS) which was introduced in October 1997. Following a review and consultation on potential refinements to the order book in the first quarter of 1998, changes were made in a variety of areas. These included removing the minimum order size, increasing the maximum order size, and introducing a new way of calculating the order book closing price in order to smooth out price fluctuations during the last 10 minutes of trading. In addition, the regulatory development team worked with market practitioners to develop additional guidance for securities firms to follow when executing large trades in order book securities.

CASE STUDY: **DEMONSTRATING MARKET SUPERVISION**

IN RECOGNITION OF THE CITY'S ROLE AS ONE OF THE WORLD'S LEADING BUSINESS CENTRES, HRH THE PRINCE PHILIP, DUKE OF EDINBURGH, VISITED THE EXCHANGE IN NOVEMBER 1998. PRINCE PHILIP TOURED THE MARKET SUPERVISION DEPARTMENT TO LEARN HOW IT REGULATES LONDON'S TRADING. THE EXCHANGE'S DIRECTOR OF REGULATION, JONATHAN HOWELL, SHOWED PRINCE PHILIP EXAMPLES OF CASES BEING EXAMINED BY THE EXCHANGE.

HRH THE PRINCE PHILIP, DUKE OF EDINBURGH, TOURS THE EXCHANGE'S MARKET SUPERVISION DEPARTMENT.

In developing regulation for all its markets, the Exchange worked closely with the Financial Services Authority (FSA) and other regulatory bodies such as HM Treasury and the Office of Fair Trading. Publication of the new Financial Services and Markets Bill and subsidiary draft legislation led to the Exchange working closely with the FSA on issues such as the operation of the proposed civil penalties regime for insider dealing and market abuse and the development of the FSA's new Code of Market Conduct for market abuse. The Exchange will continue to provide input and assistance to the FSA in its work in these key areas.

Front-line supervision and post-event investigations

Throughout the year, the Market Regulation department continued to conduct comprehensive real-time monitoring and surveillance of trading on the Exchange's markets. Its principal tool for this is the Exchange's Integrated Monitoring And Surveillance (IMAS) system, which is one of the most advanced market monitoring systems in the world. The system supports the Exchange's work in maintaining orderly markets and investigating market abuse in two ways:

- First, the alerts it generates enable our Market Supervision team to detect early signs of possible market disorder and step in to take corrective action. This may take the form of suspending trading in a security or requiring a company or its advisers to issue an announcement.
- Second, its comprehensive database of all market activity assists the investigations team in its pursuit of potential rule breaches and instances of market abuse or manipulation. The team also compiles evidence on suspected cases of insider dealing and passes this to the relevant authority, currently the Department of Trade and Industry (DTI), for further action.

In the year to 31 March 1999, the Exchange referred 33 such cases to the DTI. Other referrals of potential instances of market abuse were made to the FSA, the Serious Fraud Office and the US Securities and Exchange Commission.

...OPERATING FAIR, EFFICIENT AND ORDERLY REGULATION...

MERRILL LYNCH

“The Exchange’s monitoring and surveillance systems are at the cutting edge of market regulation and underpin the quality of regulation of London’s markets.”

ADRIAN PINKUS
CO-HEAD OF EQUITY TRADING

. . .GIVING COMPANIES VISIBILITY ON 85,000 SCREENS WORLDWIDE .

REUTERS

“Working closely with the London Stock Exchange, Reuters provides dynamic news price data and analytics to meet the needs of leading financial institutions throughout the world.”

GILL HIBBS
MARKET SERVICES DIRECTOR, REUTERS, UK AND IRELAND

DELIVERING OUR MARKETS

In 1998/99 our systems and services maintained a high level of reliability throughout a period of substantial change. At the same time we worked with the market to prepare for the significant operational challenges which lie ahead.

Trading operations

During the year, our trading systems performed consistently well, handling effectively considerable market volatility and an almost continuous increase in trading levels. Trading volumes reached new records with UK equities registering a record monthly level of over two million trades during March 1999 in the last-minute rush for the take-up of Personal Equity Plans (PEPs).

With the electronic order book now established as an integral part of the market's fabric, securities firms have made increasing use of a 'continuous access' test facility for electronic trading introduced last year by the Exchange. In its first year of operation, this facility was used by securities houses principally to test that their system changes conformed with the order book's requirements. However, our customers have now begun using it to test upgrades and enhancements to their systems, enabling them to use the order book more efficiently.

The euro

Since the Exchange has operated a multi-currency platform for many years, the introduction of the euro from the start of 1999 raised no particular difficulties, essentially involving the addition of one further currency to the existing range supported by our trading and information systems. All preparations for the euro were completed on schedule, with our main systems changes focused on migrating the relevant international securities to euro pricing.

Looking forward, the Exchange's facilities are fully prepared and ready to support increasing volumes of euro-denominated trading, in line with the growth in demand from users of the London markets.

Year 2000

The issue of how the advent of the new millennium will affect computer systems and embedded microprocessors

CASE STUDY: **READY FOR THE EURO**

THE LONDON STOCK EXCHANGE MADE COMPREHENSIVE PREPARATIONS FOR THE INTRODUCTION OF THE EURO IN JANUARY 1999. THANKS TO LARGE-SCALE INVESTMENT IN ITS TRADING PLATFORM, THE EXCHANGE ALREADY TRADED IN MORE THAN 30 CURRENCIES, SO THE INTRODUCTION OF THE EURO RAISED NO SPECIAL TECHNICAL OR REGULATORY ISSUES. TO ENSURE THAT LONDON WAS READY TO TRADE IN THE EURO FROM THE FIRST DAY OF ITS INTRODUCTION, WE PROVIDED THE MARKET WITH TWO PHASES OF MARKET TESTING. THESE ALLOWED LONDON MARKET PARTICIPANTS TO ENTER 'DUMMY' ORDERS AND TRADE REPORTS IN EURO AND, FROM OCTOBER 1998, PROVIDED A COMPLETE REPLICA OF HOW TRADING WOULD APPEAR ON 4 JANUARY 1999. AS A RESULT, EURO TRADING IN LONDON GOT OFF TO A SMOOTH START AND, BY THE END OF THE FINANCIAL YEAR, ACCOUNTED FOR MORE THAN 40 PER CENT OF TOTAL TRADING.

IN THE RUN-UP TO THE INTRODUCTION OF THE EURO, THE EXCHANGE PRODUCED A NUMBER OF PUBLICATIONS TO ENSURE THAT THE MARKET WAS KEPT INFORMED.

continues to be a major factor for companies and organisations of all sizes. Two years ago, the Exchange set in train a formal programme of testing to ensure that our trading, information, regulatory and business services will continue to function normally after the start of 2000. This programme is continuing on schedule.

It is vital to the operation and integrity of equity trading in London that millennium issues do not result in market disruption from any source, be it inside or outside the Exchange. To minimise any such risk, it is not only necessary that we test our own systems for Year 2000 compliance, but also that we test our systems' continued ability to interconnect with those of our customers and suppliers.

With this in mind, in October 1998 – following widespread consultation with market participants – we launched a full customer testing service for our trading and information systems. This service tests the interconnection and inter-working of our customers' systems with our own, and is scheduled to run until September 1999. It provides mandatory scripted testing for all customers with direct interfaces to our trading and information systems, and also includes an optional 'readiness test' in a simulated market using Year 2000 dates.

To ensure the continued smooth operation of the market, securities firms have been informed that they must undertake the mandatory testing element of the service if they wish to connect to the Exchange's central systems after 31 December 1999. However, the Exchange's testing service does not test the Year 2000 compliance of our customers' own systems, since that is something which only they themselves can verify.

Planning for the millennium weekend is already well under way, drawing on the experience of the successful euro conversion at the start of 1999. A weekend dress rehearsal for the arrival of the Year 2000 will be held later this year, in order to identify, isolate and iron out any remaining compliance issues.

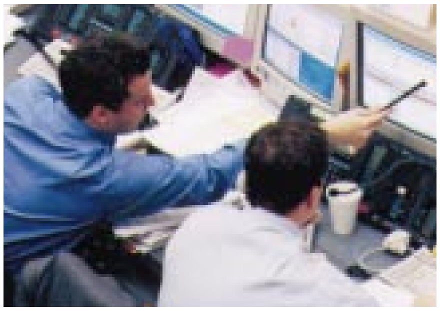
Information services

During the year, we completed a comprehensive review of our information pricing. This resulted in changes to the charging structure, which had the net effect of holding, simplifying or reducing our various prices. At the same time, the Exchange reviewed its long-standing policy that market and pricing information should only be disseminated free of charge after a delay of 20 minutes. After consultation, we decided to reduce this delay period to 15 minutes, and also to remove the existing charges for historic data licences.

The changes benefit many users of our markets, especially private investors who may be accessing free services such as the Internet for pricing and market information. These investors will now have a more up-to-date picture of what is happening in the market, without having to pay for the improvement. Such enhancements form part of our ongoing drive to increase the value we provide to our customers and market users of all types, and to maintain our strong competitive position among world markets.

In terms of the distribution of our information and trading services outside the UK, there was continuing steady growth in applications from organisations overseas for remote membership of the Exchange. The formation of the European

CASE STUDY: **A POPULAR HIT**



The Exchange's websites attract a wide range of users.

Improvements and additions to the Exchange's website services led to a marked increase in visitors to the sites – with more than 18 million hits in 1998/99 alone. During the year, we redeveloped our corporate website (www.londonstockex.co.uk). Our technical Internet site (www.londonstockexuser.co.uk) kept market users up-to-date with the latest issues affecting London trading – such as the introduction of the euro – allowing them to feed back their views on proposed market developments at the touch of a button.

Since September 1998, our listed companies have had access to the latest news on proposed rule changes and associated company information through a new listing site (www.listing.co.uk).

Another new site, launched in August 1998, for private investors (www.share-aware.co.uk) provides a range of free up-to-date information on how to buy and sell shares, with company news and share price information only 15 minutes after it is released to the market.

All four sites are interlinked to help users find the information they need – and plans to further develop the sites over the coming year are already under way.

The Exchange's central computers are undergoing Year 2000 testing.

CASE STUDY: **YEAR 2000**

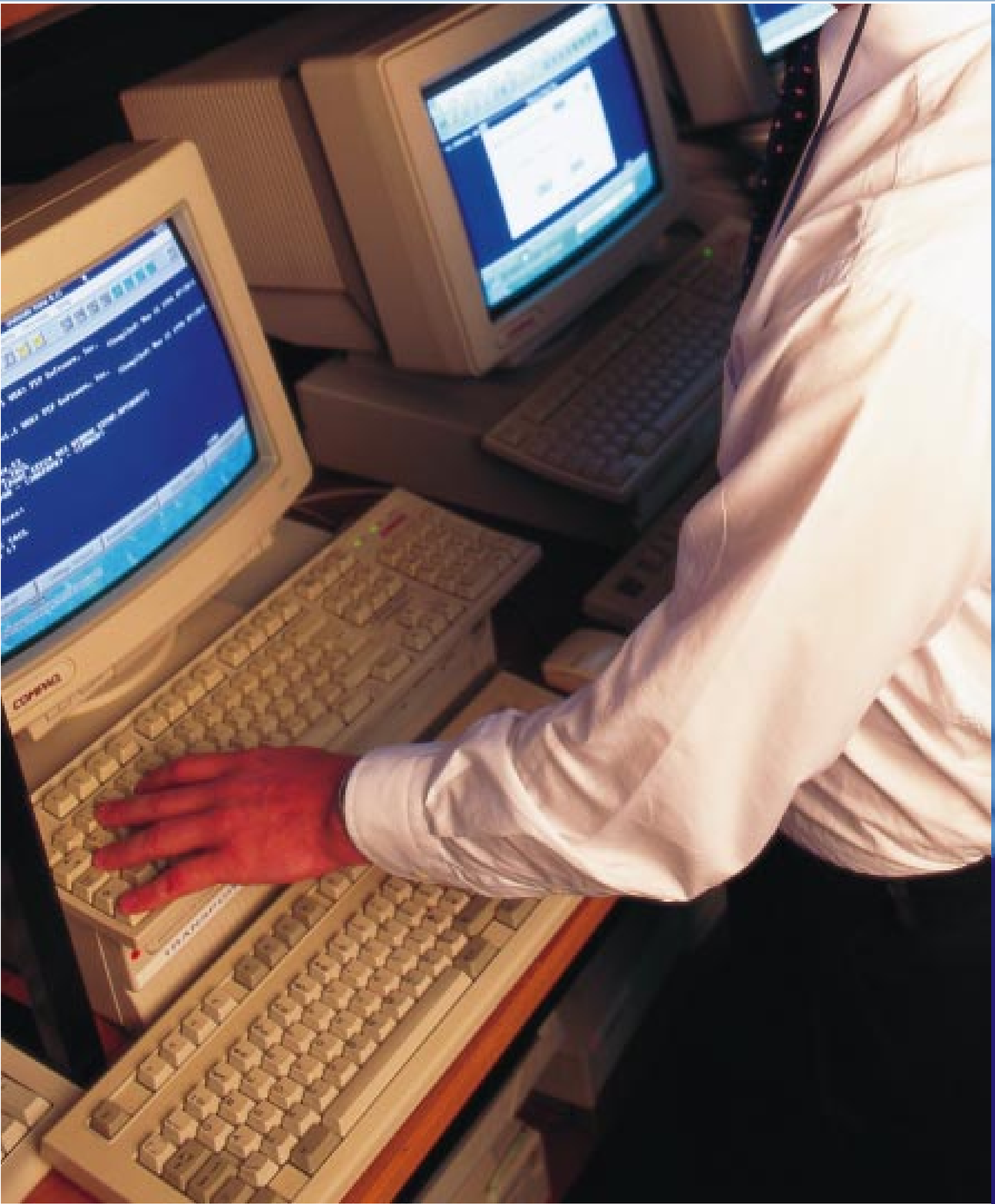
Testing of the London Stock Exchange's trading and information systems in preparation for the millennium date change continued throughout the year. To minimise the risk of disruption from computer malfunction at the start of the new millennium, a year-long programme of tests with over 70 brokers and software houses has been in operation since October 1998. This mandatory testing is being conducted every weekday and some weekends until the end of September 1999.

Alliance, in particular, and the launch of the euro, fostered applications from other European centres. At the same time, the number of terminals displaying Exchange real-time data continued to rise worldwide, taking the total number to around 85,500, up from 75,500 at the start of the year. This growth in terminals is likely to continue following our reduction in the time delay on free information, and our removal of the licence fee for historical data.

A further significant aspect of the year's work was a continuing increase in the Exchange's use of the Internet for consultation and information purposes. Following the development of additional Exchange websites, and enhancements to the existing ones, the websites we now offer include a general corporate website, an information services website covering topics such as listing, and a series of sites offering specialist technical information on subjects such as the euro and the Year 2000.

Technical personnel and private investors have proved to be especially heavy users of our Internet services, and all our sites have been interlinked to help users find the information they need as quickly and easily as possible. We believe the importance of the Internet as a way of disseminating information will continue to grow, and we are planning substantial further developments in this area during the coming year.

.. DELIVERING A CONSISTENTLY RELIABLE AND EFFICIENT SERVICE .



PRIMARK

“From the perspective of a major customer and distributor of London Stock Exchange information, the Exchange’s comprehensive Year 2000 testing service has been an invaluable aid in assuring that all our links and systems to process Exchange data are fully prepared for the millennium change. The London Stock Exchange testing service has also helped Primark with our internal Year 2000 preparations.”

JOSEPH E KASPUTYS
CHIEF EXECUTIVE OFFICER

CAPITAL FACTS 1998/99

1998/99 was an important year for the London Stock Exchange's markets. Trading reached record levels for the eighth year in succession with turnover in UK shares increasing by more than 15 per cent in value to £1,155 billion.

In addition, 1998/99 heralded the start of euro trading and saw the FTSE 100 reach a record closing high of 6335.7 in March 1999. The total capitalisation of the Exchange's markets stood at their highest-ever level and new listings of companies from emerging economies confirmed London's position as the place to list depositary receipts and eurobonds, with more than £150 billion raised from eurobond issues and 24 international companies listing depositary receipts during the year.

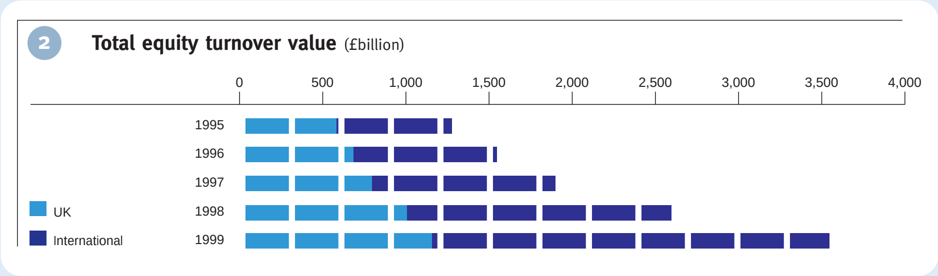
1. The total value of shares traded increased by 37 per cent on the same period last year. The number of shares traded also increased by 25 per cent.

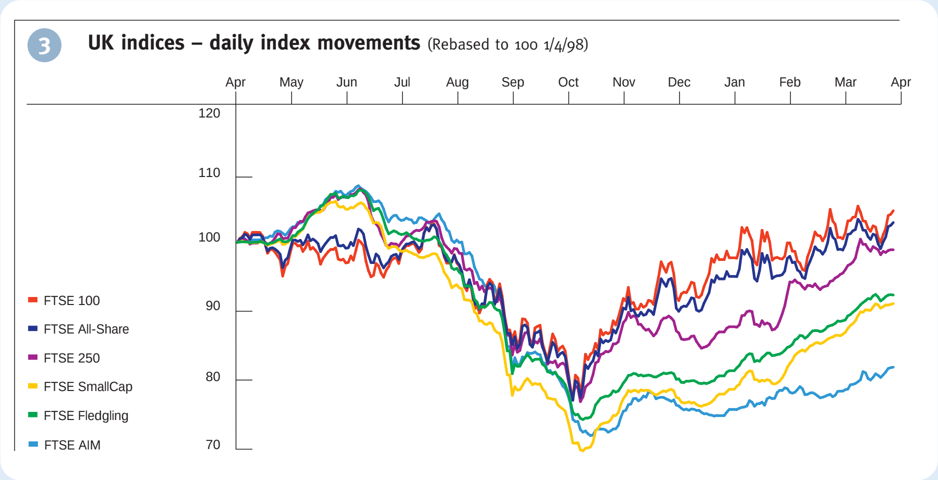
1 The year at a glance

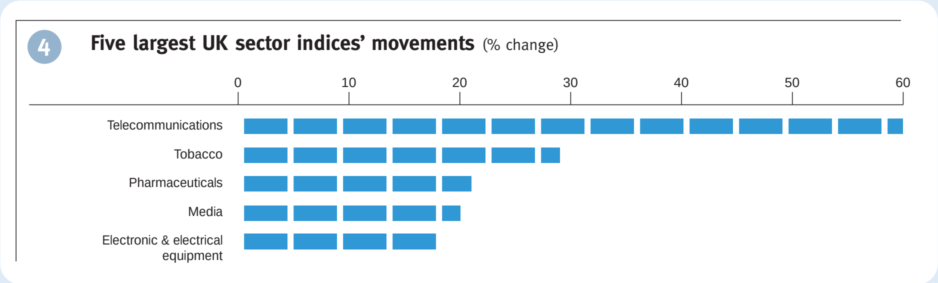
	UK	International
Equity turnover value	£1,155bn	£2,396bn
Number of equity bargains	17.1m	7.5m
Equity shares traded	280.3bn	643.1bn
Equity market value	£1,542bn	£2,924 bn
Total companies	2,370	511
New companies	203	33
Total money raised (incl. fixed interest)	£72.2bn	£79.0bn

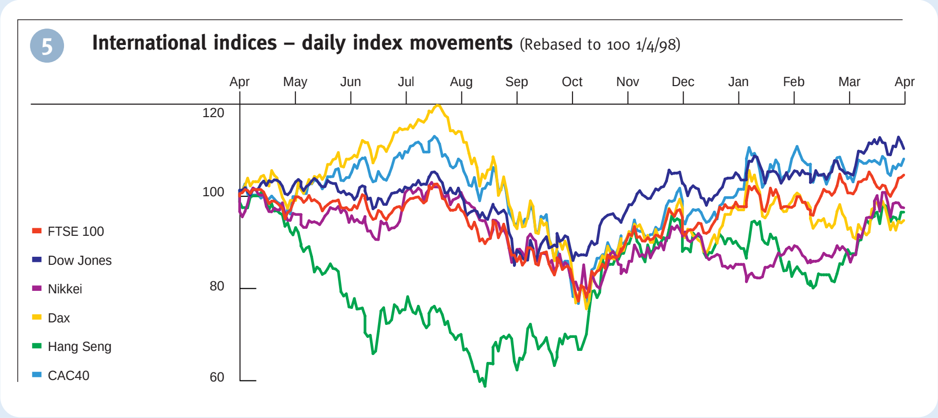
FTSE 100 index +5% **FTSE All-Share +3%**

All charts from 1 April 1998 to 31 March 1999 unless otherwise stated.









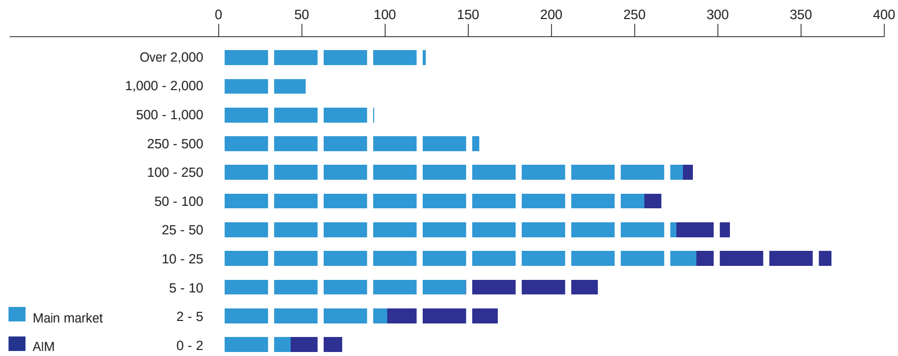
2. Equity turnover has increased year on year throughout the 1990s.

3. The UK indices made a strong recovery from their lows in October 1998, with the FTSE 100 gaining 5 per cent over the year.

4. The Telecommunications sector's index increased by 60 per cent during the year.

5. A strong global recovery was made after the summer lows.

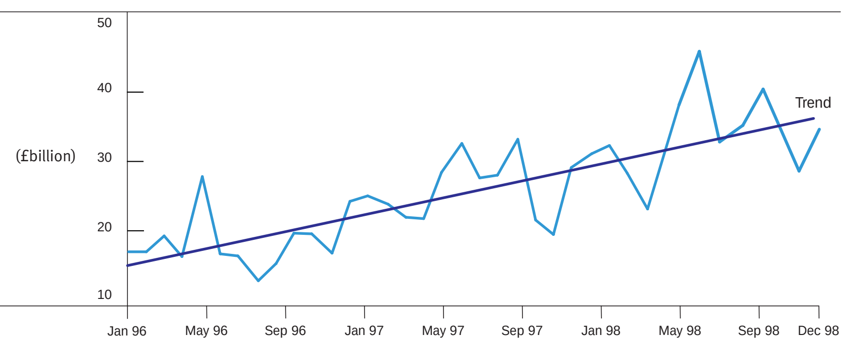
6 **Distribution of UK companies by equity market value as at 31 March 1999** (£million)



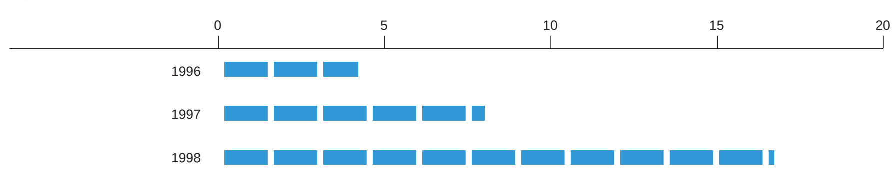
7 **Largest movements in equity market valuation – FTSE 100**

Company	Market capitalisation as at 31 March 1999 (£m)	% increase since 31 March 1998
Telewest Communications	5,754	582%
Energis	4,879	404%
Colt Telecom Group	6,932	342%
Dixons Group	5,689	151%
Orange	10,383	128%
BP Amoco	101,801	104%
Vodafone Group	35,665	85%
British Telecommunications	65,386	57%
Hanson	3,620	54%
Pearson	8,607	54%

8 **High-tech – trading by value**



9 **Information Technology (IT) trading** (turnover £billion)



Turnover values by constituent, 1996-1998 Trading is for London-listed securities only

6. The majority of companies listed on the London Stock Exchange are valued at less than £250 million.

7. Telecommunications companies headed the largest movements in equity market value among the FTSE 100.

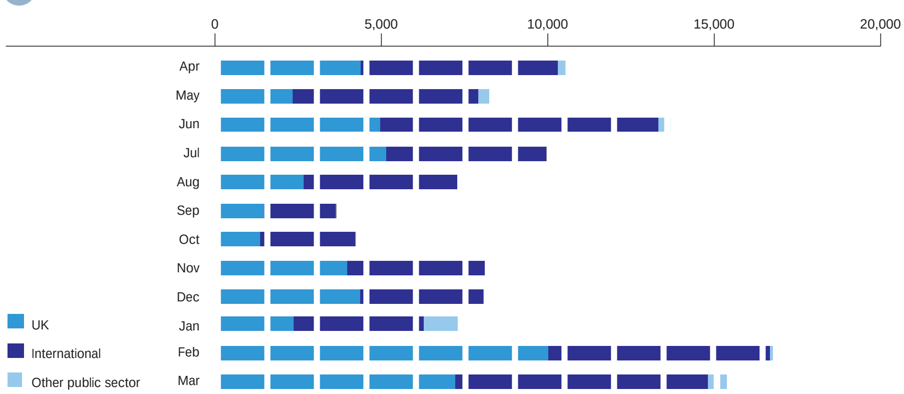
8. Trading in high-tech stocks has increased from £17 billion to £34 billion over the last three years.

9. In the past three years, IT has been the largest growth sector among the high-tech groupings, with a rise of 296 per cent.

10 Largest international traded companies by value

Company	Value (£m)
Telecom Italia SPA	50,111
Nestlé SA	48,729
Novartis AG	43,018
Nokia(Ab)OY	38,773
Telefonica SA	38,374
Royal Dutch Petroleum Co NV	37,534
UBS AG	34,028
Alcatel	33,367
Ericsson(L.M.)(Telefonaktiebolaget)	30,238
Mannesmann AG	30,093

11 Money raised by new UK & international eurobonds (£million)



12 Five largest depositary receipts by equity market value at issue

Company	Market value (£m)	Money raised at issue (£m)	Country of incorporation
SPT Telecom	2,568	2,568	Czech Republic
Alstom	4,560	2,303	France
Telekomunikacja Polska	547	547	Poland
Panafon Hellenic Telecommunications	417	365	Greece
Hellenic Petroleum SA	892	203	Greece

10. Telecom Italia led international trading.

11. More than £150 billion was raised by the issue of eurobonds and medium-term notes.

12. 24 new international companies listed depositary receipts during the year.

BOARD OF DIRECTORS

1. Sir John Kemp-Welch, 63
Chairman since July 1994. Formerly Joint Senior Partner, Cazenove & Co. He is Deputy Chairman of the Financial Reporting Council, Chairman of Martin Currie Portfolio Investment Trust plc and a member of the Panel on Takeovers and Mergers.

2. Gavin Casey, 52 *
Chief Executive since August 1996. He is a chartered accountant and was previously Chief Operating Officer of Smith New Court (acquired by Merrill Lynch in 1995).

3. Ian Salter, 56 ▲ •
Deputy Chairman since 1990. Director of SG Investment Management Ltd.

4. Gary J Allen, CBE, DL, 54 •
Chief Executive, IMI plc, since 1986. He was appointed to IMI's Board in 1978, having joined the company in 1965. He is a Non-Executive Director of NV Bekaert SA, Belgium.

5. Graham K Allen, 48 •
Managing Director, ICI Investment Management Ltd. He joined ICI in 1974. He is Vice President of the NAPF. From 1996 to 1998 he was Chairman of the NAPF Investment Committee, and also a member of the Panel on Takeovers and Mergers.

6. John Bond, 57 ▲
Group Chairman of HSBC Holdings plc, Director of The Hongkong and Shanghai Banking Corporation Ltd in Hong Kong and Chairman of Midland Bank plc. He is also a Non-Executive Director of Orange plc.

7. Jonathan Howell, 36 *
Director of Regulation since March 1999. He is a Director of CRESTCo Ltd and FTSE International Ltd. He joined the Exchange in 1996 from PricewaterhouseCoopers where he was a Director of Forensic Services.

8. Michael Marks, 57 ▲
Executive Chairman, Merrill Lynch Europe, Middle East and Africa. Member of the Executive Management Committee of Merrill Lynch & Co. Inc. He is a member of NASD's International Markets Advisory Board.

9. Peter Meinertzhagen, 53 ▲
Chairman, Hoare Govett Corporate Finance. He joined Hoare Govett in 1965. Until July 1998 he was Chairman of The Hoare Govett Smaller Companies Index Investment Trust plc.

10. Ian Plenderleith, 55 •
Appointed Government Broker in 1989, he is an Executive Director of the Bank of England responsible for financial market operations and a member of the Monetary Policy Committee. At the Bank of England since 1965, he has worked at the IMF in Washington DC and served on the Board of the European Investment Bank.

11. Simon Robertson, 58
President, Goldman Sachs Europe Ltd and Managing Director of Goldman Sachs International. He is a Non-Executive Director of Invensys plc and Inchcape plc. Formerly he was Chairman of the Kleinwort Benson group.

12. Hector Sants, 43
From August 1998, Global Head of International Equities, Donaldson Lufkin Jenrette and Chairman of DLJ International Securities. Until 1998 he was Vice Chairman of UBS Ltd, responsible for UBS' equity operations.

13. Nigel Sherlock, DL, 59
From June 1998, Director of Brewin Dolphin Holdings Limited and Chairman, Wise Speke division. Previously he was Chief Executive, Wise Speke Ltd, having been a partner from 1969 to 1987. A Deputy Chairman of APCIMS, a Member of the Securities Institute and an Associate Member of the Institute of Investment Management and Research.

14. Martin Wheatley, 40 *
Director of Marketing and Development since May 1998. Particular responsibilities include European strategy and further development of trading systems. He joined the Exchange in 1985.

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

Allan Cameron
Paul Geradine
Claire Mascall
Keith Robinson
Tim Wright

• Member of the Audit Committee
* Member of the Management Committee
▲ Member of the Senior Appointments and Remuneration Committee

FINANCIAL REVIEW

The Exchange continued to make sound financial progress during a year of considerable new challenges. High systems development costs were incurred as a result of preparing for the millennium and EMU, our strategic alliance with Deutsche Börse and enhancing our secondary market regulation systems. This naturally had a significant effect on our operating costs and to some extent staff numbers. However, income was ahead of last year, as buoyant market conditions continued.

The Board has decided to recommend to shareholders the early redemption of 'A' shares which, if approved, will require an estimated one-off outlay of £35 million next year.

Accounting developments

The new accounting standard on provisions, contingent liabilities and contingent assets, FRS12, has been adopted this year. The provision of £17.4 million at March 1998 in respect of Year 2000 and EMU has therefore been reversed and last year's results have been restated accordingly. The costs incurred this year are disclosed separately in the Revenue Account. There is no impact on the Exchange's cash or accumulated reserves at March 1999.

Income

Gross income for the year was £149.8 million, 4.5 per cent above last year, reflecting the continued high level of trading volumes and sales of Exchange data around the world. Following a change in the basis for annual listing fees and a move to issuing all charges on one date per year announced in January, £5.5 million of income received during 1998/99 has been deferred to the coming year. Income from property lettings also continued to grow as more surplus space became available to sub-let.

Costs

Operating costs rose for the first time in six years, due to the peak of systems development costs and the significant expenditure required for Year 2000. Our work in preparation for Year 2000 and EMU is explained fully elsewhere in this report and has resulted in costs of £17.6 million, a significant proportion of which is for market testing services for member firms. Certain one-off costs of £7.6 million were incurred, mainly in respect of the European Alliance and the default of a member firm. Running costs of £105.3 million were 8.9 per cent higher than the previous year but were still 45 per cent lower than five years ago. There were 559 staff at the year-end, an increase of 30 compared to a year ago, due to a combination of the volume of systems development, the Alliance with Deutsche Börse, and our increased sales and marketing efforts.

Provisions

The development of SETS and restructuring of the Exchange, in respect of which provisions were set up in the past, were substantially completed during the year, allowing £1.8 million to be released to the Revenue Account.

Final results

Net interest receivable increased by £0.4 million to £7.6 million due to our higher cash and investment balances. Our contribution from FTSE International was unchanged at £0.3 million and we received a first dividend from our investment in CRESTCo. We believe the most meaningful comparison between the two years is without the adoption of FRS12. On this basis, this year's surplus before tax would have been £46.5 million, an increase of £22.4 million over last year.

After tax of £9.7 million, we are transferring £19.4 million to reserves.

Balance sheet and cash flow

Cash flow for the year was positive with the inflow from operating activities exceeding the outflow for taxation and capital investment. The Exchange's financial instruments comprise a £30 million debenture repayable in 2016, surplus funds which are deposited at fixed rates over the short-term and items such as trade debtors and creditors that arise directly from its operations. No trading of financial instruments takes place.

At the year-end, a trade compensation reserve of £15 million was established via a transfer from existing revenue reserves. This identifies reserves available to meet valid claims made by member firms under the Exchange's Trade Compensation Scheme, covering price movements on order book trades, in the event of a counterparty being declared in default by the Exchange.

If approved by shareholders, the early redemption of the 'A' shares will give rise to a one-off payment of £35 million during the next financial year. The Exchange has adequate cash and investment reserves to finance both this and its future business development requirements.

Going concern

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

CORPORATE GOVERNANCE

The Exchange continues to be committed to the principle of improved and strengthened corporate governance arrangements. The Combined Code on Corporate Governance was issued with a revision to the Listing Rules in June 1998 and the Exchange has applied the principles of the Combined Code during the year.

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

A new requirement of the Combined Code is for directors to review internal controls, beyond the previous requirement for a review of internal financial controls. Pending finalisation of the guidance on the new requirement from the Institute of Chartered Accountants in England and Wales' working party, the Exchange has continued to review internal financial controls during the past year.

Subject to the comments above, the Exchange's Board is satisfied that it has complied with the Combined Code on Corporate Governance during the period from June 1998 until 31 March 1999 and with the Code of Best Practice published by the Cadbury Committee prior to the publication of the Combined Code.

Board of directors

The Board, at 31 March 1999, comprised the Chairman, Deputy Chairman (senior non-executive director), Chief Executive, two executive and nine non-executive directors. Reflecting the above comments on the Combined Code independence requirements, three of the non-executive directors, Gary Allen, Graham Allen and Ian Plenderleith, are considered to be fully independent.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below and the directors who serve on these committees are indicated on page 31.

The **Management Committee** is chaired by the Chief Executive and comprises the principal executives of the Exchange. The Management Committee has the responsibility of managing the day-to-day business operations of the Exchange and to report regularly to the Board on those activities.

The **Senior Appointments and Remuneration Committee** is chaired by J R H Bond and comprises three other non-executive directors. The remuneration report on page 34 outlines the responsibilities of this committee.

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

Internal financial control

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

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

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

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

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

Risk management – The operation of effective risk management is the responsibility of all line managers. This is kept under review by Internal Audit.

Going concern

As explained in the Financial Review on page 32, the directors continue to adopt the going concern basis in preparing the accounts.

REMUNERATION REPORT

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

Senior Appointments and Remuneration Committee

The Senior Appointments and Remuneration Committee comprises four non-executive directors who are appointed by the Board. The members at 31 March 1999 were:

John Bond (Chairman)
Michael Marks
Peter Meinertzhagen
Ian Salter

The committee meets as required to:

- Review and present recommendations to the Board regarding the appointment, remuneration and conditions of service of the Chairman, Chief Executive and executive directors
- Perform the function of a Nomination Committee for the appointment of directors
- Review the remuneration of non-executive directors

(Recommendations are ratified by the Board)

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

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

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

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

Remuneration policy

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

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

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

Executive directors' rewards

The executive directors' remuneration package has four elements: base salary, benefits in kind, annual performance bonus and pension benefits.

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

Benefits in kind provided to executive directors are principally private health care and life insurance arrangements. The provision of a company car has now ceased. Within the disclosures of individual director's remuneration, included in note 3 to the financial statements, benefits in kind represent the amounts assessable to income tax in respect of the benefits provided.

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

Pension benefits are also part of the remuneration package. Executive directors may join the Company pension scheme which offers Inland Revenue approved retirement benefits on final salary. The core benefit, which is non-contributory, comprises a pension accrual rate of $^1/_{60}$th of final pensionable salary for each year of service (up to a limit of $^2/_3$rds of final pensionable salary). Alternatively, executive directors may elect to have a payment of $22^1/_2$ per cent of their base salary paid into an appropriate vehicle for pension according to their individual circumstances.

The amounts paid for pension arrangements are shown for each director in note 3 to the financial statements. The note also includes details in respect of directors who are members of the Company's defined benefit scheme.

Non-executive directors' fees

The standard fee for non-executive directors during the year was £12,500 per annum as approved by the Board. An additional amount is paid to the Deputy Chairman, as shown in the accounts, in relation to the further activities which he carries out for the Company in his non-executive role.

Directors' emoluments

Details of directors' remuneration and benefits are set out on page 42, in note 3 to the financial statements.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 1999.

The Exchange was originally constituted by Deeds of Settlement dated 27 March 1802 and 31 December 1875. It was incorporated under the Companies Act 1985 as a private limited company on 19 November 1986 under the name of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited and has since changed its name to London Stock Exchange Limited ('the Exchange').

Directors

The directors of the Company at 31 March 1999 are shown on page 30.

R P Kilsby resigned on 31 May 1998.
D H Brydon, R Metzler, M H J Radcliffe and B Solomons resigned on 9 July 1998.
Mrs C L Dann resigned on 31 March 1999.

S M Robertson and M Wheatley were appointed on 9 July 1998 and J A G Howell was appointed on 25 March 1999.

Under the Articles of Association of the Company, G J Allen, J R H Bond, P R Meinertzhagen, I G Salter and H W H Sants will retire by rotation and J A G Howell retires following appointment during the year; they all offer themselves for re-election.

The share interests of the directors are shown in note 22 to the financial statements. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

The Exchange's corporate governance statement is set out on page 33.

Membership

The number of member firms as at 31 March 1999 was 294 (1998, 302).

Interests in share capital

14,091 (1998, 14,084) 'B' shares are held by The Stock Exchange (Holdings) Limited as the share trustee in accordance with the Company's Articles of Association.

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

Principal activities and results

The principal activities of the Exchange and its subsidiaries are the organisation and regulation of markets in securities, the provision of associated information services and the admission of securities to listing which are regarded as a single class of business.

The surplus of the Group on ordinary activities before taxation for the year ended 31 March 1999 was £29.1 million compared with £24.1 million reported last year and a restated surplus of £39.7 million for 1998 after incorporating the adjustments required by the new accounting standard FRS12. The premium of £1.7 million on redemption of 170 'A' shares has been deducted from the capital redemption reserve.

The business and systems developments and future developments of the Company are described more fully in the Chairman's statement and the Chief Executive's review on pages 2 to 7.

Tangible assets

All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts less depreciation. In the opinion of the directors, the market value of freehold properties at 31 March 1999 exceeded book value by approximately £33 million.

Employment

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

All employees are provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications.

Donations

During the year the Exchange gave £53,000 (1998, £103,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

The Exchange's policy with suppliers is to agree payment terms when business transactions are agreed and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 1999 trade creditors represented 40 days of annual purchases to the company.

Auditors

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

By Order of the Board

K O Robinson
Secretary
27 May 1999

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

To the members of the London Stock Exchange Limited

We have audited the financial statements on pages 38 to 52 and the accounting policies set out on page 37.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above the financial statements. Our responsibilities, as independent auditors, are established primarily by statute, the Auditing Practices Board, and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We also, at the request of the directors (because the company applies the Stock Exchange Listing Rules as if its shares were listed), review whether the statement on page 33 reflects the company's compliance with those provisions of the Combined Code specified by the London Stock Exchange for review by auditors of listed companies, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

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 1999 and of the surplus 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
27 May 1999

ACCOUNTING POLICIES

1. Change to accounting policy

FRS12, the new financial reporting standard on provisions, was implemented during the year. In order to meet the requirements of that standard, provisions of £17.4 million for Year 2000 and EMU costs, which were prudently made as at 31 March 1998, have been written back as prior year adjustments, with a resulting increase to shareholder funds of £12.1 million. Costs of £17.6 million for Year 2000 and EMU incurred in 1998/99 are included in operating costs.

2. Basis of accounting and consolidation

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

3. Joint ventures

The Group's share of profits, less losses, of joint ventures is included in the consolidated revenue account and the Group's share of their net assets is included in the consolidated balance sheet. In view of the lack of materiality in relation to the Exchange's business, the Group's share of turnover, gross assets and gross liabilities underlying the net equity amount, as required by FRS9 for Associates and Joint Ventures, is included in the notes to the accounts.

4. Tangible assets and depreciation

a) Freehold properties

Freehold properties, including related fixed plant, are revalued periodically by external chartered surveyors and included in the financial statements at the revalued amounts.

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 estimated economic lives of properties range from 15 to 50 years, the estimated useful lives of fixed plant range from 5 to 20 years.

b) Leasehold properties

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

c) Plant and equipment

Plant and equipment is stated at cost and is depreciated on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from 3 to 5 years.

5. Operating leases

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

6. Income

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

7. Pension costs

The pension costs are assessed in accordance with the advice of an independent actuary. The accounting cost for providing pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Further details of the Company's pension scheme and the basis upon which the charge to the revenue account is determined are set out in note 20 to the financial statements.

8. Development costs

Expenditure on software development or enhancement of services is charged as an operating cost as incurred.

9. Deferred taxation

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

GROUP REVENUE ACCOUNT

Year ended 31 March 1999

Continuing operations		Notes	**1999 £m**	1998 £m restated	1998 £m
Gross income			**149.8**	143.3	143.3
Rebate			**–**	(16.6)	(16.6)
Net income after rebate		1	**149.8**	126.7	126.7
Operating costs	– Running costs		**(105.3)**	(96.7)	(96.7)
	– One-off costs		**(7.6)**	–	–
	– Year 2000 and EMU		**(17.6)**	(0.9)	–
	– Total	2	**(130.5)**	(97.6)	(96.7)
Operating surplus			**19.3**	29.1	30.0
Provision for Year 2000 and EMU modifications			**–**	–	(16.5)
Provisions for restructuring and SETS		5	**1.8**	3.1	3.1
Share of profits of joint venture		9	**0.3**	0.3	0.3
Investment income from CRESTCo		9	**0.1**	–	–
Net interest receivable		6	**7.6**	7.2	7.2
Surplus on ordinary activities before taxation			**29.1**	39.7	24.1
Taxation on surplus on ordinary activities		7	**(9.7)**	(11.6)	(7.0)
Surplus for the financial year transferred to reserves			**19.4**	28.1	17.1

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Surplus for the financial year	**19.4**	28.1	17.1
Other recognised gains and losses for the year:			
Prior year adjustments (see Accounting Policies note 1 on page 37)	**12.1**	–	–
Total recognised gains since last Annual Report	**31.5**	28.1	17.1

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Surplus on ordinary activities before taxation		**29.1**	39.7	24.1
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	16	**1.9**	1.9	1.9
Historical cost surplus on ordinary activities before taxation		**31.0**	41.6	26.0
Historical cost surplus retained after taxation		**21.3**	30.0	19.0

BALANCE SHEETS

31 March 1999

		Group		Company	
		1999	1998	**1999**	1998
		£m	£m	**£m**	£m
	Notes		restated		restated
Fixed assets					
Tangible assets	8	**104.1**	105.0	**104.1**	105.0
Investments	9	**0.8**	0.6	**0.4**	0.4
		104.9	105.6	**104.5**	105.4
Current assets					
Debtors: due within one year	10	**27.7**	25.6	**27.7**	25.6
Deferred tax: due after more than one year	11	**4.6**	6.2	**4.6**	6.2
Investments – term deposits with banks		**194.0**	177.4	**194.0**	177.4
Cash at bank		**6.5**	7.4	**6.5**	7.4
		232.8	216.6	**232.8**	216.6
Creditors: due within one year	12	**58.5**	49.1	**58.5**	49.1
Net current assets		**174.3**	167.5	**174.3**	167.5
Total assets less current liabilities		**279.2**	273.1	**278.8**	272.9
Creditors: due after more than one year	13	**30.0**	30.0	**30.0**	30.0
Provisions for liabilities and charges	14	**36.6**	48.2	**36.6**	48.2
Net assets		**212.6**	194.9	**212.2**	194.7
Capital and reserves					
Called up share capital	15	**–**	–	**–**	–
Reserves:					
Revaluation	16	**52.6**	54.5	**52.6**	54.5
Capital redemption	16	**34.6**	36.3	**34.6**	36.3
Trade compensation	16	**15.0**	–	**15.0**	–
Revenue	16	**110.4**	104.1	**110.0**	103.9
Total shareholders' funds		**212.6**	194.9	**212.2**	194.7
Analysed between:					
Equity shareholders' funds	16	**178.0**	158.6	**177.6**	158.4
Non-equity shareholders' funds	16	**34.6**	36.3	**34.6**	36.3
		212.6	194.9	**212.2**	194.7

The financial statements on pages 37 to 52 were approved by the Board on 27 May 1999 and signed on its behalf by:

Gavin Casey, Chief Executive

Martin Wheatley, Director of Marketing and Development

GROUP CASH FLOW STATEMENT

Year ended 31 March 1999

	Notes	1999 £m	1998 £m
Net cash inflow from continuing operating activities	18(i)	**27.9**	28.2
Returns on investments and servicing of finance			
Interest received		**13.0**	11.8
Interest paid		**(3.1)**	(3.1)
Dividends received		**0.1**	–
Net cash inflow from returns on investments and servicing of finance		**10.0**	8.7
Taxation			
Corporation tax paid		**(3.1)**	(14.7)
Capital expenditure			
Payments to acquire tangible fixed assets		**(17.5)**	(9.6)
Receipts from sale of tangible fixed assets		**0.1**	1.1
Net cash outflow from capital expenditure		**(17.4)**	(8.5)
Net cash inflow before use of liquid resources and financing		**17.4**	13.7
Management of liquid resources			
Increase in term deposits	18(ii)	**(16.6)**	(10.3)
Financing			
Redemption of 'A' shares		**(1.7)**	(1.5)
(Decrease)/increase in cash in the year	18(ii)	**(0.9)**	1.9

NOTES TO THE FINANCIAL STATEMENTS

1. Income

	1999 £m	1998 £m
Analysis of income:		
Membership fees	**1.9**	1.7
Listing	**29.3**	33.0
Trading	**38.6**	37.4
Information services	**68.4**	61.7
Settlement services	**–**	0.4
Other income	**11.6**	9.1
Gross income	**149.8**	143.3
Rebate	**–**	(16.6)
Net income after rebate	**149.8**	126.7

The rebate in 1998 was based on income received from trading services and annual membership fees.

2. Operating costs

	1999 £m	1998 £m
Operating costs include:		
Depreciation of tangible assets	**18.2**	14.7
Operating lease rentals – properties	**5.2**	5.2
Auditors' remuneration for: – Audit	**0.1**	0.1
– Non-audit fees for other services (see note i)	**0.4**	0.4
Fees payable to the Financial Services Authority	**0.8**	1.3
Expenditure on Year 2000 and EMU requirements (see note ii)	**17.6**	0.9

Notes

i) Non-audit fees paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) during the year were £0.4m of which £0.1m related to work done by Coopers & Lybrand, the previous auditors, and its associates. Non-audit fees in 1998 comprise solely amounts paid to Coopers & Lybrand. These fees are primarily in respect of taxation, pensions, actuarial and consulting services.

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

iii) One-off costs include expenditure incurred in respect of the European Alliance, accelerated depreciation on certain assets (included in total depreciation above) and as a result of a member firm going into default.

iv) The revenue account includes £1.8m (1998, £2.5m) for the operating costs of the Regulatory News Service. Total income for this service for the year ended 31 March 1999 was £0.5m (1998, £0.5m).

3. Director’s emoluments

The report of the Board on directors’ remuneration is on page 34.

	1999				1998				1999	1998
	Salary*	Performance Bonus**	Benefits	**Total**	Salary*	Performance Bonus**	Benefits	Total	**Pensions (Note i)**	Pensions (Note i)
	£	£	£	**£**	£	£	£	£	**£**	£
Chairman										
Sir John Kemp-Welch	250,000	–	3,254	**253,254**	250,000	–	3,113	253,113	–	–
Chief Executive										
G F Casey	321,500	250,000	8,603	**580,103**	307,250	160,000	9,421	476,671	**68,962**	66,600
Executive directors										
C L Dann (note i) retired 31 March 1999	201,538	–	11,634	**213,172**	200,000	120,000	11,316	331,316	**–**	–
J A G Howell (note i) from 25 March 1999	2,553	2,070	29	**4,652**	–	–	–	–	**438**	–
R P Kilsby resigned 31 May 1998	50,987	–	89	**51,076**	209,000	120,000	697	329,697	**–**	–
pension provision (note i)	7,500			**7,500**	45,000			45,000		
M Wheatley (note i) from 9 July 1998	120,201	109,274	1,663	**231,138**	–	–	–	–	**–**	–
F Wicker-Miurin resigned 31 December 1997	–	–	–	**–**	131,692	51,000	10,400	193,092	**–**	29,625
	954,279	361,344	25,272	**1,340,895**	1,142,942	451,000	34,947	1,628,889	**69,400**	96,225
Adjustment to bonus payments for period to 31 March 1997, see note below**				**–**				100,000		
Compensation for contractual commitment F Wicker-Miurin				**–**				167,696		

* The salary figures above include a car allowance where this is provided in cash rather than the provision of a car which is shown as a benefit in kind.

** The arrangements for the bonus scheme are explained in the report of the Board on directors’ remuneration on page 34.
The bonus scheme was changed in 1997/98 to run for the financial year to 31 March rather than the calendar year to 31 December. An additional bonus was payable to G F Casey (£40,000), C L Dann (£30,000) and R P Kilsby (£30,000) for the period 1 January 1997 to 31 March 1997, to cover the change in bonus year.

		1999 Total	1998 Total	1999 Pensions	1998 Pensions
Non-executive directors’ fees					
Directors in office throughout both years					
I G Salter – deputy chairman		**22,500**	25,000	**–**	–
G J Allen		**12,500**	12,500	**–**	–
G K Allen		**12,500**	12,500	**–**	–
J R H Bond		**12,500**	12,500	**–**	–
M J P Marks		**12,500**	12,500	**–**	–
I Plenderleith		**12,500**	12,500	**–**	–
H W H Sants		**12,500**	12,500	**–**	–
N Sherlock		**12,500**	12,500	**–**	–
Directors who did not hold office for the whole of the two financial years					
R A Barfield	until 10 July 1997	**–**	3,125	**–**	–
D H Brydon	until 9 July 1998	**3,125**	12,500	**–**	–
S P Cooke	until 26 May 1997	**–**	1,932	**–**	–
M Kaneko	until 10 July 1997	**–**	3,125	**–**	–
P Meinertzhagen	from 22 May 1997	**12,500**	10,759	**–**	–
R A Metzler	until 9 July 1998	**3,125**	12,500	**–**	–
M H J Radcliffe	until 9 July 1998	**3,438**	12,500	**–**	–
S M Robertson	from 9 July 1998	**9,375**	–	**–**	–
B Solomons	until 9 July 1998	**3,125**	12,500	**–**	–
Total non-executive directors’ fees (note ii)		**144,688**	181,441	**–**	–
Total directors’ emoluments		**1,485,583**	2,078,026	**69,400**	96,225

3. Director's emoluments (continued)

Notes

i) Pensions

Mrs C L Dann and M Wheatley are members of the Company's defined benefit scheme. The increase in Mr Wheatley's accrued pension during the year was £8,900 and the accumulated accrued pension at the end of the year was £34,500. Mr Wheatley is 40 years old. Mrs Dann retired on 31 March 1999 (aged 50) with a pension benefit of £90,000 a year. She exercised her option to take this pension as a lump sum payment of £100,000 and an immediate residual pension of £80,000 a year. Had she left service at the beginning of the year she would have been entitled to a deferred pension of £78,800 payable from the scheme's normal retirement age (60). These pensions increase each year in line with inflation subject to a maximum of 5 per cent a year and a minimum of 3 per cent a year and have an attaching 50 per cent spouse's pension.

The Company made payments into a senior executive defined contribution pension scheme for G F Casey and J A G Howell.

The Company provided additional emoluments to R P Kilsby of £7,500 (1998, £45,000) to apply towards his pension arrangements. No separate pension contributions were made.

ii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £94,375, representing 7 directors (1998, £125,191, representing 12 directors).

iii) Waiver of emoluments

None of the directors waived emoluments during 1998 or 1999.

4. Employees

	1999	1998
Employees of the Group and their employment costs are summarised below.		
The number of employees was:		
At the year end	**559**	529
Average for the year	**536**	573
	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	**22.5**	22.5
Social security costs	**2.3**	2.3
Other pension costs	**0.6**	1.5
Total	**25.4**	26.3

5. Provisions for restructuring and SETS

	1999 £m	1998 £m
Release of surplus provisions:		
Rationalisation of settlement and restructuring	**(0.6)**	(3.1)
Stock Exchange Electronic Trading Service (SETS)	**(1.2)**	–
Total decrease in provisions	**(1.8)**	(3.1)
Taxation	**0.6**	1.0

Expenditure incurred to date is shown in note 14. The release of surplus provisions is due to lower costs incurred compared with the sums originally provided.

6. Interest

	1999 £m	1998 £m
Interest receivable:		
Bank deposits (see note i)	**12.6**	12.0
Other	**0.2**	0.5
	12.8	12.5
Interest payable:		
On bank and other loans repayable after five years (see note ii)	**(3.0)**	(3.0)
Interest on discounted provision for leasehold properties (see note 14)	**(2.2)**	(2.3)
	(5.2)	(5.3)
Net interest receivable	**7.6**	7.2

Notes

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

ii) The interest payable on loans repayable after five years is in respect of the £30m debenture repayable in 2016, see note 13.

7. Taxation

	1999 £m	1998 £m restated	1998 £m
Corporation tax for the year at 31% (1998, 31%)	**8.6**	4.9	4.9
Deferred taxation (see note 11)	**1.2**	6.8	2.2
Adjustment for previous years:			
Corporation tax	**(0.6)**	(1.8)	(1.8)
Deferred taxation	**0.4**	1.6	1.6
Joint venture	**0.1**	0.1	0.1
Taxation charge	**9.7**	11.6	7.0

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

8. Tangible assets

	Land and buildings Freehold £m	Leasehold £m	Plant and equipment £m	Total £m
GROUP AND COMPANY				
Cost or valuation:				
1 April 1998	146.8	4.7	57.2	208.7
Additions	9.7	–	7.8	17.5
Disposals	(0.5)	–	(2.1)	(2.6)
31 March 1999	**156.0**	**4.7**	**62.9**	**223.6**
Depreciation:				
1 April 1998	59.8	4.7	39.2	103.7
Provision for the year	7.7	–	10.5	18.2
Disposals	(0.5)	–	(1.9)	(2.4)
31 March 1999	**67.0**	**4.7**	**47.8**	**119.5**
Net book values:				
31 March 1999	**89.0**	**–**	**15.1**	**104.1**
1 April 1998	87.0	–	18.0	105.0
Net book values at 31 March 1999 are analysed as follows:				
Valuations	81.6	–	–	81.6
Cost less depreciation	7.4	–	15.1	22.5
	89.0	**–**	**15.1**	**104.1**

Notes

i) Freehold land and buildings include freehold properties and the associated fixed plant. All freehold properties were revalued as at 31 March 1997 by DTZ Debenham Thorpe, International Property Advisers, 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 1999, the aggregate cost of Group tangible assets was £184.2m (1998, £169.3m) and the aggregate depreciation was £132.6m (1998, £118.7m).

9. Fixed asset investments

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

	Joint venture note (i) £m	Other note (ii) £m	Total £m
a) GROUP			
Cost:			
1 April 1998	0.2	0.4	0.6
Share of retained profit	0.2	–	0.2
31 March 1999	**0.4**	**0.4**	**0.8**
b) COMPANY			
Cost:			
1 April 1998 and **31 March 1999**	–	0.4	0.4

Notes

(i) Joint venture

The Company owns 50 per cent of the 100 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is a joint venture owned together with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The Company is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. At 31 March 1999, the Company was owed £0.1m by FTSE International Limited (1998, £0.3m). The Group investment of £0.4m shown above represents the Exchange's share of the joint venture's net assets as at 31 December 1998.

The Company's share of the joint venture company is:

	Year to 31 December 1998 £m	Year to 31 December 1997 £m
50% share of:		
Turnover	**3.4**	3.0
Operating profit	**0.3**	0.2
Gross assets	**2.2**	1.6
Gross liabilities	**1.8**	1.4

In view of the lack of materiality, the above figures are provided in this note rather than in the primary statements.

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

	1999 £m	1998 £m
Royalties	**1.8**	1.9
Facilities management and other data services	**0.2**	0.2
Rent and service charges	**0.1**	0.1
Dividend for the year ended 31 December	**–**	0.2
	2.1	2.4

(ii) Other investment

The other investment of £0.4m represents the cost of the Company's 3.2 per cent interest in unlisted redeemable fixed interest shares in CRESTCo Limited. A dividend of £0.1m was received during the year.

(iii) 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.

10. Debtors: due within one year

	1999 £m	1998 £m
Trade debtors	**13.9**	9.6
Amounts owed by joint venture	**0.1**	0.3
Other debtors	**0.5**	0.7
Prepayments and accrued income	**13.2**	15.0
	27.7	25.6

11. Deferred taxation: due after more than one year

	£m
31 March 1998, as previously stated	11.4
Prior period adjustment – see Accounting Policies note 1 on page 37	(5.2)
1 April 1998 restated	6.2
Charge to revenue account during the year	(1.6)
31 March 1999	**4.6**

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

	1999 £m	1998 £m
Tax allowances available in excess of related depreciation	**3.9**	2.4
Other timing differences	**0.7**	3.8
	4.6	6.2

	1999 £m	1998 £m
Potential deferred taxation assets, not recognised in these accounts, comprise:		
Tax allowances in excess of related depreciation	**2.9**	3.5
Other timing differences	**9.9**	10.0
	12.8	13.5

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

12. Creditors: due within one year

	1999 £m	1998 £m
Trade creditors	**7.8**	5.3
Corporation tax	**9.5**	4.6
Other taxation and social security	**2.9**	2.4
Other creditors	**3.4**	3.5
Accruals and deferred income	**34.9**	33.3
	58.5	49.1

13. Creditors: due after more than one year

	1999 £m	1998 £m
Repayable in five years or more – otherwise than by instalments		
$10\frac{1}{8}$ per cent Mortgage Debenture Stock 2016	**30.0**	30.0

The $10\frac{1}{8}$ per cent Mortgage Debenture Stock 2016 is secured by a mortgage on the freehold site and buildings known as The Stock Exchange, London. The Company may purchase and cancel any of the stock at any time and except in so far as previously purchased or redeemed and cancelled, the stock will be redeemed at par on 1 November 2016. Earlier redemption of the stock in certain circumstances could be at an amount above par.

14. Provisions for liabilities and charges

	Pensions note (i) £m	Property note (ii) £m	Rationalisation note (iii) £m	Year 2000 & EMU note (iv) £m	SETS note (v) £m	Total £m
31 March 1998 as previously stated	1.7	36.4	5.3	17.4	4.8	65.6
Prior period adjustment – see iv) below	–	–	–	(17.4)	–	(17.4)
1 April 1998 restated	1.7	36.4	5.3	–	4.8	48.2
Utilised during the year	(0.2)	(3.5)	(4.7)	–	(3.6)	(12.0)
Interest on discounted provision	–	2.2	–	–	–	2.2
Released in the year (see note 5)	–	–	(0.6)	–	(1.2)	(1.8)
31 March 1999	**1.5**	**35.1**	**–**	**–**	**–**	**36.6**

Notes

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

ii) The property provision represents the estimated net present value of future costs for lease rentals less the expected receipts from sub-letting for those properties which are surplus to business requirements.

iii) The rationalisation provision represented the estimated costs for the rationalisation of settlement operations and further redundancy and restructuring costs. The rationalisation was completed during the year.

iv) The provision for Year 2000 and EMU at 31 March 1998 has been restated through a prior period adjustment. This is a result of adopting FRS12 as explained in Accounting Policies note 1 on page 37.

v) The SETS provision represented the estimated costs for changes to the Exchange's trading systems and support to the market for implementation and subsequent modification as required for the Stock Exchange Electronic Trading Service (SETS).

15. Share capital

	1999 £000	1998 £000
The authorised share capital comprises 5,601 'A' shares and 14,399 'B' shares of 5p each.		
Issued, called up and fully paid		
3,459 'A' shares of 5p (1998, 3,629 shares)		
14,399 'B' shares of 5p (1998, 14,399 shares)	**1**	1

Each 'A' share of 5p shall be redeemed at a price of £10,000 (i) in the case of a shareholder being a natural person, not earlier than attaining 60 years of age or on death or insolvency, or (ii) in the case of a shareholder who is not a natural person, on 31 December 2026.

The shares are non-voting and have a preferential right to be redeemed on a winding up. The premium on these redemptions is charged to the capital redemption reserve.

If the shares are redeemed when the shareholder reaches the age of 60, they would be redeemed as follows:

	1999 No of shares	1998 No of shares
Redemption period:		
Within 5 years	**1,096**	1,256
Between 5 and 10 years	**1,043**	1,047
Between 10 and 15 years	**593**	595
Between 15 and 20 years	**417**	419
After 20 years	**310**	312
	3,459	3,629

16. Reserves

	Group				Company			
	Revaluation £m	Capital redemption £m	Trade compensation £m	Revenue £m	Revaluation £m	Capital redemption £m	Trade compensation £m	Revenue £m
31 March 1998 – as previously stated	54.5	36.3	–	92.0	54.5	36.3	–	91.8
Prior period adjustment – see Accounting Policies note 1 on page 37	–	–	–	12.1	–	–	–	12.1
1 April 1998 – restated	54.5	36.3	–	104.1	54.5	36.3	–	103.9
Surplus for the financial year	–	–	–	19.4	–	–	–	19.2
Premium paid to 'A' shareholders (see note 15)	–	(1.7)	–	–	–	(1.7)	–	–
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(1.9)	–	–	1.9	(1.9)	–	–	1.9
Transfer – establishment of Trade compensation reserve	–	–	15.0	(15.0)	–	–	15.0	(15.0)
31 March 1999	**52.6**	**34.6**	**15.0**	**110.4**	**52.6**	**34.6**	**15.0**	**110.0**

The Exchange's Articles of Association provide that the revenue reserves of the Exchange are not distributable to members except with regard to the redemption of the 'A' shares or in case of the dissolution of the Company. This provision may be amended by special resolution.

Equity shareholders' funds on the balance sheet comprise the issued share capital of 'B' shares together with the revaluation, trade compensation and revenue reserves. Non-equity shareholders' funds comprise the issued share capital of 'A' shares and the capital redemption reserve.

As explained in note 15, the 'A' shares have preferential rights to be redeemed on a winding up.

As explained in the Financial Review on page 32, the trade compensation reserve has been established to identify reserves currently available to meet valid claims under the Trade Compensation Scheme, should they arise. This scheme provides cover for member firms only against price movements on order book trades if a counterparty is declared in default by the Exchange. The scheme is only available to member firms trading on the order book and is not available to private investors.

17. Reconciliation of movements in shareholders' funds

	1999 £m	1998 £m
Surplus for the financial year – restated	**19.4**	28.1
Redemption of 'A' shares during the year	**(1.7)**	(1.5)
Net addition to shareholders' funds	**17.7**	26.6
Opening shareholders' funds (Originally £182.8m before adding prior year adjustment of £12.1m)	**194.9**	168.3
Closing shareholders' funds	**212.6**	194.9

18. Notes to the Group cash flow statement

	1999 £m	1998 restated £m
i) Analysis of continuing operating activities		
Operating surplus	**19.3**	29.1
Depreciation of tangible assets	**18.2**	14.7
(Increase)/decrease in debtors	**(2.2)**	1.1
Increase in creditors	**4.6**	9.8
Expenditure relating to exceptional items – provisions utilised	**(12.0)**	(26.5)
Net cash inflow from continuing operating activities	**27.9**	28.2
ii) Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash in the year	**(0.9)**	1.9
Increase in liquid resources	**16.6**	10.3
Change in net funds	**15.7**	12.2
Net funds at 1 April 1998	**154.8**	142.6
Net funds at 31 March 1999	**170.5**	154.8

	At 1 April 1998 £m	Cash flows £m	At 31 March 1999 £m
iii) Analysis of changes in net funds			
Cash in hand and at bank	7.4	(0.9)	**6.5**
Debt due after more than one year	(30.0)	–	**(30.0)**
Current asset investments	177.4	16.6	**194.0**
Total net funds	154.8	15.7	**170.5**

19. Commitments

	1999 £m	1998 £m
Contracted capital commitments not provided for in the accounts	**0.3**	1.3

The contracted commitments were mainly in respect of computing equipment.

Financial commitments under property operating leases at 31 March 1999 for payments in the year to 31 March 2000 are as follows:

		1999 £m	1998 £m
Leases expiring	– in one year	**–**	0.1
	– between two and five years	**0.2**	0.2
	– in five years or more	**4.8**	4.8
		5.0	5.1

20. Pension costs

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

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

In addition to the Company's contributions to the pension plan, the Company matches certain additional voluntary contributions by employees; in the year to 31 March 1999 the cost of this match amounted to £0.2m (1998, £0.2m). As an alternative to being members of the pension plan, employees may opt for a personal pension. The Company will make contributions to these personal pensions instead of its contribution to the main plan. In the year to 31 March 1999 the cost of these contributions amounted to £0.6m (1998, £0.5m). The total pension charge for the year was £0.6m (1998, £1.5m).

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

21. Transactions with related parties

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

FTSE International Limited

Details of transactions with FTSE International are included in note 9.

22. Share interests of directors

The following directors were each the beneficial owner of one 'A' share of the Company as at 1 April 1998 and at 31 March 1999:

G F Casey	M J P Marks	I G Salter	N Sherlock
Sir John Kemp-Welch	P R Meinertzhagen	H W H Sants	

There have been no changes in the above interests since 31 March 1999.

During the year, no director or member of a director's immediate family was granted or exercised any right to subscribe for shares in or debentures of the Company or any other body corporate in the Group.

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