THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult immediately your stockbroker, bank manager, solicitor or other independent financial adviser authorised under the Financial Services Act 1986 if you are in the United Kingdom or, if not, seek advice from another appropriately authorised independent financial adviser.

If you have sold or transferred all of your Ordinary Shares you should send this document, together with the accompanying documents, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected, for transmission to the purchaser or transferee.

A copy of this document, which comprises listing particulars relating to the Exchange in accordance with the Listing Rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

Application has been made to the UK Listing Authority for the whole of the ordinary share capital of the Exchange to be admitted to the Official List and to the London Stock Exchange for such ordinary share capital to be admitted to trading on its market for listed securities. It is expected that such admission will become effective, and that dealings will commence, on 20 July 2001.

The Directors of the Exchange, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of such persons (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

London STOCK EXCHANGE

(incorporated in England and Wales under the Companies Act 1985. Registered no. 2075721)

Introduction to the Official List
Sponsored by Schroder Salomon Smith Barney

Share capital following implementation of the Bonus Issue and upon Admission

Authorised			**Issued and fully paid**	
Number	Amount	In Ordinary Shares	Number	Amount
500,000,000	£25,000,000	of 5p each	297,000,000	£14,850,000

Salomon Brothers International Limited (trading as ''Schroder Salomon Smith Barney''), which is regulated in the UK by The Securities and Futures Authority Limited, is acting for the Exchange and no one else in connection with the Introduction, and will not be responsible to anyone other than the Exchange for providing the protections afforded to customers of Schroder Salomon Smith Barney nor for giving advice in relation to the Introduction.

This document does not constitute, or form part of, any offer, or any solicitation of an offer, for securities.

The distribution of this document in certain jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of such jurisdictions. The Ordinary Shares will not be registered under the US Securities Act of 1933 (as amended).

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. Neither the delivery of this document nor any issue and allotment made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Exchange since the date hereof or that the information in this document is correct as of any time subsequent to the date of this document.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors of the Exchange

Don Cruickshank	Non–Executive Chairman
Clara Furse	Chief Executive
Ian Salter	Non–Executive Deputy Chairman
Martin Wheatley	Deputy Chief Executive
Jonathan Howell	Director of Finance
Gary Allen CBE	Non–Executive Director
Baroness Cohen	Non–Executive Director
Oscar Fanjul	Non–Executive Director
Michael Marks CBE	Non–Executive Director
Peter Meinertzhagen	Non–Executive Director
Nigel Stapleton	Non–Executive Director
Robert Webb Q.C.	Non–Executive Director

All with a business address of London Stock Exchange, Old Broad Street, London EC2N 1HP, United Kingdom.

Company secretary

Lisa Condron

Registered office

London Stock Exchange
London EC2N 1HP
United Kingdom

Advisers to the Exchange

Financial adviser and sponsor

Schroder Salomon Smith Barney
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Stockbrokers

Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

Solicitors

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Reporting accountants and auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Solicitors to the financial adviser and sponsor

Clifford Chance LLP
200 Aldersgate Street
London EC1A 4JJ

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Listing Particulars, EGM Circular and forms of proxy posted to Ordinary Shareholders	18 June 2001
Latest time for lodging of green forms of proxy with registrars for the Annual General Meeting	12 noon on 17 July 2001
Latest time for lodging of pink forms of proxy with registrars for the Extraordinary General Meeting	12.15 pm on 17 July 2001
Annual General Meeting of the Exchange	12 noon on 19 July 2001
Extraordinary General Meeting of the Exchange	12.15 pm* on 19 July 2001
Last date on which transfers will be accepted to participate in the Bonus Issue	19 July 2001
End of dealings in Ordinary Shares on the Facility	4.30 pm on 19 July 2001
Record Date for the Bonus Issue	6.00 pm on 19 July 2001
Admission and commencement of dealings in Ordinary Shares including Bonus Shares	8.00 am on 20 July 2001
Crediting of Bonus Shares to CREST accounts and dispatch of share certificates for Bonus Shares	20 July 2001

*This is the expected time for the Extraordinary General Meeting. The exact time will depend on the duration of the Annual General Meeting.

SHAREHOLDER HELPLINE

If you have any questions in relation to the Introduction, the New Articles, the Bonus Issue or any other matters set out in this document, you should telephone our shareholder helpline on 020 7797 3322. The helpline cannot provide advice on the merits of the Introduction, the adoption of the New Articles or the Bonus Issue or give any financial advice.

The information below should be read in conjunction with the full text of this document. The definitions of words and expressions used in this document are set out on pages 94 to 96.

1. Key strengths

The Exchange is one of the world's leading equity exchanges and a leading provider of services that facilitate the raising of capital and the trading of shares.

Well established market position

The Exchange is:

- the primary source of price formation in UK equities with over 99 per cent. by value of UK public trading transacted on the Exchange and over 98 per cent. of UK domiciled, publicly traded companies admitted to trading on its markets;
- the largest exchange in Europe in terms of number of companies admitted to trading and total market capitalisation, with approximately a third of the FTSE Eurotop 300 securities admitted to trading on the Exchange's markets; and
- the most international of all stock exchanges, with more than 500 non–UK domiciled companies admitted to trading on its markets from over 60 countries.

Through the Exchange, companies are able to access London's substantial and diverse investor base, which represents the largest pool of capital globally, and raise capital in one of the world's most heavily traded equity markets.

Innovative approach to primary markets

The Exchange has an established main market with over 2,370 companies admitted to trading with an aggregate domestic market capitalisation of over £1,600 billion, as at 31 March 2001. In the year to March 2001, companies traded on the main market raised £35 billion and there were 138 IPOs.

The Exchange has a successful track record of developing and promoting markets and market segments catering for the specific needs of companies. For example, techMARK was launched in November 1999 for companies committed to technological innovation. As at 31 March 2001, there were 244 companies admitted to techMARK and techMARK companies have raised almost £12 billion since its launch. AIM was launched in 1995 and is designed for smaller, growing companies. As at 31 March 2001, there were 550 companies quoted on AIM and AIM companies have raised over £6.3 billion since its launch.

Liquid secondary markets

The Exchange's primary markets are underpinned by liquid secondary markets that facilitate the efficient trading of securities. The Exchange supports a range of services and trading models designed to meet the diverse requirements of market participants. In the year to March 2001, the Exchange's secondary markets handled record transactions by both volume and value. The total value of UK equities traded in the year to March 2001 rose to nearly £1,900 billion, up 14 per cent. from the previous year. In the year ended March 2001, there were almost 10 million trades in techMARK stocks worth over £650 billion and the value of AIM trading was over £7.5 billion.

Internationally respected standards of regulation

The Exchange's internationally recognised standards of regulation and market practice contribute significantly to the attractiveness and liquidity of its markets. The Exchange develops and enforces its own framework of rules and market practices which is crucial to maintaining its reputation.

Reliable, flexible and scalable technology

SEQUENCE, the Exchange's trading platform, supports the SETS, SEAQ, SEAQ International and SEATS PLUS trading services. SEQUENCE currently has the capacity to handle in excess of 1 million trades per day, and this is planned to treble as a result of technology upgrades now in progress. Over the last five years, SEQUENCE has achieved more than 99.9 per cent. service availability.

Regular enhancements to SEQUENCE's functionality, coupled with continuing technological upgrades, will ensure that the platform continues to meet customers' requirements for a reliable, flexible and scalable trading environment. The recently introduced central counterparty and International Retail Service demonstrate how SEQUENCE can be adapted to provide new market services.

Successful service provider

The Exchange has a track record of successfully delivering technology, network and real time prices data. At the same time, the Exchange has developed and delivered a range of products and services to enhance its markets and extend its service offering. For example, the Exchange has successfully introduced AIM (1995), SETS (1997), techMARK (1999), extraMARK (2000), the City Media Centre (2000), landMARK (2001), a central counterparty (2001) and International Retail Service (2001).

Strengthened management team

The Exchange's Board and management team have recently been strengthened through a number of appointments. The appointees bring with them a wide array of relevant experience that will enhance the Exchange's ability to implement its strategy and develop its services to customers.

2. Strategy

The Exchange's strategy is to be the leading exchange organisation in Europe and to shape the globalisation of capital markets through technology links and partnerships, thus creating value for its shareholders.

The Exchange intends to grow its existing businesses and extend the reach and scale of its operations through business development initiatives and mergers, acquisitions, joint ventures and alliances where appropriate.

To implement this strategy, the Exchange will pursue four objectives:

- becoming the clear market of choice in the European time zone;
- extending its service offering and broadening its product range;
- building the reach and scale of its businesses; and
- promoting the growth of capital markets.

3. Reasons for and benefits of listing

At the time of demutualisation, the Directors concluded that an interim period was required while the Exchange's business evolved and the consequences and benefits of demutualisation had time to take full effect. Since then, the Exchange has operated on a fully commercial basis with the primary objective of maximising shareholder value.

For the next stage of the Exchange's development, the Directors believe it is appropriate to move to a full listing which requires the removal of the 4.9 per cent. limit on shareholdings.

As a fully listed company, the Exchange will have greater access to capital which should provide it with the necessary strategic flexibility to play a leading role in the development of global capital markets.

In addition, the move to a full listing and the removal of the 4.9 per cent. limit on shareholdings will enable a broader range of institutions to invest in the Exchange's shares. The Directors believe, based on the closing share price (being the last traded price on the Facility) for an Ordinary Share of £36.50 on 15 June 2001 (being the latest practicable date prior to the publication of this document), that the Exchange's shares will become eligible for membership of the FTSE All Share and FTSE 250 Indices.

The Directors continue to believe that the Exchange should maintain a strong balance sheet which provides it with the financial flexibility to implement its key strategic objectives. In view of the significant cash balances that the Exchange currently holds on its balance sheet, the Directors do not consider it is appropriate to raise additional capital at this time.

4. Financial highlights

The Exchange's summarised trading performance from continuing operations for the years ended 31 March 1999, 2000 and 2001 is shown below. This information has been extracted from the Accountants' Report set out in Part V of this document and investors should read this in conjunction with the full text of this document and not just rely on the key or summarised information.

Summarised consolidated profit and loss accounts

The Exchange's operating profit before exceptional items and excluding discontinued operations has grown from £21.0 million for the year ended 31 March 1999 to £57.9 million for the year ended 31 March 2001. Over this period, adjusted earnings per share from continuing operations has grown from 62.3 pence per share to 152.0 pence per share. This improvement in earnings reflects revenue growth in all of the Exchange's main income streams.

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Turnover[1]	**146.7**	**164.0**	**193.4**
Operating profit – *before exceptional items and discontinued operations*	**21.0**	**41.8**	**57.9**
Adjusted earnings per equity share[2]	**62.3p**	**113.1p**	**152.0p**
Dividend per equity share	–	–	**32.0p**
Adjusted earnings per equity share after Bonus Issue	**6.2p**	**11.3p**	**15.2p**

Notes
1 Turnover shown is for continuing operations and includes share of joint venture turnover, representing the Exchange's 50 per cent. share of FTSE International.
2 Adjusted earnings per equity share shows the results for continuing operations on a comparable basis after adjustments for exceptional items, exceptional interest costs, discontinued operations and taxation on each of these items. Full details of these adjustments are set out in Part V of this document.

Balance sheet

The Exchange has maintained a strong balance sheet with significant cash balances throughout each of the three financial years. As at 31 March 2001, the Exchange had net assets of £242.0 million, including cash and investments of £147.9 million, and no long–term creditors. The book value of the Exchange's freehold property assets was £81.6 million.

The Exchange intends to maintain a strong balance sheet in order to provide it with strategic flexibility. However, it will keep its financial structure under review and consider appropriate uses of cash balances in the best interests of shareholders.

5. Current trading and prospects

Since 31 March 2001, financial performance has been broadly in line with Directors' expectations and secondary market activity has remained strong despite a period of weaker IPO activity. Overall, the Directors believe the Exchange enjoys a number of key strengths which provide a solid foundation for future success.

6. Dividend policy

The Exchange intends to maintain a progressive dividend policy, with dividends covered approximately three to five times by earnings. Interim and final dividends will be payable each year in January and August in the approximate proportions of one third and two thirds respectively of the expected total dividend.

1. The Exchange's business environment

The role of a central exchange

Exchanges provide the means for market participants to issue and trade securities. As a result they are the hub around which capital markets develop and the primary mechanism for price formation. The relative success of an exchange is determined by its ability to build pools of liquidity through an effective market model, robust trading mechanisms and an appropriate level of regulation.

Central exchanges are expanding their traditional activities to offer customers both extended product ranges and additional services which capitalise on their operational and technological capabilities. A number of exchanges have demutualised, thereby separating ownership from membership, and certain exchanges have become listed companies.

Market trends

A number of market trends are shaping the commercial environment in which the Exchange operates.

The Directors believe that the Exchange's track record of delivering high quality, competitively priced services will enable it to capitalise fully on the opportunities emerging in this dynamic environment. The key trends include:

Changing investment patterns and deregulation

Equity trading is growing due to demographic and cultural changes, and because of deregulation of economies and markets. Demand for equities has increased across Europe, in part because governments are encouraging greater flows of savings into privately funded retirement accounts. Continental Europe is seeing the emergence of a stronger equity culture among retail and wholesale investors, leading to increased demand for exchange services.

The number of cross–border transactions is increasing as a result of the changing investment patterns of institutional and retail investors towards a sectoral rather than geographical investment focus. This trend is being reinforced by European Union and World Trade Organisation policies designed to reduce regulation and liberalise market access and create a single financial services market in Europe.

Technological development

Technology is critical to the ability of exchanges and market participants to develop and maintain pools of liquidity. Having access to reliable, flexible and scalable technology is a key component in developing and maintaining an exchange's competitive advantage. Furthermore, as technology develops, exchanges and market participants are looking to leverage their core systems, thereby realising economies of scale.

Consolidation

Consolidation amongst institutional investors and investment banks has generated greater demand for trans–national access to exchange facilities.

Consolidation amongst exchanges has commenced, and is expected to continue, as they seek to realise economies of scale. In addition, customer demand for lower clearing and settlement costs will intensify the pressure for consolidation and co-operation amongst major providers of clearing and settlement services, and increase pressure on vertically integrated exchanges to ensure that they provide non–discriminatory, transparent pricing for these services.

Competitive environment

Changing market conditions and technological developments have led to an increasingly competitive environment for exchanges. This has taken the form of alternative trading mechanisms, new exchanges and established exchanges seeking to attract listings and cross–border trading to their markets. However, in view of continuing differences in law and regulation which inhibit competition, a fully competitive environment amongst exchanges in Europe is dependent on moves towards a single financial services market.

2. Strategy

The Exchange's strategy is to be the leading exchange organisation in Europe and to shape the globalisation of capital markets through technology links and partnerships, thus creating value for its shareholders.

The Exchange intends to grow its existing businesses and extend the reach and scale of its operations through business development initiatives and mergers, acquisitions, joint ventures and alliances where appropriate.

To implement this strategy, the Exchange will pursue four objectives:

- becoming the clear market of choice in the European time zone;
- extending its service offering and broadening its product range;
- building the reach and scale of its businesses; and
- promoting the growth of capital markets.

Becoming the clear market of choice in the European time zone

The Exchange intends to grow revenues from its existing businesses by:

- continuing to deliver well–regulated, transparent markets, supporting a range of trading mechanisms on an efficient and flexible technology platform and providing reliable, real–time information services;
- investing further in the development of new products and services, such as the introduction of a settlement network and the provision of improved services to the retail community, which anticipate the evolving needs of customers; and
- pursuing opportunities to attract new domestic and overseas investors and issuers to the Exchange's markets in order to deepen pools of liquidity.

Extending its service offering and broadening its product range

The Exchange intends to diversify its activities by:

- admitting new products to trading which can be accommodated on the Exchange's trading platform, such as Exchange Traded Funds, covered warrants and other non–equity products;
- expanding the number and geographical diversity of its customers; and
- pursuing mergers, acquisitions, joint ventures and alliances where the Exchange believes these provide the potential to create shareholder value.

Building the reach and scale of its businesses

The Exchange intends to extend the reach and scale of its businesses by building global linkages, partnerships and service relationships, particularly through:

- offering technology services and trading mechanisms to other exchanges, along the lines of the proposed agreement under which the Exchange will provide core technology services to JSE Securities Exchange South Africa;
- utilising the Exchange's network to provide connectivity between market participants, for example the provision of a CREST network which would allow member firms access to both the Exchange's markets and CREST via a single link to the Exchange's network; and
- pursuing opportunities to offer additional IT services to third parties utilising the Exchange's network capacity.

Promoting the growth of capital markets

The Exchange intends to leverage its established market position, brand and reputation to promote reductions in transaction costs and the elimination of market inefficiencies. In particular:

- working for the removal of stamp duty on UK equity transactions;
- working to achieve the most efficient clearing and settlement solution across Europe;
- supporting the development of a more open and competitive international securities market. In particular, the Exchange will continue to contribute to initiatives such as the Lamfalussy review of the European capital markets; and
- promoting electronic shareholding in the UK equity market. As an active contribution to the debate on dematerialisation, the Exchange intends to become a CREST sponsor, thereby facilitating personal membership of CREST and providing the benefits of electronic shareholding whilst preserving full legal ownership.

3. Reasons for and benefits of listing

At the time of demutualisation, the Directors concluded that an interim period was required while the Exchange's business evolved and the consequences and benefits of demutualisation had time to take full effect. Since then, the Exchange has operated on a fully commercial basis with the primary objective of maximising shareholder value.

For the next stage of the Exchange's development, the Directors believe it is appropriate to move to a full listing which requires the removal of the 4.9 per cent. limit on shareholdings.

As a fully listed company, the Exchange will have greater access to capital which should provide it with the necessary strategic flexibility to play a leading role in the development of global capital markets.

In addition, the move to a full listing and the removal of the 4.9 per cent. limit on shareholdings will enable a broader range of institutions to invest in the Exchange's shares. The Directors believe, based on the closing share price (being the last traded price on the Facility) for an Ordinary Share of £36.50 on 15 June 2001 (being the latest practicable date prior to the publication of this document), that the Exchange's shares will become eligible for membership of the FTSE All Share and FTSE 250 Indices.

The Directors continue to believe that the Exchange should maintain a strong balance sheet which provides it with the financial flexibility to implement its key strategic objectives. In view of the significant cash balances that the Exchange currently holds on its balance sheet, the Directors do not consider it is appropriate to raise additional capital at this time.

1. Introduction

The Exchange is one of the world's leading equity exchanges and a leading provider of services that facilitate the raising of capital and the trading of shares.

The Exchange is located in London, one of the three principal financial centres in the world. Over 550 international banks have offices in London because of its pool of financial expertise, its active capital markets and its highly skilled workforce.

Through the Exchange, companies are able to access London's substantial and diverse investor base, which represents the largest pool of capital globally, and raise capital in one of the world's most heavily traded equity markets.

2. Business description

The operations of the Exchange comprise five core business services. In line with the Exchange's strategy, these services have a shared focus on maintaining and enhancing the Exchange's high standards of customer service whilst looking to increase the reach and scale of its businesses by building on the Exchange's core capabilities.

- **Issuer Services** The Exchange develops and operates markets which facilitate the raising of capital and the trading of securities. The Exchange is pursuing initiatives to attract new companies to its markets, support companies already admitted to trading and attract new institutional investors.

- **Broker Services** The Exchange operates a range of electronic trading services, including the SETS electronic order book for the most liquid stocks, which facilitate price formation and trade execution. The Exchange intends to expand its customer base and capitalise on its extensive network of market participants to provide new value added products and services.

- **Information Services** The Exchange provides high quality, real–time prices, news and other information to over 107,000 installed terminals in over 100 countries world–wide. The provision of reliable information on a timely basis underpins the transparency and liquidity that are the hallmarks of successful markets. The Exchange intends to diversify its information services revenue by providing new services to a wider base of customers.

- **Technology Services** The Exchange has invested heavily in developing SEQUENCE, which is a reliable, flexible and scalable platform for the trading of securities. The Exchange will continue the programme of enhancement to the trading technology that supports its markets, buying in leading-edge technology when appropriate, and will seek further opportunities to leverage its information technology skills to provide innovative solutions to other exchanges and market participants.

- **Market Operations** The Exchange has a successful track record of operating and regulating its markets effectively. The Exchange intends to maintain and promote its internationally recognised standards of regulation through the rigorous application of an appropriate framework of rules and market practices which operate alongside the Listing Rules.

2.1 Issuer Services

The Exchange has a successful track record of developing and promoting markets and market segments catering for the specific needs of companies:

- The Exchange has a strong main market with over 2,370 companies admitted to trading with an aggregate domestic market capitalisation of over £1,600 billion, as at 31 March 2001. In the year to 31 March 2001, companies traded on the main market raised £35 billion and there were 138 IPOs;
- techMARK was launched in November 1999 as a segment of the main market and designed specifically to suit companies committed to technological innovation. As at 31 March 2001, there were 244 companies admitted to techMARK, including 56 that joined in the year ended 31 March 2001 and techMARK companies have raised almost £12 billion since its launch; and
- AIM was launched in 1995 and is designed for smaller, growing companies for whom a more flexible regulatory environment is appropriate. As at 31 March 2001, there were 550 companies quoted on AIM and over 80 former AIM companies have progressed to the main market. AIM companies have raised over £6.3 billion since its launch.

These markets are supported by a range of services such as annual investor relations seminars, investor roadshows, publications that provide information to potential investors, sponsorship of events and dissemination of market statistics on the trading of companies' shares. These services raise the profile of Exchange–traded companies and thereby attract investors, as well as providing support to help these companies comply with the relevant obligations of the Exchange's markets.

Business development initiatives

The Exchange is pursuing initiatives to encourage companies to join its markets, support companies already admitted to trading and attract new institutional investors.

Encouraging companies to join the Exchange's markets

In the UK, the Exchange has continued its programme of contact and relationship management with both corporate advisers and UK issuers that are considering admission to the Exchange's markets, to ensure that they are aware of the benefits of being admitted to trading on the Exchange.

In the past year, the Exchange has undertaken an active marketing campaign in Europe through roadshows, customer seminars, and advertising. These marketing efforts have been supported by the expansion of the Exchange's network of AIM nominated advisors (Nomads) to provide local support to overseas companies interested in joining AIM.

Outside Europe, the Exchange actively markets in target countries where there is significant demand for international equity and debt listings or other Exchange services, such as Japan, India, China and Israel. In addition, building on its strong international presence, the Exchange is establishing itself as a centre for emerging market issues and trading.

Supporting companies traded on the Exchange's markets

The Exchange provides a range of services and products to support companies traded on its markets by raising their profile and ensuring dissemination of information to investors. The creation of these services, some of which are described below, provides additional potential revenue streams for the Exchange.

- RNS allows companies to disseminate price sensitive announcements to the market in accordance with their regulatory disclosure obligations to the Exchange and FSA. It is a reference source of comprehensive information supplied to market professionals via information terminals and financial services websites.

  The Exchange has invested heavily in developing its RNS systems and new internet services were introduced in September 2000. As a result of these developments, RNS is well positioned to respond to the FSA's recent proposals to allow companies to publish their announcements via a choice of commercial service providers. The Exchange plans to operate RNS on a commercial basis and continue to meet the approval standards set by the FSA.

- landMARK, an attribute group which highlights companies in particular regions of the UK, is designed to encourage interest in specific companies through raising their profile with local investors.

- The City Media Centre, launched in June 2000, provides a City based location for the Exchange's listed companies to make announcements and presentations to investors and potential investors. Prominent news providers including ABC, BBC, Bloomberg, CNBC, CNN, ITN, Reuters and Sky regularly broadcast from the City Media Centre.

- The Exchange's website offers a wide range of services for companies, including investor relations pages, where companies and their investors can find information on the trading of their shares and other Exchange related information. Companies can also gain free, secure access to individual company reports via the internet, which cover items such as the company's share price and movements in trading and market value over the last 12 months.

Attracting institutional investors

The Exchange has a team dedicated to managing and enhancing its relationship with institutional investors in the UK, Continental Europe, the US and Japan. This team conducts regular one on one meetings with key investors worldwide to raise awareness of, and gain feedback on, the Exchange's markets and to promote enhancements to trading infrastructure and functionality. The Exchange also sponsors a number of conferences and seminars which bring together institutional investors from the US and Europe.

2.2 Broker Services

The Exchange operates a range of electronic trading services, including the SETS electronic order book for the most liquid stocks, which facilitate price formation and trade execution. These services have enabled the Exchange to become the primary provider of price formation in UK equities, offering access to the largest pool of liquidity in Europe.

The Exchange's primary markets are underpinned by deep, liquid secondary markets that facilitate the efficient trading of securities. The Exchange operates a number of trading services and secondary market models that facilitate price formation and the automatic execution of transactions, as well as providing functionality for the reporting of negotiated trades.

The primary trading service for the Exchange is SETS. Launched in October 1997, SETS is an electronic order book that facilitates central price formation and trade execution for securities comprising the FTSE 100 index and other liquid securities. SETS regularly executes more than 50,000 trades per day. In addition, the percentage of transactions executed in order book securities on SETS has steadily risen since its inception to 58 per cent.

The Exchange also provides trading facilities for other securities, including SEAQ and SEAQ International, both of which are quotation mechanisms which are run in conjunction with market making firms, and SEATS PLUS, a hybrid quote/order driven service for less liquid securities. All these trading facilities are provided on a single technological platform, SEQUENCE.

Business development initiatives

The Exchange intends to expand its customer base and capitalise on its extensive network of market participants to provide new value added products and services.

New services for institutional brokers

New services introduced include the order book for SEAQ International securities, covering around 50 of the most liquid depository receipts, that allows the automatic execution of transactions in these securities. Recent additional developments include the introduction of a crossing mechanism in FTSE 250 securities traded on SEAQ to increase trading efficiency.

Central counterparty

The introduction of a central counterparty for SETS and SEAQ auctions in February 2001 marked an important step forward in the development of the clearing and settlement of equity trades in London. Led by the Exchange and involving a co-ordinated effort between market participants, CRESTCo and the London Clearing House, the central counterparty brings post-trade anonymity and improved counterparty risk management to the UK equity market. It also provides a major part of the infrastructure required to support settlement netting in the future. Early indications are that the introduction of the central counterparty has led to a further increase in the market share of SETS and has resulted in greater transaction volumes through the provision of post-trade anonymity. The next phase in the central counterparty project is the facilitation of settlement netting on which work has commenced.

Focus on private investors and retail brokers

In October 2000, the Exchange established a new Broker Services Group to increase its focus on broker customers and to help generate new, innovative products that meet brokers' needs. As part of this initiative, the Exchange is investigating how best to leverage its systems and expertise to offer a central hosting service for Retail Service Providers ("RSPs"). This service should reduce costs by providing connectivity for all RSPs and brokers and will enable RSPs to communicate prices and orders through a single connection. In April 2001, the Exchange also launched the International Retail Service giving private client brokers access to trading in international securities priced in sterling and settled in the UK. This innovative market model provides an example of the Exchange's ability to adapt its technology and structures quickly to meet the needs of its customers.

New products

The Exchange intends to maximise the use of its existing infrastructure, for example through the introduction of further exchange traded funds and covered warrants. Other such product initiatives include the Exchange's creation of extraMARK, designed for innovative investment companies, and products dedicated to special investment opportunities.

The Exchange will continue to look for opportunities to use its investment in existing systems and networks to provide its customers with price discovery and execution services in other products such as bonds and unit trusts. It will also continue to assess the potential for involvement in non–financial e–market places.

Expanding the customer base

The Exchange's membership is comprised of an extensive network of customers who, between them, create the deep pools of liquidity evident in the Exchange's markets. The Exchange will ensure that its membership process remains as simple and streamlined as possible, within the bounds of regulatory requirements.

The Exchange has 294 active member firms, a significant increase from two years ago, of which 36 are overseas firms. As part of the Exchange's strategy to maximise transaction volumes across its network it will increase its efforts in marketing remote membership, especially for access to electronic trading products. In this area the depth of the SETS liquidity pool, the presence of a central counterparty and the prospect of cheaper network access creates an especially attractive value proposition for overseas customers. The Exchange will also ensure that prospective overseas member firms are not subject to additional Exchange regulatory requirements where their local requirements are appropriate.

2.3 Information Services

The Exchange provides high quality, real–time prices, news and other information to over 107,000 terminals in over 100 countries worldwide. The provision of reliable information on a timely basis underpins the transparency and liquidity that are the hallmarks of successful markets.

Data is provided to market participants via LMIL, either directly via links to the Exchange's network or indirectly through market data vendors who receive the Exchange's data and pass this information on to end users.

The number of terminals receiving LMIL data over the past five years has grown at an annual compound rate of 11 per cent. from 64,000 in 1996 to over 107,000 in 2001. The Exchange has also been able to increase revenues by providing LMIL data through other distribution channels, such as the TV ticker service and the internet.

Additional revenues are generated from the sale of historical and analytical data and the operation of a closed user group telephone network for member firms and institutions. Currently, around 300 customers use the Exchange's historical and analytical data service, and the Exchange is looking to develop new products to meet increasing demand for this service.

Business development initiatives

The Exchange intends to diversify its Information Services revenue by providing new services to a wider base of customers.

Stronger relationships with market data vendors and customers

Third party market data vendors play a critical role in distributing Exchange data. The Exchange has co–operated closely with market data vendors to help them create new applications for Exchange data and therefore increase demand. As the range of vendors used by the Exchange increases, there are additional opportunities to develop new services for different client bases.

Exploiting potential delivery channels

As technology develops, the Exchange has been able to exploit new distribution channels and reach new audiences for its data and information. A successful example is the rapid take up of the Exchange's TV ticker services, launched in January 2000, which can now be seen on millions of television screens world–wide.

The Exchange is also increasing its use of the internet as a distribution channel, providing a range of data related services via its website. Monthly hits to the Exchange's website rose from under 8 million in December 1999 to almost 51 million in April 2001. Services currently available on the Exchange's website include delayed share prices, portfolio valuations, a share monitoring service and real time RNS announcements.

In addition, the Exchange plans to replace its existing trading and information networks with a single internet protocol network. This new IP network will enable the Exchange to offer network provision services to market participants as well as other value added data services.

Expanding customer base

In the past year, the Exchange has worked with a number of vendors and market participants to introduce new products to service the active private investor market, with the result that the number of real time terminals in private investors' premises has doubled to over 10,000.

The primary growth opportunity for the Exchange's LMIL services lies in the development of new added value data products which can be licensed to appeal to niche market participants. An example of this type of opportunity is the development of official volume weighted average prices which is currently underway.

2.4 Technology Services

The Exchange has invested heavily in developing SEQUENCE, which is a reliable, flexible and scalable platform for the trading of securities. This technology is fundamental to the Exchange's core operations and plays an essential role in achieving the Exchange's strategic objectives. The Exchange will continue to enhance its trading technology to support its markets, buying in leading-edge technology when appropriate, and will look for further opportunities to leverage its information technology skills and assets, and to provide innovative solutions for other market participants.

SEQUENCE offers facilities for regulatory reporting and trade publication and the following key services:

- an electronic order book (SETS);
- a quote dissemination service (SEAQ and SEAQ International); and
- a hybrid quote and order book (SEATS PLUS).

SEQUENCE currently has the capacity to handle in excess of 1 million trades per day, and this is planned to treble as a result of technology upgrades now in progress.

Through its continued efforts to develop and manage technology effectively, the Exchange has delivered clear and measurable benefits for its customers. These include more than 99.9 per cent. service availability over the last five years, reliable development and testing facilities and a consistent track record of delivery against plan. Whilst running highly visible, market essential systems in a demanding marketplace, the Exchange has sustained an excellent level of service to its customers and reduced technology operating costs.

Regular enhancements to SEQUENCE's functionality coupled with continuing technological upgrades, will ensure that the platform continues to meet customers' requirements for an efficient and reliable trading environment. The recently introduced central counterparty and International Retail Service demonstrate how the SEQUENCE platform can be adapted to provide new market services for customers.

SETS

SETS is the Exchange's electronic order book that facilitates central price formation for shares in the FTSE 100 Index and other liquid securities. SETS allows market participants to submit orders to buy or sell quantities of securities at specific prices, or to execute a trade automatically against orders displayed on the order book.

SETS has been designed to offer the highest level of transparency and fairness to all market participants. Details of every order on the book and every trade resulting from order execution through SETS are made available immediately to the market.

SEAQ

SEAQ is a real–time quote display mechanism showing prices and other trading data for over 2,000 securities. SEAQ facilitates trading with market makers who provide the liquidity for those securities that may not be suitable for trading on an electronic order book. To enable automatic execution of displayed orders, SEAQ also allows the anonymous matching of limit orders at specified times during each trading day. This mix of functionality offered by SEAQ provides market participants with choice in determining how to execute orders on the Exchange's markets.

Leveraging relationships with suppliers

The Exchange has outsourced the development and maintenance of its technology systems to key suppliers. Since 1992 Accenture has been the main operator and developer of the Exchange's core technology services. This approach has enabled the Exchange to manage its core technology assets efficiently, by capitalising on the economies of scale which third party suppliers can offer in system design and development. In addition, the Exchange has been able to obtain value for money through benchmarking its costs and periodic competitive renegotiations of its contracts with its suppliers. Utilising this model, the Exchange successfully introduced its current information technology platform, and established a reputation as a supplier of high quality, electronic market services.

The current service operations agreement with Accenture is due to expire in March 2002. The Exchange and Accenture have commenced negotiations for an extension of this term for a further period of up to five years.

The Exchange retains the intellectual property rights associated with its core trading technology, and enjoys the benefit of access to a large pool of skilled labour for support, applications management and systems development. All service operations and most application developments are undertaken on the Exchange's premises, using the Exchange's technological infrastructure, under the supervision of the Exchange's IT Management Group.

Technology development initiatives

The Exchange will seek further opportunities to leverage its information technology skills and provide innovative solutions to other exchanges and market participants.

Developing new uses for the Exchange's technology

The Directors believe that the strength of the Exchange's technology systems will increasingly enable it to provide technology services to other market providers and market participants.

The Exchange recently announced the signing of heads of terms with JSE Securities Exchange South Africa to provide core technology services based on SETS. This proposed agreement demonstrates the attractiveness of SETS to other exchanges. It also underpins the Exchange's ability to act as a provider of technology services and to use its core technology platform to help build business relationships.

Investment in technology

The Exchange has outlined a strategic investment programme that will provide extended functionality, further processing and increased network distribution capacity. The following technology developments are in progress:

- upgrades to the Exchange's core computer systems to treble its existing trading capacity;
- introduction of a new IP data network to provide increased capacity for existing services, cheaper access for international market participants and to enable additional products and services to utilise spare network capacity; and
- trading functionality enhancements to ensure the Exchange's core trading systems remain at the forefront of market technology, and to support developments in the trading of international and other securities in London.

2.5 Market Operations

The Exchange delivers orderly markets and provides appropriate regulation to support the attractiveness and transparency of its markets.

Appropriate regulation of issuers

The Exchange sets out its own admission and disclosure standards for issuers admitted to trading on the Exchange's main market. These standards operate alongside the Listing Rules and establish the formal relationship between the Exchange and its issuers. AIM issuers are not bound by the Listing Rules, but instead are subject to the AIM rules, which are written and administered by the Exchange. The AIM rules are designed to reflect the dynamic, high–growth nature of AIM issuers, and to establish a flexible and appropriate regulatory environment for these companies.

For both the main market and AIM, extensive disclosure requirements are imposed on issuers to provide investors with a reliable basis on which to make investment decisions and thereby encourage liquidity in issuers' securities. On average, approximately 700 announcements are released daily through RNS, in line with the Exchange's disclosure regime.

Supervising the secondary markets

The Exchange facilitates the orderly operation of its secondary markets, advising firms on the application of Exchange rules and continuously monitoring trading. IMAS, the Exchange's sophisticated real–time market surveillance technology, allows action to be taken immediately in the case of possible breaches of the Exchange's rules.

The Exchange has the right to discipline its firms for breaches of its rules, and in the event that a preliminary Exchange investigation indicates evidence of possible criminal activity, the Exchange refers the matter to the appropriate regulatory authority for further investigation.

Market consultation

The Exchange seeks to obtain general support for its rule proposals through an ongoing process of consultation involving member firms, issuers and other customers, taking account of customer demand and the evolution of market practice. This is achieved through formal consultation with the Rules Advisory Group – a committee of market practitioners – and ongoing dialogue with customers.

Regulatory environment

The Exchange is a Recognised Investment Exchange under the Financial Services Act and is supervised by the Financial Services Authority. RIE status means that the Exchange is exempt from the requirement to be authorised in respect of anything done in its capacity as an exchange which constitutes investment business under the Financial Services Act.

In order to obtain RIE status a body must satisfy the recognition requirements set out in Schedule 4 of the Financial Services Act which relate to, *inter alia*, sufficiency of financial resources, safeguards for investors, monitoring and enforcement and investigation of complaints. If an RIE fails to continue to meet such recognition criteria, or if the RIE fails to comply with any obligation to which it is subject under the Financial Services Act, then the FSA has the power to revoke the RIE's recognition.

The recognition framework will continue under the Financial Services and Markets Act 2000. There will, however, be certain differences. The FSA has published a draft of the sourcebook containing the various rules and guidance with which an RIE will have to comply both when applying for recognition and at all times thereafter. An exchange which is an RIE under the Financial Services Act will maintain its recognition, although the FSA will have the power to revoke a recognition order or issue directions if the RIE fails to satisfy the recognition criteria under the new act after a period of one month following the relevant sections of the Financial Services and Markets Act 2000 coming into force.

The Exchange's main market is a regulated market for the purpose of the Investment Services Directive. This permits the Exchange to provide remote access in other European member states without having to obtain separate authorisation.

The Exchange aims to provide customers with an appropriate regulatory regime which provides benefits proportionate to the costs borne by the market, thereby providing standards of integrity and fair dealing without stifling acceptable market practice or innovation. Wherever possible, regulation is implemented unobtrusively, in the interests of market practitioners and other users, and in line with the Exchange's overall regulatory objective to ensure the orderly operation of its markets.

There are a number of initiatives in the European Union to move towards a single financial services market. These initiatives include the European Commission's Financial Services Action Plan and the Lamfalussy Committee, which was set up to examine the practical arrangements for the implementation of financial services directives throughout the

European Union. The Exchange is actively participating in these initiatives and broadly supports their aim to create an open financial services market in Europe. The Exchange has also highlighted that for it to operate in the US, US regulations require it to be separately regulated by the US Securities and Exchange Commission in addition to its existing regulation by the FSA in the UK.

3. Board, management and corporate governance

Set out below are details of the Directors, with descriptions of their roles and their ages as at 18 June 2001.

The Board of Directors

Don Cruickshank (58) *Non-Executive Chairman*	Chairman since May 2000. Chairman of SMG plc. He was Chairman of the UK Banking Review from 1998 to 2000, Director General of Telecommunications from 1993 to 1998, Chief Executive, N.H.S. in Scotland from 1989 to 1993, Managing Director, Virgin Group from 1984 to 1989, Chairman, Wandsworth Health Authority from 1986 to 1989.
Clara Furse (43) *Chief Executive*	Appointed Chief Executive in January 2001. Formerly Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. Director of LIFFE (Holdings) plc from 1990 to 1999, Deputy Chairman from 1997 to 1999. At Phillips & Drew/UBS (now UBS Warburg) from 1983 to 1998; she became a Director in 1988, Executive Director in 1992, Managing Director in 1995, Global Head of Futures in 1996.
Ian Salter (58) *Non-Executive Deputy Chairman*	Deputy Chairman since 1990. He is a Director of SG Investment Management Limited. Member of the Lloyds of London Authorisation Committee and the Authorisation Committee of the SFA. He also sits on the Financial Reporting Council.
Martin Wheatley (42) *Deputy Chief Executive*	Deputy Chief Executive since March 2001, with responsibility for Corporate Strategy and Development. Previously Director of Business Development from December 1999 to March 2001 and Director of Marketing and Development from July 1998 to December 1999. He is a Director of FTSE International Limited. He joined the Exchange in 1985.
Jonathan Howell (38) *Director of Finance*	Director of Finance since December 1999. Previously Director of Regulation from March to December 1999. He is a Director of FTSE International Limited. He joined the Exchange in 1996 from PricewaterhouseCoopers.
Gary Allen CBE (56) *Non–Executive Director*	Chairman, IMI plc since May 2001, Chief Executive from 1987 to January 2001. Board Director of IMI plc since 1978, having joined the company in 1965. He is a non–executive Director of NV Bekaert SA, Belgium.

Baroness Cohen (60) *Non–Executive Director*	A Life Peer. Non–executive Director of BPP Holdings plc, the Defence Logistics Organisation and Informed Sources Holdings Limited. Advisory Director of HSBC Investment Bank plc, previously a non–executive Director of Charterhouse Management Services Limited from 1988 to 1999 and of Charterhouse Financial Services Limited from 1989 to 1993.
Oscar Fanjul (52) *Non–Executive Director*	Chief Executive of Omega Capital Inc. Formerly Chairman and CEO of Repsol, S.A. and formerly Chairman of Hidroeléctrica del Cantábrico, S.A. Non-executive Director of Banco Bilbao-Vizcaya-Argentaria, S.A., Acerinox, S.A., Técnicas Reunidas, Ericsson, S.A. and Advisory Director of Unilever. He is also a member of the International Advisory Board of Marsh & McLennan Companies and of the Chubb Corporation.
Michael Marks CBE (59) *Non–Executive Director*	Executive Vice–President, Merrill Lynch & Co, Inc., Chairman of Merrill Lynch Europe, Middle East and Africa and a member of the Executive Management Committee of Merrill Lynch & Co, Inc. He is also a member of NASD's International Markets Advisory Board.
Peter Meinertzhagen (55) *Non–Executive Director*	Chairman, Hoare Govett Limited since October 1999. Previously he was Chairman of Hoare Govett Corporate Finance Limited and of Hoare Govett Smaller Companies Index Investment Trust plc. He joined Hoare Govett in 1965.
Nigel Stapleton (54) *Non–Executive Director*	Chairman, Veronis, Suhler International Limited. Previously Co–Chairman of Reed International plc from 1997 to 1999. Co–Chairman of Reed Elsevier plc from 1996 to 1998. Chief Financial Officer of Reed Elsevier plc from 1993 to 1996. He is a non–executive Director of Marconi plc and AXA UK Plc.
Robert Webb Q.C. (52) *Non–Executive Director*	General Counsel of British Airways plc since September 1998, responsible for government and industry affairs, safety, security, risk management and the environment.

Of the Non–Executive Directors above, Gary Allen CBE, Baroness Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb Q.C. are considered to be fully independent within the meaning of the Combined Code.

Board of directors

The Board has six scheduled meetings a year and comprises nine non–executive directors, including the Chairman and Deputy Chairman, and three executive directors.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below. Following the changes to the Exchange's Board in February 2001, the composition of these committees was reviewed in order to increase the representation of independent non–executive directors while ensuring a necessary degree of continuity. These changes bring the Exchange closer to the requirements of the Combined Code. The Combined Code requires that all the members of the Remuneration Committee be independent.

The Remuneration Committee is chaired by Nigel Stapleton and also includes three other non–executive directors Robert Webb Q.C., Baroness Cohen and Peter Meinertzhagen. The committee meets as required to review and present recommendations to the Board regarding the framework of executive remuneration and conditions of service and to determine the remuneration and conditions of service of the Chief Executive and executive directors, including the grant of entitlements under the Share Schemes.

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

The Nomination Committee is chaired by Don Cruickshank and comprises four other non–executive directors, Baroness Cohen, Oscar Fanjul, Michael Marks and Ian Salter. The committee meets as necessary to make recommendations to the Board on all new Board appointments.

Subject to the composition of the Remuneration Committee, the Exchange's Board is satisfied that it complies with the provisions of the Combined Code.

Management

Following the appointment of Clara Furse as Chief Executive in January 2001, the Exchange's management team has been strengthened through a number of key appointments including the appointment of a Deputy Chief Executive, responsible for corporate strategy and development, a Director of Operations, a Director of Communications and a Chief Information Officer. These appointments will enhance the Exchange's ability to implement its strategy and develop its services to customers.

In addition, Clara Furse has established the Chief Executive's Committee which assists in the development and implementation of the Exchange's strategy. The Chief Executive's Committee is chaired by Clara Furse and includes Martin Wheatley (Deputy Chief Executive), Jonathan Howell (Director of Finance), Andrew McStravick (Director of Operations), Philip Bruce (Head of Corporate Strategy), Nick Gammage (Director of Communications) and David Lester (Chief Information Officer). The Exchange has announced its intention to appoint a Director of Marketing, and this appointee is expected to join the Chief Executive's Committee in due course.

The key revenue generating business services are headed by Tim Ward (Issuer Services), Chris Broad (Broker Services) and Helen Bennett (Information Services). The heads of each of the business units report directly to members of the Chief Executive's Committee, ensuring accountability for the execution of strategy.

Directors and key executives are incentivised through the linking of a significant proportion of their remuneration to corporate and individual performance. Participation in the Share Schemes closely aligns their interests with those of Ordinary Shareholders, and a proportion of each executive's annual bonus is awarded in Ordinary Shares through the deferred bonus arrangements.

Financial and Operational Controls

The Exchange operates a system of internal financial and operational controls. Such controls are continually being developed, refined and communicated across the organisation. The Directors, through the Audit Committee, have reviewed the effectiveness of the Exchange's system of internal controls and are committed to their continual improvement. The framework of internal controls is described under the headings set out below.

Delegation of authority

There are clearly defined matters which are reserved for board approval only. Other than these matters, the Board has delegated specific authority for day to day management to the Chief Executive.

Financial reporting process

An annual budget is reviewed in detail by senior management 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.

Finance manual

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

Operational controls

Operational controls are the responsibility of all line managers and each business area continuously updates and evaluates its documented key risks and controls.

Periodic reports confirming the effectiveness of all significant control procedures are produced by management and reviewed by the most senior executive in each business area. The Exchange's internal audit department also reviews these reports and independently summarises matters arising for the Audit Committee.

External committees

The Exchange maintains an extensive set of consultative groups to ensure that it addresses the needs of its customers.

The most significant such committee is the Exchange Markets Group, which provides independent advice directly to the Board. It is chaired by Don Cruickshank and consists of members drawn from a wide spectrum of market participants, including representatives from retail brokers, investment banking groups, corporate advisers and institutional investors. The group meets six times a year and provides valuable practitioner input and advice on a range of issues that affect the Exchange's markets.

There are seven other key consultative sub–groups: the Rules Advisory Group, the AIM Advisory Group, the Institutional Investors Group, the Primary Markets Group, the Private Client Brokers Group, the Wholesale Markets Group and the Regional Advisory Groups.

4. Employees, pension plan and Share Schemes

Employees

The average numbers of employees in the financial years ended 31 March 1999, 2000 and 2001 were 536, 588 and 534 respectively.

Pension plan

The Exchange operates a pension plan which has a defined benefit section, a defined contribution section and an executive section. Members are not required to make contributions. The assets of the plan are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Schroder Investment Management Limited and Legal & General Investment Management Limited.

Further details on the pension arrangements for the Directors and employees are set out in paragraph 8 of Part VI of this document.

Share Schemes

The Exchange operates the Share Schemes which comprise the Share Option Schemes, the Share Award Schemes, the SAYE Option Scheme and the Deferred Bonus Plan. The Share Schemes are administered by the Remuneration Committee and a share scheme committee and are operated in conjunction with the Trustee.

Further details of the Share Schemes are set out in paragraph 7 of Part VI of this document.

1. Financial summary

Financial information on the Exchange is summarised below. This information has been extracted from the Accountants' Report set out in Part V of this document and investors should read this in conjunction with the full text of this document and not just rely on the key or summarised information.

Summarised profit and loss account

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Turnover			
Group and share of joint venture			
Issuer Services	23.1	25.7	31.9
Broker Services	40.5	54.1	64.2
Information Services	71.8	72.9	85.3
Other income	11.3	11.3	12.0
Continuing operations	**146.7**	**164.0**	**193.4**
Discontinued operations	12.0	11.7	1.2
	158.7	175.7	194.6
Less: share of joint venture's turnover – continuing operations	(3.4)	(4.5)	(6.2)
Net turnover	155.3	171.2	188.4
Administrative expenses			
Operating costs			
– Continuing operations	(122.3)	(117.7)	(129.3)
– Discontinued operations	(5.3)	(6.5)	(0.4)
Exceptional items	(17.6)	(5.1)	(18.9)
	(145.2)	(129.3)	(148.6)
Operating profit			
Continuing operations			
– before exceptional items	**21.0**	**41.8**	**57.9**
– after exceptional items	3.4	36.7	39.0
Discontinued operations	6.7	5.2	0.8
	10.1	41.9	39.8
Share of operating profit of joint venture and income from other fixed asset investments	0.4	0.3	0.3
Net interest receivable/(payable)			
– before exceptional item	7.6	6.3	7.9
– exceptional item	–	–	(17.6)
	7.6	6.3	(9.7)
Profit on ordinary activities before taxation	**18.1**	**48.5**	**30.4**
Adjusted earnings per equity share	**62.3p**	**113.1p**	**152.0p**
Dividend per equity share	**–**	**–**	**32.0p**
Adjusted earnings per equity share after Bonus Issue	**6.2p**	**11.3p**	**15.2p**

Operating profit for continuing operations before exceptional items has grown by 176 per cent. from £21.0 million for the year ended 31 March 1999 to £57.9 million for the year ended 31 March 2001. This improvement in earnings reflects revenue growth in all of the Exchange's main income streams.

Issuer Services

Issuer Services' revenue is derived primarily from fees paid by issuers for initial admission to trading, admission of subsequent issues of securities and annual fees for admission to trading. For the year ended 31 March 2001, Issuer Services' revenue totalled £31.9 million (16.5 per cent. of the Exchange's turnover from continuing operations), up from £23.1 million for the year ended 31 March 1999. The key drivers for this growth in income have been the increase in the total number of companies admitted to the Exchange's markets from 2,881 as at 31 March 1999 to 2,922 as at 31 March 2001 together with the increase in the market capitalisation of companies admitted to the Exchange's markets. The number of companies admitted to the Exchange's markets impacts annual fees as well as the fees raised from new issues of securities by companies. Initial fees are impacted by the number and size of new issues in any period.

Broker Services

Broker Services' revenue is principally based on the charges levied on transactions executed on the Exchange's markets and fees paid for admission to membership of the Exchange. Broker Services' revenue has grown from £40.5 million for the year ended 31 March 1999 to £64.2 million for the year ended 31 March 2001 (33.2 per cent. of the Exchange's turnover from continuing operations). This growth in revenue has been a direct result of the 57 per cent. increase in the volume of chargeable transactions on the Exchange's markets over the same period.

Information Services

The majority of Information Services' revenue is derived from the sale of Exchange price and trade data to market participants through market data vendors. Information Services' revenue also includes a 50 per cent. share of the turnover from FTSE International, which is shown as a separate item in the summarised profit and loss account above. For the year ended 31 March 2001, Information Services' revenue increased to £85.3 million (44.1 per cent. of the Exchange's turnover from continuing operations), up from £71.8 million for the year ended 31 March 1999. This revenue growth is principally due to a rise in the number of terminals displaying Exchange data from 82,000 as at 31 March 1999 to over 107,000 as at 31 March 2001.

Other income

For the year ended 31 March 2001 other income of £12.0 million represented 6.2 per cent. of the Exchange's turnover from continuing operations. This income is made up as follows:

- Property – £9.2 million income from rental and other receipts from the leasing of the Exchange's excess freehold and leased property space; and
- Other – £2.8 million income from RNS operations and other income sources such as receipts from operational activities and sales of publications.

Administrative expenses

Administrative costs from continuing operations have increased from £122.3 million for the year ended 31 March 1999 to £129.3 million for the year ended 31 March 2001. As a percentage of turnover from continuing operations, administrative costs from continuing operations and before exceptional items have decreased from 83.4 per cent. to 66.9 per cent. over this period.

Exceptional items for the year ended 31 March 1999 related to expenditure on systems and for the years ended 31 March 2000 and 31 March 2001 to professional and other fees.

Summarised balance sheet

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Fixed assets			
Tangible assets	123.2	114.4	117.1
Investments in joint venture	0.4	2.1	2.3
Other investments	0.4	0.4	10.1
	124.0	**116.9**	**129.5**
Current assets			
Debtors – amounts falling due within one year	27.7	35.7	37.3
Deferred tax – amounts falling due after more than one year	11.7	12.2	10.7
	39.4	47.9	48.0
Investments – term deposits	194.0	196.0	143.0
Cash at bank	6.5	4.4	4.9
	239.9	**248.3**	**195.9**
Creditors: amounts falling due within one year	(58.5)	(59.1)	(58.8)
Net current assets	**181.4**	**189.2**	**137.1**
Total assets less current liabilities	**305.4**	**306.1**	**266.6**
Creditors: amounts falling due after more than one year	(30.0)	(30.0)	–
Provisions for liabilities and charges	(36.6)	(31.0)	(24.6)
Net assets	**238.8**	**245.1**	**242.0**
Capital and reserves	**238.8**	**245.1**	**242.0**

Fixed assets

The Exchange's tangible fixed assets are made up of freehold land and buildings and plant and equipment. The net book value of freehold land and buildings is based on a revaluation of the Exchange's freehold land and buildings and associated fixed plant at 31 March 1997 in accordance with the RICS Appraisal and Valuation Manual. Freehold land and buildings have not been revalued in the accounts since that date. In the opinion of the Directors, the market value of these properties as at 31 March 2001 exceeded the book value by approximately £48.0 million.

The net book value of plant and equipment has increased marginally from 31 March 1999 to 31 March 2001 primarily due to the cost of new capital expenditure marginally exceeding depreciation over this three year period.

The Exchange's fixed asset investments are made up of the Exchange's 50 per cent. interest in FTSE International Limited; interests in Ordinary Shares held by a separately administered trust for the purposes of the Share Schemes; and the Exchange's 3 per cent. interest in unlisted redeemable fixed interest shares in CRESTCo Limited.

Debtors

Debtors have increased from £27.7 million as at 31 March 1999 to £37.3 million as at 31 March 2001, reflecting higher levels of sales.

Creditors

Total creditors due within one year have remained relatively constant over this three year period.

Cash and investments

Cash and investments represent funds held at bank or placed with reputable financial institutions for a fixed period. The total amount of cash and investments has fallen from £200.5 million as at 31 March 1999 to £147.9 million as at 31 March 2001, primarily due to the redemption on 8 March 2001 of the Exchange's outstanding £30 million nominal listed mortgage debenture stock 2016 at a price of £46.4 million.

Loan facility

The Exchange has arranged a committed undrawn borrowing facility of £250 million.

Provisions

As at 31 March 2001, provisions stood at £24.6 million. Total provisions have fallen from £36.6 million as at 31 March 1999 due to the utilisation against costs for surplus properties and release of provisions to the Exchange's profit and loss account.

Shareholders' funds

Total shareholders' funds have remained relatively constant for the three years ended 31 March 2001.

The profit and loss account has increased from £136.6 million at 31 March 1999 to £192.8 million mainly reflecting retained profits (net of dividends) for the years ended 31 March 2000 and 2001.

Share capital

As at 31 March 2001 the Exchange had in issue 29,700,000 Ordinary Shares. There is no other class of shares in issue.

2. Current trading and prospects

Since 31 March 2001, financial performance has been broadly in line with Directors' expectations and secondary market activity has remained strong despite a period of weaker IPO activity. Overall, the Directors believe the Exchange enjoys a number of key strengths which provide a solid foundation for future success.

3. Dividend policy

The Exchange intends to maintain a progressive dividend policy, with dividends covered approximately three to five times by earnings.

The Exchange has an accounting year–end of 31 March. Interim and final dividends will be payable each year in January and August in the approximate proportions of one third and two thirds respectively of the expected total dividend.

The final dividend for the year ended 31 March 2001 of 22 pence per share will be payable in August 2001 to those shareholders on the register as at 6 July 2001. Together with the interim dividend of 10 pence per share paid in January 2001, the total dividend for the year ended 31 March 2001 will be equivalent to 32 pence per share or £9.5 million in total.

4. Property

The Exchange owns three freehold properties, all in the City of London. These properties were valued on the basis of Existing Use Value or Open Market Value, as appropriate, as at 31 March 2001 by DTZ Debenham Tie Leung at £129.5 million, which compares with their book value of £81.6 million.

The largest property owned by the Exchange is its current headquarters at the Exchange Tower in Old Broad Street, London. The Exchange Tower was valued as at 31 March 2001 by DTZ Debenham Tie Leung on an Existing Use Value basis at £93.0 million, which compares with its book value of £62.3 million.

The Exchange occupies 62 per cent. of the Exchange Tower, but this building no longer meets the requirements of the business. Consequently, the Exchange has announced its intention to relocate from the Exchange Tower in 2004. The decision to relocate has been reached after considering all of the Exchange's property related costs, including the substantial costs involved in refurbishing the Exchange Tower if the Exchange were to stay at its current headquarters. The Exchange has signed an agreement for lease for a new leasehold property at Paternoster Square in the City of London. The lease is in respect of 220,000 square feet of office space for 25 years commencing in 2003. The lease payments will commence in the financial year ending March 2005 at an initial rental charge of £12.5 million per annum.

In the event that the Exchange were to dispose of any of its property assets, it is expected that the funds realised would be used to meet the costs associated with relocation and refurbishment of new corporate headquarters, for new business initiatives and for general corporate purposes.

5. Financial strategy

The Exchange will continue to focus on creating value for shareholders by providing its customers with high quality, competitively priced services.

Operational economies of scale and marginal revenues have a relatively large effect on earnings per share because of the predominantly fixed nature of the Exchange's operating costs. For this reason, the Exchange intends to pursue revenue growth whilst rigorously managing costs to achieve returns for shareholders.

The Directors believe that it is important for the Exchange to maintain a strong balance sheet in order to:

- provide greater strategic flexibility to play a leading role in developments in its marketplace;

- pursue its strategic objectives aggressively; and
- finance investment in development expenditure.

Given the Exchange's significant cash balances, the Directors do not believe it is appropriate for the Exchange to raise capital at this time.

The Directors will keep the Exchange's capital structure under review and consider appropriate uses of cash balances in the best interests of shareholders.

6. Quarterly trading statements

The Exchange intends to provide a statement following the end of the first and third fiscal quarters to update the market on trading conditions and their impact on the Exchange. These statements will provide the Directors' assessment of trading during the completed quarter together with summarised revenue information.

The Exchange will publish full interim results for the six months to 30 September 2001 and the first quarterly statement will be published for the three months to 31 December 2001.

PART IV: THE EXCHANGE'S SHARES

1. Dealing in Ordinary Shares

The Exchange's shares are currently traded on an off–market matched bargain trading facility operated by Cazenove. Access to information on the Facility is available through Reuters, Bloomberg and Primark.

The following table sets out the closing share price (being the last traded price on the Facility) for an Ordinary Share on the first dealing day in each of the six months preceding the publication of this document and on 15 June 2001 (the latest practicable date prior to the publication of this document):

Date	Price (£)
2 January 2001	23.75
1 February 2001	27.00
1 March 2001	30.00
2 April 2001	29.00
1 May 2001	28.50
1 June 2001	37.00
15 June 2001	36.50

Following Admission, the Ordinary Shares will no longer be traded on the Facility. It is expected that the Ordinary Shares will cease to trade on the Facility at 4.30 pm on 19 July 2001 and that the Ordinary Shares will be admitted to the Official List and commence trading at 8.00 a.m. on 20 July 2001.

2. Supervision of trading in Ordinary Shares

The Exchange is an RIE and, as such, has a number of statutory obligations set out in Schedule 4 of the Financial Services Act. The Exchange fulfils these obligations through, among other things, the development, implementation and enforcement of rules that regulate trading on the Exchange's markets.

The Exchange has considered the potential conflicts of interest that might arise following the Exchange's admission to trading. A number of potential conflicts have been identified and a comprehensive set of procedures have been agreed with FSA to ensure that the Exchange complies with its continuing obligations as a listed entity and that trading in Ordinary Shares is conducted on an orderly basis. The underlying principle is that the FSA will be responsible for monitoring trading in Ordinary Shares. However, in the event that the Exchange's market supervisory function identifies any issues in the course of its normal monitoring activities, it will immediately pass the relevant information and responsibility for investigation to the FSA.

3. Proposed Bonus Issue

Subject to approval at the Extraordinary General Meeting on 19 July 2001, the Exchange is proposing that on listing a bonus issue of nine new Ordinary Shares for every one Ordinary Share held by Ordinary Shareholders on the register on the Record Date is made. The Directors believe that this should enhance the ability of investors to trade the Exchange's shares.

The Bonus Issue will be effected by capitalising approximately £13.4 million from the amount standing to the credit of the profit and loss account reserve of the Exchange, resulting in the issue of 267,300,000 Bonus Shares at par to Ordinary Shareholders on the register on the Record Date. The Bonus Issue will result in a shareholder owning ten Ordinary Shares for every one currently owned, but representing the same proportion of the Exchange's share capital.

Application has been made to the UK Listing Authority for the Bonus Shares to be admitted to the Official List, and to the London Stock Exchange for the Bonus Shares to be admitted to trading on its market for listed securities. It is expected that such admission will become effective, and that dealings in the Bonus Shares will commence, on 20 July 2001.

The Bonus Issue is conditional on the passing of the relevant resolutions at the Extraordinary General Meeting and is also conditional on, and will take place simultaneously with, Admission.

The Board proposes that the number of Ordinary Shares which are the subject of options, share allocations and share awards granted under the Share Schemes and the exercise price of options will be adjusted to reflect the Bonus Issue. Such adjustments will be subject to the Inland Revenue's approval in the case of options granted under the SAYE Option Scheme and the Inland Revenue approved part of the Share Option Schemes and to the consent of the Trustee in the case of share allocations granted under the Share Award Schemes. Details of the adjustments will be given to participants in due course.

The Directors reserve the right to elect not to proceed with the Bonus Issue in the event of a change of circumstances such that, in the Directors' opinion, the Bonus Issue is no longer in the best interests of the Exchange and/or Ordinary Shareholders as a whole.

The Bonus Shares, which will be in registered form, are not being marketed and will not be available in whole or in part to the public (other than the existing Ordinary Shareholders). No temporary or renounceable documents of title in respect of any Bonus Shares will be issued.

Save as disclosed below, the rights and restrictions attaching to the Bonus Shares will be the same as those attached to the existing Ordinary Shares. The Bonus Shares will rank *pari passu* with the existing Ordinary Shares in relation to all dividends and other distributions declared, paid or made in respect of the ordinary share capital of the Exchange following Admission, save that the Bonus Shares will not rank for the final dividend for the financial year ended 31 March 2001.

Where Ordinary Shares are held in certificated form on the Record Date, Ordinary Shareholders will receive share certificates (which will be posted, on 20 July 2001, at the risk of Ordinary Shareholders) in respect of their entitlement to Bonus Shares. Where Ordinary Shares are held in uncertificated form on the Record Date, the appropriate CREST accounts will be credited with Ordinary Shareholders' entitlements to the Bonus Shares on 20 July 2001, save that the Exchange reserves the right to issue the Bonus Shares in certificated form in exceptional circumstances, such as in the event of any failure or breakdown of CREST.

4. Electronic shareholding

The Directors believe that settlement in certificated form represents a significant inefficiency within UK capital markets and results in increased costs for brokers and investors. The Exchange is keen to see the removal of these market inefficiencies and will work with the UK Government, CRESTCo, intermediaries and market users with a view to seeking changes to the legal and regulatory regime to enable companies to require that their shares are held and settled in electronic form only. Furthermore, the Exchange intends to move to full dematerialisation for its own shares as soon as practicable.

As an intermediate step, the Exchange has announced its intention to become a CREST sponsor, thereby facilitating personal membership of CREST for private investors. This service will make it easier to hold shares electronically and will be free for Ordinary Shareholders. Investors using the service will be able to use a choice of brokers and will gain all the benefits of electronic shareholding whilst preserving full legal ownership. More details of the service will be posted to Ordinary Shareholders and made more generally available in early July.

The Exchange will be the first issuer to use this new service which will also be available to other issuers and private investors with shares in other companies. The Exchange will continue to work with CRESTCo and the broader investment community to develop this, and other industry initiatives, to ensure that the benefits of electronic shareholding can be realised by the widest possible investor base.

5. Proposed adoption of the New Articles

At the Extraordinary General Meeting, it is proposed that the current articles of the Exchange will be substituted by the adoption of the New Articles. The New Articles will contain no limit on shareholdings, include provisions to enable electronic communications with shareholders and enhance the provisions relating to the operation of shareholder meetings.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

The Directors
London Stock Exchange plc
London EC2N 1HP
United Kingdom

The Directors
Salomon Brothers International Limited
(trading as Schroder Salomon Smith Barney)
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB

18 June 2001

Dear Sirs

London Stock Exchange plc

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the listing particulars dated 18 June 2001 (the ''Listing Particulars'') of London Stock Exchange plc (''the Exchange'').

Basis of preparation

The financial information set out below is based on the audited consolidated financial statements of the Exchange and its subsidiary undertakings (the ''Group'') for the three years ended 31 March 2001 and has been prepared after making such adjustments as we considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Exchange (the ''Directors''), who approved their issue.

The Directors are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audits of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Exchange, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and cash flows for the periods then ended.

Consolidated profit and loss accounts

	Note	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Turnover				
Group and share of joint venture				
– Continuing operations		**146.7**	**164.0**	**193.4**
– Discontinued operations		12.0	11.7	1.2
Gross turnover		158.7	175.7	194.6
Less: share of joint venture's turnover				
– Continuing operations		(3.4)	(4.5)	(6.2)
Net turnover	2	155.3	171.2	188.4
Administrative expenses				
– Operating costs	3	(127.6)	(124.2)	(129.7)
– Exceptional items	4	(17.6)	(5.1)	(18.9)
		(145.2)	(129.3)	(148.6)
Operating profit				
Continuing operations				
– before exceptional items	5	**21.0**	**41.8**	**57.9**
– after exceptional items		3.4	36.7	39.0
Discontinued operations		6.7	5.2	0.8
		10.1	41.9	39.8
Share of operating profit of joint venture and income from other fixed asset investments		0.4	0.3	0.3
Net interest receivable/(payable)				
– before exceptional item	8	7.6	6.3	7.9
– exceptional item	8	–	–	(17.6)
		7.6	6.3	(9.7)
Profit on ordinary activities before taxation		**18.1**	**48.5**	**30.4**
Taxation on profit on ordinary activities	9	(7.1)	(16.4)	(15.2)
Profit for the financial year		**11.0**	**32.1**	**15.2**
Dividend	10	–	–	(9.5)
Retained profit for the financial year		**11.0**	**32.1**	**5.7**
Earnings per equity share	11	**37.0p**	**108.1p**	**51.4p**
Diluted earnings per equity share	11	**37.0p**	**108.1p**	**51.4p**
Adjusted earnings per equity share	11	**62.3p**	**113.1p**	**152.0p**
Dividend per equity share		**–**	**–**	**32.0p**

There were no gains and losses during the three years ended 31 March 2001 that are not reflected in the consolidated profit and loss accounts above.

Note of historical cost profits and losses

	Note	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Profit on ordinary activities before taxation		**18.1**	**48.5**	**30.4**
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	1.9	1.9	1.9
Revaluation reserve realised on property disposal	20	–	1.1	–
Historical cost profit on ordinary activities before taxation		**20.0**	**51.5**	**32.3**
Historical cost profit retained after taxation		**12.9**	**35.1**	**17.1**

Consolidated balance sheets

	Note	As at 31 March 1999 £m	As at 31 March 2000 £m	As at 31 March 2001 £m
Fixed assets				
Tangible assets	12	123.2	114.4	117.1
Investments				
Investments in joint venture:				
Share of gross assets		2.2	5.8	7.1
Share of gross liabilities		(1.8)	(3.7)	(4.8)
	13	0.4	2.1	2.3
Other investments	13	0.4	0.4	10.1
		0.8	2.5	12.4
		124.0	**116.9**	**129.5**
Current assets				
Debtors				
Debtors – amounts falling due within one year	14	27.7	35.7	37.3
Deferred tax – amounts falling due after more than one year	15	11.7	12.2	10.7
		39.4	47.9	48.0
Investments – term deposits		194.0	196.0	143.0
Cash at bank		6.5	4.4	4.9
		239.9	**248.3**	**195.9**
Creditors: amounts falling due within one year	16	(58.5)	(59.1)	(58.8)
Net current assets		**181.4**	**189.2**	**137.1**
Total assets less current liabilities		**305.4**	**306.1**	**266.6**
Creditors: amounts falling due after more than one year	17	**(30.0)**	**(30.0)**	**–**
Provisions for liabilities and charges	18	**(36.6)**	**(31.0)**	**(24.6)**
Net assets		**238.8**	**245.1**	**242.0**
Capital and reserves				
Called up share capital	19	–	–	1.5
Reserves				
Revaluation reserve	20	52.6	49.6	47.7
Capital redemption reserve	20	34.6	8.8	–
Trade compensation reserve	20	15.0	15.0	–
Profit and loss account	20	136.6	171.7	192.8
Total shareholders' funds		**238.8**	**245.1**	**242.0**
Analysed between:				
Equity shareholders' funds	20	204.2	236.3	242.0
Non–equity shareholders' funds	20	34.6	8.8	–
		238.8	**245.1**	**242.0**

Consolidated cash flow statements

	Note	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Net cash inflow/(outflow) from:				
– ongoing operating activities	22(i)	53.6	46.4	74.5
– exceptional items	22(i)	(17.6)	(1.4)	(22.4)
Net cash inflow from operating activities	22(i)	**36.0**	**45.0**	**52.1**
Returns on investments and servicing of finance				
Interest received		13.0	10.6	12.1
Interest paid		(3.1)	(3.0)	(4.1)
Premium on redemption of mortgage debenture		–	–	(17.6)
Dividends received		0.1	0.1	0.1
Net cash inflow/(outflow) from returns on investments and servicing of finance		**10.0**	**7.7**	**(9.5)**
Taxation				
Corporation tax paid		**(3.1)**	**(12.1)**	**(20.6)**
Capital expenditure and financial investments				
Payments to acquire tangible fixed assets		(25.6)	(14.7)	(22.7)
Payments to acquire own shares		–	–	(10.0)
Receipts from sale of tangible fixed assets		0.1	1.2	–
Receipts from sale of fixed asset investments		–	0.1	–
Net cash outflow from capital expenditure and financial investments		**(25.5)**	**(13.4)**	**(32.7)**
Equity dividends paid		**–**	**–**	**(3.0)**
Acquisitions and disposals				
Payments to acquire shares in joint venture		**–**	**(1.5)**	**–**
Net cash inflow/(outflow) before use of liquid resources and financing		**17.4**	**25.7**	**(13.7)**
Management of liquid resources				
(Increase)/decrease in term deposits	22(ii)	(16.6)	(2.0)	53.0
Financing				
Redemption of mortgage debenture		–	–	(30.0)
Redemption of 'A' Shares		(1.7)	(25.8)	(8.8)
(Decrease)/increase in cash in the year	22(ii)	**(0.9)**	**(2.1)**	**0.5**

Notes to the financial information

1. Accounting policies

Basis of preparation

Until 1 May 2000 the Exchange acted as the UK Listing Authority (''the competent authority activity'') as well as carrying on its other activities. The competent authority activity was transferred to the Financial Services Authority on 1 May 2000 and has been treated as a discontinued operation. The expenses charged to the competent authority are the direct expenses of the activity and do not include any applicable overheads, which are included within the expenses charged to the continuing operations. This reflects the Directors' view that no significant change in overhead expenses occurred following the transfer of the competent authority to the Financial Services Authority.

Basis of accounting and consolidation

The financial information is prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets and includes information in respect of all subsidiary undertakings. The financial information is prepared in accordance with the initial transitional disclosure requirements of FRS 17 Retirement Benefits and the requirements of FRS 18 Accounting Policies and FRS 19 Deferred Tax, all of which will be in force for the Exchange's accounting reference period ending 31 March 2002.

Turnover

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

Joint ventures

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

Fixed asset investments

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

Tangible assets and depreciation

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

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

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

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

Provisions

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

Operating leases

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

Pension costs

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

Deferred taxation

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

Employee Share Ownership Plans (ESOP)

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

2. Turnover

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Analysis of turnover:			
Continuing operations			
Issuer services	23.1	25.7	31.9
Broker services	40.5	54.1	64.2
Information services	71.8	72.9	85.3
Other income	11.3	11.3	12.0
	146.7	**164.0**	**193.4**
Discontinued operations			
Competent authority	12.0	11.7	1.2
Gross turnover	**158.7**	**175.7**	**194.6**
Less: share of joint venture's turnover			
Information services	(3.4)	(4.5)	(6.2)
Net turnover	**155.3**	**171.2**	**188.4**

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

3. Administrative expenses

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Continuing operations	122.3	117.7	129.3
Discontinued operations	5.3	6.5	0.4
	127.6	**124.2**	**129.7**

4. Exceptional items

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Year 2000 rectification costs and EMU expenditure	17.6	–	–
Professional and other fees	–	5.1	18.9
	17.6	**5.1**	**18.9**

Year 2000 rectification costs and EMU expenditure

The expenditure on Year 2000 and EMU requirements arose 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.

Professional and other fees

Professional and other fees were incurred during the year ended 31 March 2000 in connection with the proposals approved in March 2000 to demutualise the Exchange and during the year ended 31 March 2001 in connection with the proposed merger with Deutsche Börse, and the defence of the bid from OM Gruppen.

5. Operating profit

Operating profit before exceptional items is stated after charging/(crediting) the following amounts:

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Depreciation of tangible assets			
– regular charge	30.1	22.2	19.9
– write down of tangible fixed assets	3.0	–	–
	33.1	22.2	19.9
Operating lease rentals			
– properties	5.2	5.2	5.1
Auditors' remuneration for:			
Audit	0.1	0.1	0.1
Non-audit fees for other services*	0.4	0.7	1.0
Release of property provision	–	(4.4)	(4.7)

* In addition, non-audit fees of £0.4 million were payable during the year ended 31 March 2000 in respect of the Exchange's demutualisation and non-audit fees of £1.2 million were payable in respect of the proposed merger with Deutsche Börse AG and in defence of the bid from OM Gruppen during the year ended 31 March 2001. These fees are included within exceptional items in note 4 above.

Write down of tangible fixed assets

In the year ended 31 March 1999 accelerated depreciation was charged to write down the book amount of freehold premises reflecting impairments in value.

Release of property provision

Provision is made for the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting for those properties which are surplus to business requirements. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting and lower future costs.

6. Employees

Employees of the Group and their employment costs are summarised below:

	Year ended 31 March 1999	Year ended 31 March 2000	Year ended 31 March 2001
The number of employees was:			
At the year end	559	605	545
Average for the year	536	588	534

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

Staff costs during the year amounted to:	**£m**	**£m**	**£m**
Wages and salaries	22.5	26.4	26.3
Social security costs	2.3	2.9	2.9
Other pension costs (see note 24)	0.6	0.8	1.6
Total	**25.4**	**30.1**	**30.8**

7. Directors' emoluments

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Aggregate emoluments	1.5	1.8	2.3
Compensation for termination of contract	–	–	0.9
	1.5	**1.8**	**3.2**
	£'000	**£'000**	**£'000**
Highest paid director:			
Emoluments for the financial year	580	624	683
Pension contributions	69	73	–

Year ended 31 March 1999

	Salary £000	Performance bonus £000	Benefits £000	Total £000	Pension £000
Chairman					
Sir John Kemp-Welch	250	–	3	253	–
Chief executive					
GF Casey	322	250	8	580	69
Executive directors					
JAG Howell from 25 March 1999	3	2	–	5	–
M Wheatley – from 9 July 1998	120	109	2	231	–
CL Dann – until 31 March 1999	201	–	12	213	–
RP Kilsby – until 31 May 1998	59	–	–	59	–
	955	361	25	1,341	69
Non-executive directors' fees					
IG Salter – deputy chairman				23	–
GJ Allen				13	–
GK Allen				13	–
Sir John Bond				13	–
DH Brydon – until 9 July 1998				3	–
MJP Marks				13	–
PR Meinertzhagen				13	–
RA Metzler – until 9 July 1998				3	–
I Plenderleith				13	–
MHJ Radcliffe – until 9 July 1998				3	–
SM Robertson – from 9 July 1998				9	–
HWH Sants				13	–
N Sherlock				13	–
B Solomons – until 9 July 1998				3	–
Total non-executive directors' fees				**148**	–
Total directors' emoluments				**1,489**	**69**

Year ended 31 March 2000

	Salary £000	Performance bonus £000	Benefits £000	Total £000	Pension £000
Chairman					
Sir John Kemp-Welch	250	–	4	254	–
Chief executive					
GF Casey	340	275	9	624	73
Executive directors					
JAG Howell	175	160	2	337	23
M Wheatley	190	185	10	385	–
	955	620	25	1,600	96
Non-executive directors' fees					
IG Salter – deputy chairman				25	–
GJ Allen				15	–
GK Allen				15	–
Sir John Bond – until 31 December 1999				11	–
MJP Marks				15	–
PR Meinertzhagen				15	–
I Plenderleith				15	–
SM Robertson				15	–
HWH Sants				15	–
N Sherlock				15	–
Total non-executive directors' fees				**156**	–
Total directors' emoluments				**1,756**	**96**

Year ended 31 March 2001

	Salary £000	Performance bonus £000	Benefits £000	Total £000	Pension £000
Chairman					
DG Cruickshank – from 20 April 2000	432	250*	1	683†	–
Sir John Kemp-Welch – until 25 May 2000	42	–	1	43	–
Chief executive					
CHF Furse – from 24 January 2001	57	50	–	107	8
GF Casey – until 15 September 2000	170	138	9	317	37
Executive directors					
JAG Howell	211	260*	2	473	24
M Wheatley	215	270*	10	495	–
	1,127	968	23	2,118	69
Compensation for termination of contract					
GF Casey	–	–	–	950	–
	1,127	**968**	**23**	**3,068**	**69**

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

† This figure reflects the executive responsibilities assumed by DG Cruickshank during part of the financial year.

Non-executive directors' fees		
IG Salter – deputy chairman	25	–
GJ Allen	15	–
GK Allen – until 28 February 2001	14	–
Baroness Cohen – from 1 February 2001	5	–
O Fanjul – from 1 February 2001	5	–
MJP Marks	15	–
PR Meinertzhagen	15	–
I Plenderleith – until 28 February 2001	14	–
SM Robertson – until 20 March 2001	15	–
HWH Sants – until 19 March 2001	15	–
N Sherlock – until 31 March 2001	15	–
NJ Stapleton – from 1 February 2001	5	–
RS Webb, QC – from 1 February 2001	5	–
Total non-executive directors' fees	**163**	**–**
Total directors' emoluments	**3,231**	**69**

Pensions

M Wheatley is a member of the Exchange's defined benefit scheme. The increase in his accrued pension during the year ended 31 March 2001 was £9,000 (2000: £8,000, 1999: £9,000) and the accumulated accrued pension at the end of the year was £51,000 (2000: £42,000, 1999: £35,000). M Wheatley is 42 years old and the scheme's normal retirement age is 60 years.

CL 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 1 April 1998 she would have been entitled to a deferred pension of £78,800 payable from the scheme's normal retirement age (60).

These pensions increase in payment each year in line with inflation subject to a maximum of five per cent and a minimum of three per cent a year and have an attaching 50 per cent spouse's pension.

The Exchange contributed to the senior executive defined contribution pension plan for CHF Furse of £8,000 (2000: £nil, 1999: £nil), JAG Howell of £24,000 (2000: £23,000, 1999: £nil) and for GF Casey of £37,000 (2000: £73,000, 1999: £69,000).

Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £90,000, representing six directors (2000: £111,000 representing seven directors, 1999: £94,000 representing seven directors).

Waiver of emoluments

None of the Directors waived emoluments during the years ended 1999, 2000 and 2001.

Directors' share interests

	Number of options					
Share option grants	**At 1 April 1998 to 1 April 2000**	**Granted during 2000/01**	**Exercised during 2000/01**	**At 31 March 2001**	**Option price**	**Expiry date**
DG Cruickshank	–	18,195	–	18,195	23.74	16/11/2010
	–	13,475	–	13,475	29.68	16/11/2010
	–	31,670	–	31,670		
CHF Furse	–	28,545	–	28,545	25.22	25/01/2011
	–	21,145	–	21,145	31.53	25/01/2011
	–	49,690	–	49,690		
JAG Howell	–	24,260	–	24,260	23.74	16/11/2010
	–	17,970	–	17,970	29.68	16/11/2010
	–	42,230	–	42,230		
M Wheatley	–	27,295	–	27,295	23.74	16/11/2010
	–	20,215	–	20,215	29.68	16/11/2010
	–	47,510	–	47,510		

The options set out above become exercisable by DG Cruickshank, JAG Howell and M Wheatley between 16 November 2001 and 16 November 2005, at 20 per cent in each year, and by CHF Furse between 25 January 2002 and 25 January 2006, at 20 per cent in each year.

Share awards	At 1 April 1998 to 1 April 2000	Awarded during 2000/01	Vested during 2000/01	At 31 March 2001	Vesting date
DG Cruickshank	–	5,055	–	5,055	16/11/2003
CHF Furse	–	7,930	–	7,930	25/01/2004
JAG Howell	–	6,740	–	6,740	16/11/2003
M Wheatley	–	7,582	–	7,582	16/11/2003

An individual has no entitlement to the shares comprised in the awards set out above until the actual vesting date.

The options granted and shares awarded during the year to DG Cruickshank, JAG Howell and M Wheatley were granted and awarded under the Exchange's long term incentive plans when the market price of the Exchange's shares was £23.74 and to CHF Furse when the market price was £25.22.

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

Further share awards and grants of options under the Annual Share Plan and deferred bonus scheme, to vest in future years, will be made after the year ended 31 March 2001. The share awards will amount to £18,750 for CHF Furse, £67,500 for JAG Howell and £75,000 for M Wheatley. Grants of options will be at fair value and will be over shares to the value of £12,500 for CHF Furse, £45,000 for JAG Howell and £50,000 for M Wheatley.

No share options or share awards were granted prior to 31 March 2000.

Directors' interests in shares

The Directors who held office at 31 March 2001, 2000 and 1999 had the following other interests in the shares of the Exchange:

	Ordinary shares 31 March 1999	Ordinary shares 31 March 2000	Ordinary shares 31 March 2001
DG Cruickshank	–	–	2,500
JAG Howell	–	–	1,250
M Wheatley	–	–	1,750
I Salter	–	–	400

	'A' Shares 31 March 1999	'A' Shares 31 March 2000	'A' Shares 31 March 2001
Sir John Kemp-Welch	1	–	–
GF Casey	1	–	–
MJP Marks	1	–	–
PR Meinertzhagen	1	–	–
IG Salter	1	–	–
HWH Sants	1	–	–
N Sherlock	1	–	–

8. Net interest receivable/(payable)

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Interest receivable			
Bank deposits	12.6	11.1	12.4
Other	0.2	–	–
	12.8	**11.1**	**12.4**
Interest payable			
On bank and other loans repayable after five years	(3.0)	(3.0)	(2.8)
Interest on discounted provision for leasehold properties (see note 18)	(2.2)	(1.8)	(1.7)
	(5.2)	**(4.8)**	**(4.5)**
Net interest receivable–before exceptional item	**7.6**	**6.3**	**7.9**
Exceptional item:			
Premium on redemption of mortgage debenture	–	–	(17.6)
Net interest receivable/(payable) – after exceptional item	**7.6**	**6.3**	**(9.7)**

On 8 March 2001 the Exchange redeemed the $10^1/_8$ per cent. Mortgage Debenture Stock 2016. The total premium payable on redemption of £17.6 million has been included within interest payable as an exceptional item.

9. Taxation

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Current tax:			
Corporation tax for the year at:			
31 March 2001 – 30% (2000: 30%, 1999: 31%)	8.6	17.8	15.0
Adjustments in respect of previous periods	(0.6)	(1.0)	(1.4)
	8.0	16.8	13.6
Deferred taxation (see note 15)	(1.0)	(0.5)	1.5
Joint venture	0.1	0.1	0.1
Taxation charge	**7.1**	**16.4**	**15.2**

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

Factors affecting the tax charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30 per cent. (2000: 30 per cent.,1999: 31 per cent.). The differences are explained below:

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Profit on ordinary activities before taxation	**18.1**	**48.5**	**30.4**
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2000: 30%, 1999: 31%)	5.6	14.6	9.1
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	1.9	2.7	6.8
Accounting deduction greater than capital allowances – timing difference	2.1	2.6	0.3
Release of provisions	(1.0)	(2.1)	(1.2)
Adjustments to tax charge in respect of previous periods	(0.6)	(1.0)	(1.4)
Corporation tax charge	**8.0**	**16.8**	**13.6**

Factors which may effect future tax charges

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

10. Dividend

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Interim paid: 10p per Ordinary Share	–	–	3.0
Final proposal: 22p per Ordinary Share	–	–	6.5
	–	**–**	**9.5**

11. Earnings per equity share

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

The weighted average number of equity shares excludes those held in the ESOP (see note 26) which are treated as cancelled. The effect of this cancellation is to reduce the weighted average number of equity shares to 29.6 million (2000: 29.7 million, 1999: 29.7 million). For diluted earnings per equity share, the weighted average number of equity shares is adjusted to assume conversion of share options and vesting of share awards granted to employees.

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Profit for the financial year	**11.0**	**32.1**	**15.2**
Adjustments:			
Exceptional items	17.6	5.1	18.9
Exceptional interest costs – redemption of debenture	–	–	17.6
Discontinued operations	(6.7)	(5.2)	(0.8)
Tax effect of exceptional items and discontinued operations	(3.4)	1.6	(5.9)
Adjusted profit for the financial year	**18.5**	**33.6**	**45.0**
Weighted average number of equity shares – million	29.7	29.7	29.6
Effect of dilutive share options and share awards – million	–	–	–
Diluted weighted average number of equity shares – million	**29.7**	**29.7**	**29.6**
Adjusted earnings per equity share	62.3p	113.1p	152.0p
Earnings per equity share	37.0p	108.1p	51.4p
Diluted earnings per equity share	37.0p	108.1p	51.4p

It is proposed, as part of the listing proposals, that on 20 July 2001 the Exchange will issue nine Ordinary Shares fully paid up for each Ordinary Share held by shareholders as a Bonus Issue. In addition, the earnings per share figures have been presented after taking account of the Bonus Issue.

Effect of Bonus Issue on weighted average number of shares	**Year ended 31 March 1999 m**	**Year ended 31 March 2000 m**	**Year ended 31 March 2001 m**
Weighted average number of equity shares	29.7	29.7	29.6
Bonus Issue	267.3	267.3	266.1
Adjusted weighted average number of equity shares	297.0	297.0	295.7
Effect of outstanding share options and share incentive awards	–	–	0.3
Adjusted weighted average number of equity shares	297.0	297.0	296.0

Earnings per share after Bonus Issue	**Year ended 31 March 1999**	**Year ended 31 March 2000**	**Year ended 31 March 2001**
Adjusted earnings per equity share	6.2p	11.3p	15.2p
Earnings per equity share	3.7p	10.8p	5.1p
Diluted earnings per equity share	3.7p	10.8p	5.1p

12. Tangible assets

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 1998	**146.8**	**4.7**	**119.8**	**271.3**
Additions	9.7	–	15.9	25.6
Disposals	(0.5)	–	(27.4)	(27.9)
31 March 1999	**156.0**	**4.7**	**108.3**	**269.0**
Additions	0.4	–	14.3	14.7
Disposals	(1.2)	(0.3)	(34.7)	(36.2)
31 March 2000	**155.2**	**4.4**	**87.9**	**247.5**
Additions	0.6	–	22.1	22.7
Disposals	(0.3)	–	(11.7)	(12.0)
31 March 2001	**155.5**	**4.4**	**98.3**	**258.2**
Depreciation:				
1 April 1998	**59.8**	**4.7**	**75.9**	**140.4**
Write down of tangible fixed assets	3.0	–	–	3.0
Provision for the year	4.7	–	25.4	30.1
Disposals	(0.5)	–	(27.2)	(27.7)
31 March 1999	**67.0**	**4.7**	**74.1**	**145.8**
Provision for the year	3.8	–	18.4	22.2
Disposals	(0.1)	(0.3)	(34.5)	(34.9)
31 March 2000	**70.7**	**4.4**	**58.0**	**133.1**
Provision for the year	3.4	–	16.5	19.9
Disposals	(0.2)	–	(11.7)	(11.9)
31 March 2001	**73.9**	**4.4**	**62.8**	**141.1**
Net book values:				
31 March 1999				
At valuation	81.6	–	–	81.6
At cost less depreciation	7.4	–	34.2	41.6
	89.0	**–**	**34.2**	**123.2**
31 March 2000				
At valuation	76.9	–	–	76.9
At cost less depreciation	7.6	–	29.9	37.5
	84.5	**–**	**29.9**	**114.4**
31 March 2001				
At valuation	73.6	–	–	73.6
At cost less depreciation	8.0	–	35.5	43.5
	81.6	**–**	**35.5**	**117.1**

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

Based on historical cost at 31 March 2001, the aggregate cost of Group tangible assets was £219.7 million (2000: £209.0 million, 1999: £229.5 million) and the aggregate depreciation was £150.3 million (2000: £144.2 million, 1999: £158.8 million).

Plant and equipment includes capitalised software with a net book value at 31 March 2001 of £20.4 million (2000: £18.3 million, 1999: £19.1 million).

13. Fixed asset investments

	Joint venture £m	Own shares £m	Other investment £m	Total £m
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**
Additions – subscription for new shares	1.5	–	–	1.5
Share of retained profit	0.2	–	–	0.2
31 March 2000	**2.1**	**–**	**0.4**	**2.5**
Additions – purchase of own shares	–	10.0	–	10.0
Charge to profit and loss account	–	(0.3)	–	(0.3)
Share of retained profit	0.2	–	–	0.2
31 March 2001	**2.3**	**9.7**	**0.4**	**12.4**

Joint venture

The Group owns 50 per cent. of the 1,000 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is a joint venture owned together with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The Group is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. The investment shown above represents the Group's share of the joint venture's net assets. The accounting reference date for FTSE International Limited is 31 December.

The following amounts were receivable from FTSE International Limited during the period:

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Royalties	1.8	1.9	1.7
Facilities management and other data services	0.2	0.2	–
Rent and service charges	0.1	0.1	0.1
	2.1	**2.2**	**1.8**

Own shares

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

Other investment

The other investment of £0.4 million represents the cost of the Group's 3.0 per cent. (2000: 3.0 per cent., 1999: 3.2 per cent.) interest in unlisted redeemable fixed interest shares in CRESTCo Limited.

14. Debtors: amounts falling due within one year

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Trade debtors	13.9	16.4	15.1
Amounts owed by joint venture	0.1	–	–
Other debtors	0.5	0.5	0.9
Prepayments and accrued income	13.2	18.8	21.3
	27.7	**35.7**	**37.3**

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

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Balance at the beginning of the year	10.7	11.7	12.2
Transfer to the profit and loss account during the year	1.0	0.5	(1.5)
Balance at the end of the year	**11.7**	**12.2**	**10.7**
The deferred taxation balance comprises:			
Tax allowances available in excess of related depreciation	3.9	5.9	5.6
Provisions and other timing differences	7.8	6.3	5.1
	11.7	**12.2**	**10.7**

The deferred tax asset is recoverable against future taxable profits.

16. Creditors: amounts falling due within one year

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Trade creditors	7.8	10.8	10.9
Corporation tax	9.5	14.3	7.3
Other taxation and social security	2.9	1.8	0.8
Other creditors	3.5	4.2	6.3
Accruals and deferred income	34.8	28.0	27.0
Proposed dividend	–	–	6.5
	58.5	**59.1**	**58.8**

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

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Repayable in five years or more–otherwise than by instalments:			
$10^1/_8$ per cent. Mortgage Debenture Stock 2016	30.0	30.0	–

The $10^1/_8$ per cent. Mortgage Debenture Stock 2016 (the ''Stock'') was secured by a mortgage on the freehold site and buildings known as The Stock Exchange, London. The Exchange could purchase and cancel any of the Stock at any time and, except in so far as previously purchased or redeemed and cancelled, the Stock was to be redeemed at par on 1 November 2016. Earlier purchase or redemption of the Stock could be at an amount above par.

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

18. Provisions for liabilities and charges

	Pensions £m	Property £m	Rationalisation £m	Total £m
1 April 1998	**1.7**	**36.4**	**0.4**	**38.5**
Utilised during the year	(0.2)	(3.5)	(0.4)	(4.1)
Interest on discounted provision	–	2.2	–	2.2
31 March 1999	**1.5**	**35.1**	**–**	**36.6**
Utilised during the year	(0.2)	(2.8)	–	(3.0)
Interest on discounted provision	–	1.8	–	1.8
Surplus provision released	–	(4.4)	–	(4.4)
31 March 2000	**1.3**	**29.7**	**–**	**31.0**
Utilised during the year	(0.2)	(3.2)	–	(3.4)
Interest on discounted provision	–	1.7	–	1.7
Surplus provision released	–	(4.7)	–	(4.7)
31 March 2001	**1.1**	**23.5**	**–**	**24.6**

Pensions

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

Property

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

Rationalisation

The rationalisation provision represents residual costs arising from the closure of the settlement operation previously carried on by the Exchange and related redundancies and restructuring costs.

19. Share capital

		31 March 1999	31 March 2000	31 March 2001
Authorised				
Ordinary Shares of 5p each	– number	–	–	40,000,000
	– £	–	–	2,000,000
'A' Shares of 5p each	– number	5,601	5,601	–
	– £	280	280	–
'B' Shares of 5p each	– number	14,399	14,399	–
	– £	720	720	–
Issued, called up and fully paid				
Ordinary Shares of 5p each	– number	–	–	29,700,000
	– £	–	–	1,485,000
'A' Shares of 5p each	– number	3,459	880	–
	– £	173	44	–
'B' Shares of 5p each	– number	14,399	14,399	–
	– £	720	720	–

Each 'A' Share of 5p was redeemable at a price of £10,000 in the case of a shareholder being a natural person by no later than 31 December 2002. The 'A' Shares were non-voting and had a preferential right to be redeemed on a winding up. The premium on these redemptions was charged to the capital redemption reserve. The 'A' Shares did not confer upon the holders thereof any right to attend and vote at any general meeting. The holders were not entitled to dividends or distributions, save for the redemption amount. At an Extraordinary Meeting on 15 March 2000, which approved the restructuring of the Exchange's constitution, it was resolved that all outstanding 'A' Shares should be redeemed. Following the approval by the Court on 12 April 2000, all outstanding 'A' Shares as at 31 March 2000 were redeemed with effect from 12 April 2000.

On 12 April 2000 the 'B' Shares held by the share trustee were purchased by the Exchange for £1 and cancelled, each 'B' Share was reclassified as an Ordinary Share and there was a bonus issue of 99,999 Ordinary Shares for every Ordinary Share held. This increased the number of shares in issue to 29.7 million.

20. Reserves

	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m
1 April 1998	**54.5**	**36.3**	**–**	**138.7**
Retained profit for the financial year	–	–	–	11.0
Premium paid to A shareholders (see note 19)	–	(1.7)	–	–
Transfer in respect of revaluation surplus	(1.9)	–	–	1.9
Transfer – establishment of trade compensation reserve	–	–	15.0	(15.0)
31 March 1999	**52.6**	**34.6**	**15.0**	**136.6**
Retained profit for the financial year	–	–	–	32.1
Premium paid to 'A' shareholders (see note 19)	–	(25.8)	–	–
Transfer in respect of revaluation surplus	(1.9)	–	–	1.9
Revaluation reserve realised on property disposal	(1.1)	–	–	1.1
31 March 2000	**49.6**	**8.8**	**15.0**	**171.7**
Retained profit for the financial year	–	–	–	5.7
Premium paid to 'A' shareholders (see note 19)	–	(8.8)	–	–
Bonus issue of new shares	–	–	–	(1.5)
Transfer in respect of revaluation surplus	(1.9)	–	–	1.9
Transfer on closure of Trade Compensation Scheme	–	–	(15.0)	15.0
31 March 2001	**47.7**	**–**	**–**	**192.8**

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

The non-statutory capital redemption reserve was established by a transfer from the profit and loss account to meet the costs of redeeming the 'A' Shares.

The trade compensation reserve was established by the Directors to identify reserves available to meet valid claims under the Trade Compensation Scheme, should they arise. The scheme provided cover for member firms only against price movements on order book trades if a counterparty was declared in default by the Exchange. The Exchange introduced a central counterparty on 26 February 2001 and the Trade Compensation Scheme was closed on that date. The balance on the trade compensation reserve was returned to the profit and loss account.

21. Reconciliation of movements in shareholders' funds

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
Profit for the financial year	11.0	32.1	15.2
Dividend	–	–	(9.5)
Redemption of 'A' Shares during the year	(1.7)	(25.8)	(8.8)
Net addition/(reduction) to shareholders' funds	9.3	6.3	(3.1)
Opening shareholders' funds	229.5	238.8	245.1
Closing shareholders' funds	**238.8**	**245.1**	**242.0**

22. Notes to the consolidated cash flow statements

	Year ended 31 March 1999 £m	Year ended 31 March 2000 £m	Year ended 31 March 2001 £m
(i) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	10.1	41.9	39.8
Depreciation of tangible assets	33.1	22.2	19.9
Increase in debtors	(2.2)	(7.6)	(1.3)
Decrease in creditors	(1.1)	(8.5)	(3.2)
Provisions utilised during the year	(3.9)	(3.0)	(3.4)
Amortisation of own shares	–	–	0.3
Net cash inflow from operating activities	**36.0**	**45.0**	**52.1**
Comprising:			
Ongoing operating activities	53.6	46.4	74.5
Exceptional items (see note 4)	(17.6)	(1.4)	(22.4)
Net cash inflow	**36.0**	**45.0**	**52.1**
(ii) Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	(0.9)	(2.1)	0.5
Increase/(decrease) in liquid resources	16.6	2.0	(53.0)
Redemption of mortgage debenture	–	–	30.0
Change in net funds	15.7	(0.1)	(22.5)
Net funds at the beginning of the year	154.8	170.5	170.4
Net funds at the end of the year	**170.5**	**170.4**	**147.9**

(iii) Analysis of changes in net funds

	Cash in hand and at bank £m	Current asset investments £m	Debt due after more than one year £m	Total net funds £m
1 April 1998	**7.4**	**177.4**	**(30.0)**	**154.8**
Net cash flows for the year	(0.9)	16.6	–	15.7
31 March 1999	**6.5**	**194.0**	**(30.0)**	**170.5**
Net cash flows for the year	(2.1)	2.0	–	(0.1)
31 March 2000	**4.4**	**196.0**	**(30.0)**	**170.4**
Net cash flows for the year	0.5	(53.0)	30.0	(22.5)
31 March 2001	**4.9**	**143.0**	**–**	**147.9**

23. Commitments

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Contracted capital commitments not provided for in the financial information (mainly computer equipment and building refurbishment)	0.3	0.1	0.6
Financial commitments under property operating leases at the balance sheet date for payments in the following year are as follows:			
Leases expiring:			
– in one year	–	0.2	–
– between two and five years	0.2	–	0.9
– in five years or more	4.8	4.7	3.8
	5.0	**4.9**	**4.7**

24. Pension costs

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

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

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

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

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

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

The pension charge for the year ended was:

	Year ended 31 March 1999 £m	**Year ended 31 March 2000 £m**	**Year ended 31 March 2001 £m**
Defined benefit	(0.2)	(0.2)	0.7
Defined contribution	0.6	1.0	0.9
	0.4	0.8	1.6

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

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

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

25. Financial assets and liabilities

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

Interest rate management

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

Liquidity and credit management

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

	31 March 1999 £m	31 March 2000 £m	31 March 2001 £m
Financial assets			
Other fixed asset investments (excluding own shares)	0.4	0.4	0.4
Investments – term deposits	194.0	196.0	143.0
Cash at bank	6.5	4.4	4.9
	200.9	**200.8**	**148.3**
Maturing in:			
One year or less, or on demand	200.5	200.4	147.9
Weighted average period of fixed interest rates	106 days	84 days	153 days
Weighted average interest rate	5.3%	6.0%	5.7%
Financial liabilities			
The Exchange's financial liabilities and their maturity profile are:			
$10^1/_8$ per cent. Mortgage Debenture Stock 2016, repayable in more than five years	30.0	30.0	–

Fair values of financial assets and liabilities

	Other fixed asset investments £m	Investments – term deposits and cash £m	$10^1/_8$ per cent. Mortgage Debenture Stock 2016 £m	Total £m
Book value 31 March 1999	0.4	200.5	(30.0)	**170.9**
Fair value 31 March 1999	0.4	200.5	(53.4)	**147.5**
Book value 31 March 2000	0.4	200.4	(30.0)	**170.8**
Fair value 31 March 2000	0.4	200.4	(49.5)	**151.3**
Book value 31 March 2001	0.4	147.9	–	**148.3**
Fair value 31 March 2001	0.4	147.9	–	**148.3**

The fair value of term deposits and cash is based on the carrying amount because of the short maturity period of the instruments. The fair value of the $10^1/_8$ per cent. Mortgage Debenture Stock 2016 was based on the market price for comparable instruments.

26. Employee Share Ownership Plans (ESOP)

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

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

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

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

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

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

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

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

	Date granted	**Subscription /option price £ per share**	**Exercisable from**	**Number of shares for which right is exercisable**
Share awards	16/11/2000	–	16/11/2003	90,819
	25/01/2001	–	25/01/2004	7,930
Share options	16/11/2000	23.74	16/11/2001	290,730
	25/01/2001	25.22	25/01/2002	28,545
	16/11/2000	29.68	16/11/2001	181,990
	25/01/2001	31.53	25/01/2002	21,145
SAYE scheme – share options	07/12/2000	19.00	07/12/2005	146,026
Total share awards and options				**767,185**

27. Transactions with related parties

During the three years ended 31 March 2001, no contracts of significance were entered into by the Exchange or any of its subsidiaries in which the Directors had a material interest.

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

28. Contingent liabilities

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

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

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

1. Incorporation and registered office

The Exchange was incorporated and registered in England and Wales with registered number 2075721 on 19 November, 1986 as a private limited company under the Act with the name The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. On 9 December 1995, the Exchange changed its name to London Stock Exchange Limited. On 8 June 2000, the Exchange was re–registered as a public limited company pursuant to section 43 of the Act and changed its name to London Stock Exchange plc. The registered office and principal place of business of the Exchange is London Stock Exchange, London, EC2N 1HP.

2. Share Capital

2.1 On incorporation, the authorised share capital of the Exchange was £1,000 divided into 20,000 shares of 5p each (all issued and fully paid) of which 5,601 such ordinary shares were classified as 'A' shares and 14,399 were classified as 'B' shares. Each 'A' share could be redeemed by the 'A' shareholders for £10,000 (i) in the case of an individual shareholder on reaching 60 years of age or death or on insolvency or (ii) in the case of a corporate entity on 31 December 2026. The 'A' shares were non–transferable, did not carry voting rights and did not carry rights to any dividend. The 'B' shares conferred voting rights and all transfers of the 'B' shares were subject to certain restrictions as set out in the then existing deed of settlement. All the 'B' shares which were not held by Exchange member firms were held by the share trustee and did not carry voting rights. On 9 July 1991, the Exchange adopted a new Memorandum and Articles of Association in substitution for the deed of settlement.

2.2 By a shareholders' resolution dated 6 July 1999, the rights attaching to the 'A' shares were amended to permit shareholders to redeem their 'A' shares for £10,000 per 'A' share on one month's notice to the Exchange.

2.3 On 15 March 2000, 4,587 of the 'A' shares had been redeemed leaving 1,014 'A' shares outstanding.

2.4 Pursuant to shareholders' resolutions dated 15 March 2000 and the subsequent approval of the Court on 12 April 2000, all outstanding 'A' shares were redeemed and cancelled by way of capital reduction with effect from 12 April 2000 resulting in the share capital of the Exchange being £719.95 divided into 14,399 'B' shares of 5p each.

2.5 On 12 April 2000 pursuant to the 15 March 2000 shareholders' resolutions:

(a) each 'B' share was reclassified as an Ordinary Share;

(b) the authorised capital of the Exchange was increased to £2,000,000 divided into 40,000,000 Ordinary Shares;

(c) the Directors were authorised generally and unconditionally for the purposes of section 80(1) of the Act to allot relevant securities up to an aggregate nominal amount of £500,000 (10,000,000 Ordinary Shares), such authority to expire on 31 December 2004;

(d) the Directors were authorised pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in sub paragraph (c) above as if section 89 of the Act did not apply for up to 1,500,000 Ordinary Shares having an aggregate nominal value equal to £75,000 (5.05 per cent. of the then issued Ordinary Share capital of the Exchange) such power to expire on 31 December 2004; and

(e) the Exchange made a bonus issue of 99,999 Ordinary Shares for each Ordinary Share held resulting in the Exchange's issued capital becoming 29,700,000 Ordinary Shares.

2.6 Subject to the approval of the resolutions to be proposed at the Extraordinary General Meeting:

(a) the authorised share capital of the Exchange will be increased to £25,000,000 divided into 500,000,000 Ordinary Shares;

(b) the Directors will be authorised generally and unconditionally for the purposes of section 80(1) of the Act to exercise all powers of the Exchange to allot relevant securities (within the meaning of the Act) up to an aggregate nominal amount of £4,950,000 (99,000,000 Ordinary Shares), such authority to expire at the end of the next annual general meeting of the Exchange in 2002;

(c) the Directors will be authorised pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in sub–paragraph (b) above as if section 89 of the Act did not apply, such power to expire at the end of the next annual general meeting of the Exchange in 2002 and being limited to the allotment and issue of 14,850,000 Ordinary Shares having an aggregate nominal value equal to £742,500 (5 per cent. of the then current issued Ordinary Share capital of the Exchange); and

(d) the Exchange will make a bonus issue of nine Ordinary Shares for each Ordinary Share held resulting in 297,000,000 Ordinary Shares being issued and outstanding.

2.7 Upon Admission and subject to the implementation of the Bonus Issue, the authorised share capital of the Exchange will be 500,000,000 Ordinary Shares, of which 297,000,000 Ordinary Shares will be issued and fully paid and 203,000,000 Ordinary Shares will be unissued.

2.8 Further share awards and grants of options under the Share Schemes, to vest in future years, will be made shortly after the date of this document but prior to Admission. Details of awards and grants to be made to the Directors are set out on page 51 of this document. For other staff who are non-Directors, share awards will, at the time of grant, have a market value equal to £1,590,000 in total and options will be granted (at an exercise price equal to the market value of an Ordinary Share) over Ordinary Shares with a total market value, at the time of grant, of £3,950,000. It is proposed, shortly after Admission, to issue invitations to eligible employees and executive Directors of the Exchange for the grant of options under the SAYE Option Scheme. The exercise price per Ordinary Share of such options will be equal to 80 per cent. of the market value of an Ordinary Share at the date of invitation.

2.9 Save as disclosed in this document:

(a) no share or loan capital of the Exchange or (so far as material) of any of its subsidiaries has, within the three years immediately preceding the date of this document, been issued or agreed to be issued fully or partly paid, either for cash or for a consideration other than cash;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Exchange or any of its subsidiaries within the three years immediately preceding the date of this document in connection with the issue or sale of any share or loan capital of the Exchange or any of its subsidiaries; and

(c) no share or loan capital of the Exchange or any of its subsidiaries is or will, immediately following Admission, be under option or is agreed or will, immediately following Admission, be agreed, conditionally or unconditionally, to be put under option.

2.10 During the period covered by the last financial year and the current financial year there has been one proposed merger involving the Exchange and one attempted takeover of the Exchange by a third party. Neither of these transactions was completed. The relevant details of these transactions are as follows:

(a) the proposed merger involved the Exchange and Deutsche Börse AG and was disclosed to Ordinary Shareholders in an information memorandum dated 15 July 2000. The proposed merger involved, *inter alia*, the acquisition by iX-international exchanges plc of all of the issued and outstanding ordinary shares of the Exchange and Deutsche Börse Newco, for a consideration per Ordinary Share equal to two ordinary shares in iX-international exchanges plc and the issue of 59,400,000 ordinary shares in iX-international exchanges plc to Deutsche Börse AG; and

(b) an attempted takeover of the Exchange was launched by OM Gruppen AB (publ) (the ''OM Group'') by an offer document dated 11 September 2000. The OM Group offered Ordinary Shareholders, in exchange for each Ordinary Share, 0.65 OM Group shares and £7.00 cash, valuing each Ordinary Share at £27.63. The OM Group then made an increased offer by an offer document dated 13 October 2000. In this increased offer the OM Group offered Ordinary Shareholders an option of receiving, in exchange for each Ordinary Share, (i) 1.4 OM Group shares, valuing each Ordinary Share at £35.83, or (ii) 0.5 OM Group shares and £20 in cash, valuing each Ordinary Share at £32.79.

3. Memorandum of Association

The principal objects of the Exchange are to carry on the business of an investment exchange and clearing house; to provide, manage and regulate markets in, and clearing and settlement services with respect to transactions in, investments of all kinds, whether direct or derivative, including financial instruments and currencies; and to provide facilities for the transaction of the business of broking, dealing, market–making, stocklending, investment management and advice and other businesses in the field of financial services. The objects of the Exchange are set out in full in clause 4 of the Exchange's Memorandum of Association which is available for inspection at the addresses specified in paragraph 20 below.

4. Articles of Association

4.1 The Exchange proposes to adopt the New Articles at the Extraordinary General Meeting on 19 July 2001. Subject to the approval of the resolution to be proposed at the Extraordinary General Meeting, the New Articles contain, *inter alia*, provisions to the following effect:

4.1.1 Rights attaching to Ordinary Shares

(a) Voting rights

Subject to the provisions of the Act and the articles, at any general meeting on a show of hands every holder of Ordinary Shares who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every such holder present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote will be accepted to the exclusion of any votes tendered by the other joint holders.

(b) Dividends

Subject to the provisions of the Act and of the articles and to any special rights attaching to any other class of shares, the Exchange may by ordinary resolution declare dividends on the Ordinary Shares but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro rata according to the capital paid up (otherwise than in advance of calls) on the shares. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution. No dividends in respect of an Ordinary Share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Exchange, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.

A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it is satisfied wholly or partly by the distribution of assets. Where any difficulty arises in regard to the distribution, the Directors may settle the same as they think fit and in particular may issue fractional certificates (or ignore fractions) and fix the value for distribution of any assets, and may determine that cash shall be paid to any shareholder upon the basis of that value in order to adjust the rights of shareholders, and may vest any assets in trustees.

Any dividend unclaimed after a period of 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and shall revert to the Exchange.

(c) Distribution of assets on a winding up

If the Exchange is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the shareholders *in specie* the whole or any part of the assets of the Exchange and may, for that purpose, value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as he may with the like sanction determine, but no shareholder shall be compelled to accept any assets upon which there is liability.

4.1.2 Transfer of shares

All transfers of shares must be effected by an instrument of transfer in any usual form or in any other form approved by the Board (which includes transfers by means of a relevant system (as defined in the CREST Regulations)). The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason (but not so as to prevent dealings in Ordinary Shares on an open and proper basis), refuse to register any transfer of shares unless:

(a) it is in respect of a share which is fully paid up;

(b) it is in respect of only one class of share;

(c) it is in favour of a single transferee or not more than four joint transferees;

(d) it is duly stamped (if required); and

(e) it is lodged at the transfer office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Exchange, send notice of the refusal to the transferee. The registration of transfers may be suspended by the Board for any period (not exceeding 14 days) in any year. The Ordinary Shares are in registered form.

4.1.3 Failure to disclose interests in shares

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (''the default shares'') to give the Exchange the information thereby required within the prescribed period from the date of notice, the following sanctions shall apply:

(a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and

(b) where the default shares represent at least 0.25 per cent. in nominal value of their class, then on notice to the relevant shareholder:

(i) any dividend or other money payable in respect of the shares shall be withheld by the Exchange, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and

(ii) no transfer, other than a *bona fide* sale of the whole of the beneficial interest to a third party unconnected to the shareholder or any person ''Appearing to be Interested'' in any of the shares held by the member shall be registered unless:

(A) the member is not himself in default as regards supplying the information required; and

(B) the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanction shall also apply to any shares in the Exchange issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

4.1.4 Alteration of capital

The Exchange may alter its share capital as follows:

(a) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, sub-divide its shares or any of them into shares of smaller amounts, and cancel any shares which have not been taken or agreed to be taken by any person; and

(b) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner

4.1.5 Purchase of own shares

Subject to the provisions of the Act, the Exchange may purchase its own shares.

4.1.6 Variation of rights

Subject to the provisions of the Act and of the articles, if at any time the capital of the Exchange is divided into different classes of shares, the special rights attached to any class of share in the Exchange may be varied whilst the Exchange is a going concern or while the Exchange is or is about to be in liquidation:

(a) as may be provided by such share's rights; or, in the absence of such provision

(b) either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class. All of the provisions of the articles relating to general meetings shall apply to such separate meeting, except that the necessary quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one–third of the nominal amount paid up on the issued shares of the class in question, or at an adjourned meeting, one person holding shares of the class in question or his proxy.

4.1.7 Directors' interests

(a) Subject to the provisions of the Act, and provided that he has disclosed to the Directors the nature and extent of any material interest of his, a Director:

(i) may be a party to, or otherwise interested in, any transaction or arrangement with the Exchange or in which the Exchange is otherwise interested;

(ii) may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Exchange or in which the Exchange is otherwise interested;

(iii) shall not, by reason of his office, be accountable to the Exchange for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit; and

(iv) may act by himself or his firm in a professional capacity for the Exchange (otherwise than as auditor) and receive and retain remuneration for so acting as if he were not a Director.

(b) Save as otherwise provided by the articles, a Director shall not vote at a meeting of the Directors or of a committee of Directors on any resolution concerning a matter in which he has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Exchange), or duty which is material and which conflicts or may conflict with the interests of the Exchange unless his interest or duty arises only because the case falls within one or more of the following sub–paragraphs:

(i) the resolution relates to the giving to him of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the Exchange or any of its subsidiary undertakings;

(ii) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of the Exchange or any of its subsidiary undertakings for which the Director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

(iii) his interest arises by virtue of his being, or intending to become, a participant in the underwriting or sub–underwriting of an offer of any shares in or debentures or other securities of the Exchange or any of its subsidiaries for subscription, purchase or exchange;

(iv) the resolution relates in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by the Board of Inland Revenue for taxation purposes;

(v) the resolution relates to an arrangement for the benefit of the employees of the Exchange or any of its subsidiary undertakings which does not accord to any Director any privilege or advantage not generally accorded to the employees to whom the arrangement relates;

(vi) the resolution relates to a transaction or arrangement with any other company in which he is interested, directly or indirectly, provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of that company (or of any other company through which his interest is derived) and not entitled to exercise one per cent. or more of the voting rights available to members of the relevant company (disregarding any shares held by the Director as a bare or custodian trustee and in which he has no beneficial interest, and any shares comprised in any authorised unit trust scheme in which the Director is interested only as a unit holder); or

(vii) the resolution relates to the purchase or maintenance for any Director or Directors of insurance against any liability.

(c) For the purposes of these provisions of the articles, an interest of any person who is for any purpose of the Act connected with a Director shall be taken to be the interest of that Director.

(d) Where proposals are under consideration concerning the appointment (including the fixing or varying of terms of appointment) of two or more Directors to offices of employment with the Exchange or any body corporate in which the Exchange is interested, the proposals may be divided and considered in relation to each Director separately and (provided he is not precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

(e) A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

(f) The Exchange may by ordinary resolution suspend or relax to any extent, in respect of any particular matter, any provision of its articles prohibiting a Director from voting at a meeting of the Directors or of a committee of the Directors.

(g) If a question arises at a meeting of the Directors or a committee of the Directors as to the right of a Director to vote, the question may, before the conclusion of the meeting, be referred to the chairman of the meeting (or, if the Director concerned is the chairman, to the other Directors at the meeting), and his ruling in relation to any Director other than himself (or the ruling of the majority of the other Directors in relation to the chairman) shall be final and conclusive.

4.1.8 Number and Qualifications of Directors

Unless otherwise determined by the Exchange by ordinary resolution the number of Directors shall not be subject to any maximum but shall not be less than two. A Director does not require a share qualification.

4.1.9 Remuneration of Directors

(a) Unless otherwise determined by the Exchange by ordinary resolution, non–executive Directors shall be paid (excluding fees as chairman or for other services) for their services as Directors such amount as the Directors may determine (not exceeding in the aggregate an annual sum of £500,000 or such larger amount as the Exchange may by ordinary resolution decide) divided between the Directors as they may determine, or, failing such determination, equally. The fees shall be distinct from and additional to any remuneration or other benefits which may be paid or provided to any Director pursuant to any other provision of these articles;

(b) The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the Exchange or otherwise in connection with the discharge of their duties as Directors;

(c) Any Director who performs, or undertakes to perform, services which the Directors consider go beyond the ordinary duties of a Director may be paid such special remuneration (whether by way of fixed sum, bonus, commission, participation in profits or otherwise) as the Directors may determine; and

(d) The member of any committee appointed under the articles may be paid such remuneration for their services as the Directors shall determine from time to time.

4.1.10 Pensions and other benefits

The Directors may provide benefits, whether payment of gratuities or pensions or by insurance or otherwise, for any Director who has held but no longer holds any executive office or employment with the Exchange or any body corporate which is or has been a subsidiary of the Exchange or a predecessor in business of the Exchange or of any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is or was dependent on him and may (as well as before or after he ceases to hold such office or employment) contribute to any fund and pay premiums for the purchase or provision of any such benefit.

4.1.11 Appointment and Retirement of Directors

(a) The articles provide that at the annual general meeting in every year there shall retire from office by rotation:

(i) all Directors who held office at the time of the two preceding annual general meetings and who did not retire by rotation at either of them; and

(ii) if the number of Directors retiring under sub–paragraph (i) above is less than one–third of the Directors or, if their number is not three or a multiple of three, less than the number which is nearest to but does not exceed one–third, such additional number of Directors as shall together with the Directors retiring under sub–paragraph (i) above equal one–third of the Directors or, if their number is not three or a multiple of three, the number which is nearest to but does not exceed one–third.

(b) The articles do not require a Director to vacate his office on attaining the age of 70 but notice of this fact must be given to shareholders with the notice convening the meeting to re–elect him. Any Director may be removed from office by an extraordinary resolution of which special notice has been given in accordance with section 379 of the Act. In addition, the office of a Director shall be vacated, without prejudice to any claim for damages which he may have for breach of any contract of service between him and the Exchange, *inter alia*, if a Director is requested to resign by notice in writing signed by all other Directors.

4.1.12 Borrowing powers

The Directors may exercise without restriction all of the borrowing powers of the Exchange.

4.1.13 Communications with Ordinary Shareholders

The articles incorporate provisions which enable the Directors to elect to offer Ordinary Shareholders the opportunity to receive certain communication electronically.

4.1.14 Untraced shareholders

The Exchange may, after advertising its intention in the manner and for such a period as is prescribed in the articles, sell any shares if the shares have been held by a shareholder for at least 12 years and during that period at least three dividends have become payable on them and no dividends have been claimed or satisfied and the Exchange has not received any communication during the relevant periods from the holder of the shares or any person entitled to them by transmission.

The above is a summary only of certain provisions of the New Articles, the full provisions of which are available for inspection as described in paragraph 20 of this Part VI.

4.2 The New Articles are, in all respects, consistent with (a) the holding of Ordinary Shares in uncertificated form, (b) the transfer of title to Ordinary Shares by means of a relevant system and (c) the CREST Regulations. Accordingly, the Directors have resolved to permit the holding of Ordinary Shares in uncertificated form and the transfer of title to Ordinary Shares by means of a relevant system. For these purposes, CREST is a relevant system.

5. Directors' and other interests

5.1 As at 15 June 2001, the latest practicable date prior to the publication of this document, the interests of the Directors (including interests of persons connected with them within the meaning of section 346 of the Act) in the securities of the Exchange (all of which are beneficial unless otherwise stated) which have been notified to the Exchange pursuant to section 324 or 325 of the Act or are required to be notified by each Director to the Exchange pursuant to section 324 or 328 of the Act or are required to be entered in the register referred to in section 325 of the Act are as follows:

	Pre-Bonus Issue			Post-Bonus Issue			
Name	**Number of Ordinary Shares**	**Number of Ordinary Shares under option**	**Number of Ordinary Shares under share awards**	**Number of Ordinary Shares***	**Number of Ordinary Shares under option***	**Number of Ordinary Shares under share awards***	**Ordinary Shares held† as a percentage of issued share capital (%)**
Don Cruickshank	2,500	31,670	5,055	25,000	316,700	50,550	0.008
Ian Salter	400	—	—	4,000	—	—	0.001
Clara Furse	—	49,690	7,930	—	496,900	79,300	—
Martin Wheatley	1,750	47,510	7,582	17,500	475,100	75,820	0.006
Jonathan Howell	1,250	42,230	6,740	12,500	422,300	67,400	0.004

* These numbers assume that the Bonus Issue is implemented.

† These percentages exclude Ordinary Shares under option and Ordinary Shares under share awards.

Further share awards and grants of options under the Share Schemes, to vest in future years, will be made shortly after the date of this document but prior to Admission. The share awards to be granted to Clara Furse, Jonathan Howell and Martin Wheatley will, at the time of grant, have market values of £18,750, £67,500 and £75,000 respectively. Options will be granted to Clara Furse, Jonathan Howell and Martin Wheatley over Ordinary Shares having a market value, at the time of grant, of £12,500, £45,000 and £50,000 respectively. The exercise price of these options will be equal to the market value of the Ordinary Shares at the date of grant.

It is proposed, shortly after Admission, to issue invitations to eligible employees and executive Directors of the Exchange for the grant of options under the SAYE Option Scheme. The exercise price per Ordinary Share of such options will be equal to 80 per cent. of the market value of an Ordinary Share at the date of invitation.

As beneficiaries under the London Stock Exchange Employee Benefit Trust, each of Don Cruickshank, Clara Furse, Martin Wheatley and Jonathan Howell is also interested in the 424,000 Ordinary Shares held by the Trustee.

Gary Allen CBE, Baroness Cohen, Oscar Fanjul, Michael Marks CBE, Peter Meinertzhagen, Nigel Stapleton and Robert Webb Q.C. hold no Ordinary Shares and have no options or awards over Ordinary Shares.

5.2 Save as disclosed in paragraph 5.1, none of the Directors has any interest (beneficial or non–beneficial) in the share capital of the Exchange or any of its subsidiaries which has been notified to the Exchange pursuant to sections 324 or 328 of the Act or which is required to be entered into the register maintained by the Exchange under section 325 of the Act or which is an interest of a connected person (within the meaning of section 346 of the Act) of a Director which would, if the connected person were a Director, be required to be disclosed as aforesaid and the existence of which is known or could with reasonable diligence be ascertained by that Director.

5.3 In so far as is known to the Exchange, as of 15 June 2001, the latest practicable date prior to the publication of this document, the following persons are interested, directly or indirectly, in three per cent. or more of the issued share capital of the Exchange:

	Pre-Bonus Issue	Post-Bonus Issue*	
Name	**Number of Ordinary Shares**	**Number of Ordinary Shares**	**Percentage of issued share capital (%)**
UBS AG	1,209,684	12,096,840	4.07
Fidelity International Limited	904,768	9,047,680	3.05

* These numbers assume that the Bonus Issue is implemented.

5.4 Save as disclosed in paragraph 5.3, the Exchange is not aware of any person who is interested (within the meaning of the Act), directly or indirectly, in three per cent. or more of the issued share capital of the Exchange.

5.5 The Exchange is not aware of any persons who as at the date of this document could directly or indirectly, jointly or severally, exercise control over the Exchange.

5.6 No Director has or has had any direct or indirect interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or which was effected by any member of the Group during any earlier financial year and remains in any respect outstanding or unperformed.

5.7 On 15 June 2001, the last practicable date prior to the publication of this document, Schroder Salomon Smith Barney, through Salomon Brothers UK Equity Limited, Salomon Brothers UK Limited, Citibank International Plc, Citicorp International Securities Limited and Cheapside (SSL) Limited, held 500,000 Ordinary Shares in aggregate and Cazenove, through Cazenove Nominees Limited, Cazenove Fund Management Limited and Cazenove Securities Limited, held 300,000 Ordinary Shares in aggregate.

6. Directors' experience, service agreements and emoluments

6.1 Directors' experience

(a) The Directors are or have been directors or partners, as appropriate (excluding subsidiaries of any company of which he or she is also a director) of the following companies and partnerships, each of which is currently held unless otherwise stated, at any time in the five years prior to 15 June 2001, the latest practicable date before the publication of this document:

Donald Gordon Cruickshank – SMG plc, Spectrum Strategy Consultants Limited, iX – international exchanges plc, The People's Lottery Holding Company Limited (resigned 13 February 2001) and Action for the Year 2000 Limited (resigned 30 September 2000).

Clara Hedwig Frances Furse – Credit Lyonnais Rouse Limited (resigned 31 December 2000), LIFFE (Holdings) plc (resigned 20 May 1999) and UBS Futures & Options Limited (resigned 1 May 1998).

Ian George Salter – Emdextrade plc, SG Investment Management Limited, ProShare UK Limited (resigned 27 May 1997), The Birmingham Stock Exchange Buildings Company (resigned 15 September 1998), Eaglecast Limited (resigned 17 September 1996) and British Youth Opera (resigned 27 September 2000).

Martin Wheatley – FTSE International Limited

Jonathan Anton George Howell – FTSE International Limited and CRESTCo Limited (resigned 24 April 2001).

Gary James Allen CBE – IMI plc, NV Bakaert SA, Temple Bar Investment Trust PLC, Birmingham Royal Ballet, Birmingham Royal Ballet Trust, National Exhibition Centre Limited, NEC Finance plc, Industry in Education Limited, Marley Limited (resigned 15 May 1997), BCH Trading Limited (resigned 20 June 2000), the BCH Appeal Company (resigned 20 June 2000), BCH Foundation (resigned 1 December 1998) and The Lord's Taverners Limited (resigned 30 April 2001).

Baroness Cohen of Pimlico (Janet Cohen) – BPP Holdings plc, CCF Charterhouse Corporate Finance Limited, Informed Sources Holdings Limited, Defence Logistics Organisation, Sanctuary Healthcare Limited (resigned 4 June 2000), Waddington Limited (resigned 31 December 1997), London & Manchester Group plc (resigned 16 September 1998), Yorkshire Building Society (resigned 27 May 1999), Governor of the BBC (term expired 24 February 1999), United Assurance Group plc (resigned 19 February 2000) and Charterhouse Management Services Limited (resigned 19 November 1999).

Oscar Fanjul – Omega Capital Inc., Banco Bilbao-Vizcaya-Argentaria, S.A., Acerinox, S.A., Técnicas Reunidas, Ericsson, S.A., NH Hoteles, S.A. (resigned 12 July 1999) and Hidroeléctrica del Cantábrico, S.A. (resigned 17 May 2001).

Michael John Paul Marks CBE – Merrill Lynch Europe plc, ML Invest Holdings Limited, Merrill Lynch HSBC Holdings Limited and Stock Exchange Benevolent Fund Nominees Limited (resigned 3 June 1997).

Peter Richard Meinertzhagen – ABN Amro Equities Holdings (UK) Limited, Hoare Govett Limited, MVM Limited, Themis FTSE Fledgling Index Trust plc (resigned 3 July 1998) and Themis FTSE All-Small Index Trust plc (resigned 3 July 1998).

Nigel John Stapleton – AXA UK Plc, Marconi plc, Centaur Communications Limited, Ashley Walls Investments Limited, PBI-UK Limited, Royal Opera House Trust, Veronis, Suhler International Limited, Origindeal Limited, ITE Group Plc (resigned 26 April 2001), Reed Elsevier plc (resigned 30 September 1999), Reed International PLC (resigned 30 September 1999), Allied Domecq (Holdings) plc (resigned 12 January 1999), Skillslot Limited (resigned 28 June 1996), Walpamur (Exports) Limited (resigned 7 August 1996), Industry in Education Limited (resigned 1 August 2000) and I.W.P.M. (Holdings) Limited (resigned 7 August 1999).

Robert Stopford Webb Q.C. – British Airways Pension Trustees Limited

(b) None of the Directors has any unspent convictions relating to indictable offences.

(c) None of the Directors has been bankrupt or has made or been the subject of any individual voluntary arrangements.

(d) None of the Directors has been a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;

(e) None of the Directors has been a partner of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(f) None of the Directors has been a partner of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;

(g) None of the Directors has had any of his or her assets subject to any receivership; and

(h) None of the Directors has received any public criticism by statutory or regulatory authorities (including recognised professional bodies) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

6.2 Letter of Appointment with the Chairman and Service Contracts with Executive Directors

(a) On 20 April 2000, Don Cruickshank entered into an agreement with the Exchange to act as director and Chairman. Since Clara Furse's appointment as Chief Executive on 24 January 2001, Mr Cruickshank has ceased to have executive responsibilities and accordingly is now regarded as having a non-executive role although his time commitment to the Exchange currently remains unchanged. His term of office as Chairman is three years expiring after the Annual General Meeting in 2003 and is terminable on not less than 12 months' written notice by him or the Exchange. His remuneration is £350,000 per annum. In addition, Mr Cruickshank has an entitlement to be granted options over Ordinary Shares on an annual basis to a value to be determined by the Remuneration Committee by reference to the amount of the annual bonus pool. However, the Remuneration Committee would not expect to grant options to a director who is in a non-executive role. On a change of control of the Exchange, Mr Cruickshank has the right to terminate his contract with 30 days' notice and to receive a severance payment equal to one year's salary and benefits and to be granted options over Ordinary Shares having a value to be determined by the Remuneration Committee. In addition, on termination of employment following a change of control, certain discretions in respect of the lapse or exercise of options held by Mr Cruickshank are to be exercised in his favour but only to the extent that such options would have vested at the next anniversary of grant.

(b) Clara Furse entered into a service agreement with the Exchange on 24 January 2001 to act as Chief Executive. The service agreement provides for a salary of £300,000 per annum. Mrs Furse has elected to receive payments of 15 per cent. of her base salary into an appropriate vehicle for pensions according to her individual circumstances.

The service agreement may be terminated by Mrs Furse or the Exchange on not less than 12 months' notice. In addition, on a change of control of the Exchange, Mrs Furse has the right to terminate her contract with 30 days notice. In the event of her resignation following a change of control, or an unlawful termination of her employment by the Exchange or if the Exchange terminates her employment in the event that she is unable to perform her duties due to illness or injury for a period of 6 months in any 12 month period, Mrs Furse is entitled to a severance payment equal to one year's salary and benefits (including bonus).

(c) Jonathan Howell and Martin Wheatley have each entered into a service agreement with the Exchange both dated 25 January 2000. Jonathan Howell's service agreement provides for a salary of £195,000 and Martin Wheatley's of £215,000, in each case inclusive of a £15,000 car allowance. Each of their service agreements may be terminated by not less than 12 months' written notice by the Exchange or the director concerned.

Martin Wheatley is a member of the Exchange's non–contributory pension plan providing benefits based on final pensionable pay. Further details of this pension scheme are disclosed in paragraph 8 of Part VI of this document. Jonathan Howell has elected to receive payments of 22.5 per cent. of his base salary into an appropriate vehicle for pensions according to his individual circumstances.

(d) The Chairman and executive directors all receive benefits in kind, principally private health care and life assurance arrangements. In addition, each of the executive Directors is entitled to be considered for an annual discretionary bonus to reflect their individual contribution and performance. This bonus is awarded on the approval of the Remuneration Committee of the Exchange.

(e) Save as mentioned in this Part VI, there is no entitlement to commissions, profit sharing arrangements or any other specific compensation payments under the Directors' service agreements.

6.3 Letters of Appointment with Non-Executive Directors

The non–executive Directors (with the exception of the Chairman) each receive an annual fee of £30,000 pursuant to letters of appointment. Ian Salter receives an additional £20,000 for further activities undertaken in fulfilling his role as Deputy Chairman.

The non–executive Directors (with the exception of the Chairman) were appointed on the dates set out below. Each non–executive Director has a letter confirming (or continuing) their appointment with effect from 1 February 2001 for a term of three years subject to earlier termination in accordance with the New Articles. Renewal is possible, but only with Board agreement.

Name	**Date of Appointment**
Ian Salter (Deputy Chairman)	19 November 1986
Gary Allen CBE	14 July 1994
Baroness Cohen	1 February 2001
Oscar Fanjul	1 February 2001
Michael Marks CBE	14 July 1994
Peter Meinertzhagen	22 May 1997
Nigel Stapleton	1 February 2001
Robert Webb Q.C.	1 February 2001

There are no commission or profit sharing arrangements for any of the non–executive Directors. Compensation is not payable upon early termination of an appointment, except in the case of the Chairman.

6.4 Save as disclosed in this paragraph 6, there are no existing or proposed service contracts between any Director and the Exchange.

6.5 The aggregate remuneration and benefits in kind (including pension contributions) granted by the Group to the Directors for the financial year ended 31 March 2001 was £3,300,000. On the basis of the arrangements described in this paragraph 6, the aggregate remuneration and benefits in kind to be granted by members of the Group to the Directors for the financial year ending 31 March 2002 is expected to amount to approximately £2,150,000.

6.6 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

6.7 There are no outstanding loans granted by any member of the Group to, or for the benefit of, any Director nor has any guarantee been provided by any member of the Group for the benefit of any Director.

7. Employee Share Schemes

The Exchange operates the Initial Share Plan and the Annual Share Plan which were adopted by the Exchange on 15 March 2000. The Initial Share Plan and the Annual Share Plan each contain a Share Award Scheme and a Share Option Scheme. The Annual Share Plan also contains the SAYE Option Scheme and the Deferred Bonus Plan.

The Share Schemes are administered by the Remuneration Committee and a share scheme committee and are operated in conjunction with the Trustee.

7.1 Initial Share Plan

Senior executives have been granted allocations of Ordinary Shares under the Initial Share Plan's Share Award Scheme and options under the Initial Share Plan's Share Option Scheme having an aggregate value of £7.9 million. The split in value between allocations of Ordinary Shares and options was approximately 25 per cent. as to Ordinary Shares and 75 per cent. as to options.

7.2 Annual Share Plan

All staff (including senior executives) are eligible to participate in the Annual Share Plan. Allocations of Ordinary Shares under the Annual Share Plan's Share Award Scheme and grants of options under the Annual Share Plan's Share Option Scheme are funded out of the annual bonus pool. The Remuneration Committee determines the size of the pool available each year in the light of annual performance targets based on profitability, return on capital employed and any other factors which the Remuneration Committee considers appropriate. Allocations of Ordinary Shares and options will be granted to staff on the basis of individual performance and potential.

The number of Ordinary Shares (whether unissued or existing shares) allocated to share allocations and options granted in any year under the Annual Share Plan (excluding the SAYE Option Scheme) will not exceed 1.25 per cent. of the Exchange's issued ordinary share capital at the proposed date of grant.

7.3 Share Award Schemes

All employees and executive directors of the Exchange and its subsidiaries are eligible for an allocation of Ordinary Shares (for nil consideration) at the discretion of the Trustee on the basis of recommendations from the Remuneration Committee in the case of directors, and the Chairman or Chief Executive in the case of non–directors. Allocations of Ordinary Shares may be made in respect of unissued or existing Ordinary Shares.

Ordinary Shares allocated to a participant may be released to the participant at the Trustee's discretion on the third anniversary of the allocation date providing the participant has remained in employment until that date. The Trustee has the discretion at any time to forfeit an allocation of Ordinary Shares or to release an allocation to a participant before the normal release date.

An allocation of Ordinary Shares may be released early if the participant leaves employment in certain specified circumstances such as early retirement, redundancy or ill–health or at the discretion of the Trustee. Ordinary Shares may also be released in the event of a takeover, reconstruction or amalgamation, or winding up of the Exchange (or, in certain circumstances may be exchanged for equivalent allocations of shares in an acquiring company).

A participant has no beneficial interest in the Ordinary Shares the subject of an allocation until the shares are released to him. However, to the extent that the Trustee holds Ordinary Shares to satisfy such allocations, the Trustee may, in its discretion, allocate any dividends received in respect of such shares for the benefit of participants.

7.4 Share Option Schemes

All employees and full time executive directors of the Exchange are eligible to be granted options under the Share Option Schemes on the basis of recommendations from the Remuneration Committee, in the case of directors, and from the Chairman or Chief Executive in the case of non–directors.

Options may be granted over unissued or existing Ordinary Shares. Options entitle the option holder to acquire Ordinary Shares at an exercise price per Share determined by the Remuneration Committee. The exercise price may not be less than the market value of an Ordinary Share at the date an option is granted. Whilst such shares are not listed, the market value is agreed with the Inland Revenue, and once listed will be the middle market quotation of an Ordinary Share as derived from the London Stock Exchange Daily Official List either on the date of grant or averaged over the three days preceding the date of grant. In no circumstances can the exercise price of an option over unissued shares be less than the nominal value of an Ordinary Share.

The Share Option Schemes each include a part approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988 whereby each individual's participation does not exceed £30,000. No limit applies to the value of options granted under the unapproved part of the Share Option Schemes.

Options may be exercised between the first and tenth anniversaries of the date of grant, at the end of which period they will lapse. They generally become exercisable as to 20 per cent. per annum, becoming fully exercisable after five years. Early exercise of options may be permitted if an option holder leaves employment in circumstances such as early retirement, redundancy or ill–health, or any other reason approved by the Remuneration Committee. Options may also be exercised in the event of a takeover, reconstruction or amalgamation, or winding–up of the Exchange (or, in certain circumstances, may be exchanged for equivalent options over shares in an acquiring company).

7.5 SAYE Option Scheme

The SAYE Option Scheme is approved by the Inland Revenue under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 so that the scheme may confer income tax relief on option gains.

All UK resident employees and full–time executive directors of the Exchange and its subsidiaries who satisfy certain service conditions may apply for options under the SAYE Option Scheme. The exercise price of options may not be less than 80 per cent. of the market value of an Ordinary Share at the time an invitation for the grant of an option is issued. Whilst such shares are not listed, the market value is agreed with the Inland Revenue, and once listed will be the middle market quotation of an Ordinary Share as derived from the London Stock Exchange Daily Official List either on the date invitations for options are issued or averaged over the three days preceding the date of invitation. In no circumstances can the exercise price of an option over unissued shares be less than the nominal value of an Ordinary Share.

At the time of receiving options, participants must enter into a three, five or seven year savings contract with a nominated savings institution under which they agree to make monthly contributions, of up to £250 (or any higher amount permitted by legislation), from their pay. The number of Ordinary Shares over which a participant is granted an option will be the number that can be acquired, at the exercise price, with the savings made plus any bonus payable on maturity of the savings contract.

Options may normally only be exercised during the six month period following the maturity date of the related savings contract and if the participant has remained in employment. Early exercise of options is permitted if the participant leaves employment in certain circumstances such as redundancy or ill–health. Options may also be exercised in the event of a takeover, reconstruction or amalgamation, or winding–up of the Exchange (or, in certain circumstances, may be exchanged for equivalent options over shares in an acquiring company).

7.6 Deferred Bonus Plan

All employees and full time executive directors of the Exchange and its subsidiaries who are eligible for an annual bonus are eligible to participate in the Deferred Bonus Plan. The Remuneration Committee may award part of an individual's annual bonus in the form of a conditional allocation of Ordinary Shares. 50 per cent. of the bonus award will be released to the employee one year after the grant of the bonus award and the remaining 50 per cent. two years after the grant.

To be entitled to release, the participant must have remained in employment with the Group until the end of the relevant deferral period. A bonus award will be forfeited if the employee leaves employment except in certain specified circumstances such as early retirement, redundancy or ill–health. Ordinary Shares may also be released in the event of a takeover, reconstruction or amalgamation, or winding up of the Exchange (or, in certain circumstances, may be exchanged for equivalent awards over shares in an acquiring company).

Participants do not have any beneficial ownership of the Ordinary Shares which are the subject of a bonus award until such shares are released to them. However, to the extent that the Trustee holds Ordinary Shares to satisfy the release of awards, the Trustee may, in its discretion, allocate any dividends received on such shares for the benefit of participants.

7.7 General

Options, share allocations and awards may normally only be granted during the period of three months following the announcement by the Company of its results for any period, or any day on which the share scheme committee (or, in the case of the Share Award Schemes, the Trustee with the approval of the share scheme committee) resolves that exceptional circumstances exist which justify a grant.

In general no option, share allocation or award may be granted under the Share Schemes if it would cause the number of Ordinary Shares issued or issuable pursuant to awards, share allocations and options granted in the preceding 5 years under any share scheme established by the Exchange to exceed 5 per cent. of the Exchange's issued ordinary share capital at the proposed date of grant or, in the preceding 10 years, exceed 10 per cent. of the Exchange's issued ordinary share capital.

Ordinary Shares allotted or transferred under any of the Share Schemes will rank *pari passu* with Ordinary Shares of the same class then in issue (except, in the case of share options in respect of entitlements arising prior to the date of exercise).

In the event of any rights or capitalisation issue, subdivision, consolidation, reduction or other variation of the Exchange's ordinary share capital, the number of Ordinary Shares subject to an allocation or award may be adjusted. Similarly the number of Ordinary Shares subject to options and the price payable on their exercise may be adjusted.

The share scheme committee (or, in the case of the Share Award Schemes, the Trustee, after consultation with the share scheme committee), may amend the Share Schemes at any time and in any respect subject to the approval of the Inland Revenue where relevant.

The Share Schemes will terminate on 15 March 2010 (with the exception of the Deferred Bonus Plan which will terminate on 23 May 2011) or such earlier time as the Board may determine, but the rights of participants will not thereby be affected.

8. Pensions

8.1 The Exchange operates a pension plan which has a defined benefit section, a defined contribution section and an executive section. Members are not required to make contributions. The assets of the plan are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Schroder Investment Management Limited and Legal & General Investment Management Limited.

8.2 The actuarial valuation of the plan as at 31 March 2000 showed that the market value of the plan's main assets (excluding those relating to members' additional voluntary contributions and matching contributions paid by the Exchange) was £162 million, representing 107 per cent. of the value of the corresponding accrued benefits, after allowing for projected salary increases and assuming investments were comprised of equities and bonds. Following the valuation, and in accordance with advice from the plan's actuary, the Exchange re–commenced contributions to the plan with effect from March 2001 (prior to which there had been an employer contribution holiday).

8.3 Since July 1999, the defined benefit section of the plan has been closed to new entrants, and a defined contribution section has been made available.

8.4 The Exchange also operates an executive section of the plan, which provides for a higher level of contribution to be made in respect of members. Membership of the executive section is by invitation from the Exchange, and it provides benefits on a defined contribution basis.

9. Subsidiaries and other undertakings

9.1 The Exchange is the parent company of the Group and holds directly or indirectly 100 per cent. of the ordinary shares (being the only class in issue) of all its subsidiaries. Each of the subsidiaries is incorporated in England and Wales except for SEPON (South Africa) (Proprietary) Limited and TALISMAN (Australia) Pty. Limited which are incorporated in South Africa and Australia respectively. None of the subsidiaries has actively traded in the last year:

Name	Issued share capital Number	Value
B.I.S. Nominees Limited	2	£2
Sepon Limited	100	£100
SEPON (South Africa) (Proprietary) Limited	200	R200
The London Stock Exchange Retirement Plan Trustee Company Limited	2	£2
TALISMAN (Australia) Pty Limited	50,000	A$50,000
The Stock Exchange (Holdings) Limited	3	£3
The Stock Exchange (Properties) Limited	100	£100

All of the subsidiaries have their registered office at London Stock Exchange, London EC2N 1HP, other than SEPON (South Africa) (Proprietary) Limited whose registered office is at PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill 2157, South Africa and TALISMAN (Australia) Pty. Limited whose registered office is at Freehill Hollingdale & Page, Level 43, 101 Collins Street, Melbourne, Victoria 3000, Australia.

9.2 The Exchange holds 50 per cent. of the 1,000 issued ordinary shares of £1 each in FTSE International Limited, a company which distributes financial information and whose registered office is St. Alphage House, Podium Floor, 2 Fore Street, London EC2V 5DA. The remaining 50 per cent. of FTSE International Limited is owned by The Financial Times Limited, a subsidiary of Pearson plc.

10. Principal establishments

The principal establishment of the Group is:

Address	Tenure	Description
Stock Exchange Tower Old Broad Street London EC2N 1HP. (273,000 sq. ft.)*	Freehold site area 1.44 acres*	The building, constructed in the 1970's comprises three basements, mezzanine, ground and 26 upper floors (four of which house plant). There are 75 car parking spaces.

* Includes 61 Threadneedle Street and 24 Throgmorton Street.

The Exchange also has two other freehold properties in London EC2, with an aggregate area of approximately 158,000 sq. ft.

11. Material contracts

The following contracts (not being a contract entered into in the ordinary course of business) (i) have been entered into by any member of the Group within the two years immediately prior to the date of this document; and are, or may be, material to the Group or (ii) have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is or may be material to the Group as at the date of this document:

(a) the Merger Agreement between the Exchange and Deutsche Börse AG dated 3 May 2000 pursuant to which a proposed merger of the Exchange and Deutsche Börse AG to form iX–international exchanges plc was to take place, a copy of which has been available for inspection during the two years immediately prior to the date of this document and is available for inspection at the addresses specified in paragraph 20 below;

(b) the Introduction Agreement between the Exchange and Schroder Salomon Smith Barney dated 18 June 2001 whereby the Exchange has appointed Schroder Salomon Smith Barney to act as its sponsor for the purpose of the application for admission to the Official List, and the application for admission to trading on the Exchange's market for listed securities, of the entire issued share capital of the Exchange. The Introduction Agreement contains (i) certain warranties by the Exchange as to the accuracy of the information contained in the Listing Particulars and in relation to other matters relating to the Group and its business; (ii) an indemnity from the Exchange in favour of Schroder Salomon Smith Barney; and (iii) certain undertakings from the Exchange relating, amongst other things, to consultation with, and the provision of information to, Schroder Salomon Smith Barney in its capacity as sponsor. The Introduction Agreement also sets out certain circumstances in which it will or may be terminated;

(c) the Agreement between the Exchange and Accenture dated 11 October 1996 whereby Accenture is the main facilities manager for the Exchange's trading and information systems. The net annual payment to Accenture under the Agreement is currently £13.9 million. The Agreement is due to expire in March 2002. Negotiations have commenced for an extension of the term for a further period of up to five years; and

(d) the Agreement for Lease between the Exchange and Paternoster Associates dated 11 June 2001 in relation to a lease of 220,000 square feet of office space at Paternoster Square in the City of London. The lease will be for 25 years and is expected to commence in 2003. Following an initial rent free period of 15 months, the initial rental charge is expected to be £12.5 million per annum.

12. UK taxation

These comments are intended only as a general guide to current UK legislation and Inland Revenue practice as at the date of this document and do not constitute tax advice. These comments apply only to persons who are resident or ordinarily resident in the UK for UK tax purposes. They are of a general nature and relate only to the position of the shareholders who hold the shares beneficially as an investment. In particular, they do not address the position of certain classes of shareholders, such as dealers in securities. Shareholders who are in any doubt as to their taxation position or who may be subject to taxation in a jurisdiction other than the UK should consult an appropriate professional adviser.

12.1 Dividends

(a) Under current UK taxation legislation, the Exchange is not required to withhold tax at source from any dividend payments it makes.

(b) Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of any dividend equal to one–ninth of the amount of the dividend received. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit (the ''gross dividend'') which, with certain other investment income, will be regarded as the top slice of the individual's income and which will be subject to UK income tax at certain rates of tax as described below. The value of the tax credit will be equal to 10 per cent. of the gross dividend.

(c) In the case of a UK resident shareholder who is not liable to income tax at the higher rate, the tax credit will match their tax liability (if any) in respect of the dividend and there will be no further UK tax to pay. The rate of income tax applied to UK company dividends received by UK resident individuals liable to income tax at the higher rate will be 32.5 per cent. Therefore, after taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to an additional income tax of 22.5 per cent. of the gross dividend (equal to 25 per cent. of the net dividend).

(d) With limited exceptions (relating to dividends paid before 6 April 2004 on shares held in individual savings accounts or personal equity plans), individual shareholders who are resident in the UK cannot claim repayment of the tax credit from the Inland Revenue.

(e) UK resident trustees of discretionary trusts are liable to income tax on UK company dividends at 25 per cent. of the gross dividend. After taking into account the 10 per cent. tax credit, the trustees will be liable to additional income tax of 15 per cent. of the gross dividend, equal to 16.67 per cent. of the net dividend.

(f) A corporate shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received from UK equities but cannot reclaim from the Inland Revenue tax credits attaching to dividend payments on UK equities.

(g) Tax exempt pension funds will not normally be liable to corporation tax on any dividend received but cannot reclaim from the Inland Revenue tax credits attaching to dividend payments on UK equities.

(h) Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands and certain other persons may be entitled to a tax credit as if they were resident for tax purposes in the UK which they may set off against their total UK income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.

(i) Other non–UK resident shareholders should consult their own advisers concerning their tax liabilities on dividends received. They should note that they will not generally be entitled to claim repayment of any part of their tax credit from the Inland Revenue under any double taxation agreement or otherwise.

12.2 Capital gains

(a) A disposal (or deemed disposal) of Ordinary Shares by a shareholder who is either resident, or in the case of an individual, ordinarily resident for tax purposes in the UK or who is not UK resident but carries on a trade, profession or vocation in the UK through a branch or agency to which the Ordinary Shares are attributable, may, depending on the shareholder's circumstances and subject to any available exemptions and reliefs, give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

(b) A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of the Ordinary Shares during that period may be liable upon his return to UK taxation of chargeable gains arising during his period of absence (subject to any available exemptions or reliefs).

(c) For a shareholder not within the charge to corporation tax, such as an individual, trustee or personal representative, taper relief (which reduces a chargeable gain depending on the length of time for which an asset is held) may be available to reduce the amount of chargeable gain realised on a subsequent disposal.

(d) For a shareholder within the charge to corporation tax, indexation allowances should be available to reduce the amount of chargeable gain realised on a subsequent disposal (but not to create or increase any loss).

12.3 Inheritance tax

(a) Shares registered on a UK share register are assets situated in the UK for the purposes of UK inheritance tax. A gift of such shares by, or the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the shareholder is neither domiciled nor deemed to be domiciled in the UK.

(b) For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies (as defined in Section 414 of the Income and Corporation Taxes Act 1988) and to trustees of certain settlements holding Ordinary Shares bringing them within the charge to inheritance tax.

12.4 Stamp duty and stamp duty reserve tax (''SDRT'')

The statements below are intended as a general guide to the current position. Certain categories of person including certain intermediaries are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the duty or tax, be required to notify and account for it under Stamp Duty Reserve Tax Regulations 1986.

(a) The initial allocation and issue of Ordinary Shares will not give rise to a liability to stamp duty or SDRT unless they are issued into a depositary receipt scheme or clearance service in which case SDRT may apply at the rate of 1.5 per cent. of the issue price.

(b) Any subsequent conveyance or transfer on sale of the Ordinary Shares will be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. of the amount or value of the consideration given, rounded up to the next multiple of £5. A charge to SDRT at the rate of 0.5 per cent. will arise in relation to an unconditional agreement to transfer the Ordinary Shares. However, where within six years of the date of the agreement (or, if the agreement was conditional, the date the agreement becomes unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

(c) A transfer of Ordinary Shares effected on a paperless basis through CREST (where there is a change in the beneficial ownership of the Ordinary Shares) will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration given. The duty will be payable by the new beneficial owner and collected by CREST.

(d) Where Ordinary Shares are transferred to a member of CREST who will hold those Ordinary Shares in uncertificated form (de-materialised) as nominee for the transferor no stamp duty or SDRT will generally be payable.

(e) Where Ordinary Shares which are held in uncertificated form are transferred by a member of CREST to the beneficial owner (re-materialised) (on whose behalf it has held them as nominee) and no onward sale is contemplated, then no stamp duty or SDRT will generally be payable.

Any person who is in any doubt as to his or her taxation position should consult his or her professional advisers.

13. Working capital

The Exchange is of the opinion that, taking into account the existing bank and other facilities available to it, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

14. Significant change

There has been no significant change in the financial or trading position of the Group since 31 March 2001, being the date to which the financial information contained in the Accountants' Report in Part V of this document has been prepared.

15. Litigation

The Exchange has received a claim from Money Markets International Stockbrokers Limited (in Liquidation) (''MMI''). The claim relates to the removal of MMI's B share following the declaration of default of MMI under the Rules of the London Stock Exchange in February 1999. The Exchange is vigorously defending the claim.

Other than as disclosed below, neither the Exchange nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Group, nor so far as the Directors are aware, are any such proceedings pending or threatened by or against the Exchange or any of its subsidiaries.

In December 2000, the Exchange received a letter from Deutsche Börse AG claiming €10 million for damages in respect of the withdrawal of the proposed merger between it and the Exchange. Deutsche Börse AG has not commenced any formal legal proceedings and the Exchange will vigorously defend any action brought by it.

16. Consents

16.1 PricewaterhouseCoopers, Chartered Accountants, of Southwark Towers, 32 London Bridge Street, London SE1 9SY has given and has not withdrawn its written consent to the inclusion in this document of its name and its report dated 18 June 2001 in the form and context in which it appears and has authorised the contents of its report for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

16.2 Each of Schroder Salomon Smith Barney of Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB and Cazenove & Co. Ltd of 12 Tokenhouse Yard, London EC2R 7AN has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.

16.3 DTZ Debenham Tie Leung Limited of One Curzon Street, London W1A 5PZ has given and not withdrawn its consent to the inclusion of its name in this document in the form and context in which it appears.

17. Information on CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Exchange's articles permit the holding of Ordinary Shares under a relevant system, being the CREST system. Shareholders who wish to do so may transfer their Ordinary Shares into CREST and hold them in uncertificated form through a system–member (as defined in the CREST Regulations) in relation to CREST. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST System if the relevant shareholders so wish. As set out in paragraph 4 of Part IV, the Exchange intends to become a CREST sponsor thereby facilitating personal membership of CREST independent of a specific broker.

CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be entitled to do so.

18. General

18.1 The costs and expenses (exclusive of VAT) payable by the Exchange in connection with the Introduction are estimated to amount to approximately £4 million.

18.2 The Exchange's principal banker is HSBC Bank plc of Poultry and Princes Street, London EC2P 2BX.

18.3 PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, of Southwark Towers, 32 London Bridge Street, London SE1 9SY, has audited the annual accounts of the Exchange for the three years ended 31 March 2001 and has given an unqualified report on the annual accounts in respect of each of those years and has not referred to any fundamental uncertainty.

18.4 The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act.

18.5 Save as set out in Part V, no information set out in this document has been audited by PricewaterhouseCoopers.

18.6 The Introduction will not involve an issue of Ordinary Shares. All of the Bonus Shares are to be issued to Ordinary Shareholders of the Exchange and are therefore not available in whole or in part to the public in conjunction with the application for listing.

18.7 Pursuant to the terms of the London Stock Exchange Employee Benefit Trust, the Trustee has waived any dividends payable in respect of Ordinary Shares held for the purpose of share options granted under the Share Schemes. Save as disclosed in this paragraph, there are no arrangements in existence under which any future dividends are to be waived or agreed to be waived.

18.8 The Ordinary Shares are in registered form.

19. The Exchange's regulatory status

The Exchange is a Recognised Investment Exchange under the Financial Services Act and is supervised by the FSA. RIE status means that the Exchange is exempt from the requirement to be authorised in respect of anything done in its capacity as an exchange which constitutes investment business under the Financial Services Act.

In order to obtain RIE status a body must satisfy the recognition requirements set out in Schedule 4 of the Financial Services Act which relate to, *inter alia*, sufficiency of financial resources, safeguards for investors, monitoring and enforcement and investigation of complaints. If an RIE fails to continue to meet such recognition criteria, or if the RIE fails to comply with any obligation to which it is subject under the Financial Services Act, then the FSA has the power to revoke the RIE's recognition.

The recognition framework will continue under the Financial Services and Markets Act 2000. There will, however, be certain differences. The FSA has published a draft of the sourcebook containing the various rules and guidance with which an RIE will have to comply both when applying for recognition and at all times thereafter. An exchange which is an RIE under the Financial Services Act will maintain its recognition, although the FSA will have the power to revoke a recognition order or issue directions if the RIE fails to satisfy the recognition criteria under the new act after a period of one month following the relevant sections of the Financial Services and Markets Act 2000 coming into force.

20. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sunday and public holidays excepted) at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS and at the registered offices of the Exchange, London Stock Exchange, London EC2N 1HP for the period of up to and including 19 July 2001, being the date of the Extraordinary General Meeting:

(a) the Memorandum of Association and Current Articles of the Exchange;
(b) the New Articles;
(c) the audited consolidated accounts of the Exchange for the two financial years ended 31 March 2000 and 31 March 2001;
(d) the PricewaterhouseCoopers Accountants' Report in Part V;
(e) the statement of adjustments in respect of the financial information set out in Part V;
(f) the material contracts referred to in paragraph 11 of this Part VI;
(g) the Directors' service contracts and letters of appointment referred to in paragraph 6 of this Part VI;
(h) the property valuation referred to in paragraph 4 of Part III;
(i) the written consents referred to in paragraph 16 of this Part VI;
(j) the trust deed and rules of the Share Schemes referred to in paragraph 7 of this Part VI; and
(k) the EGM Circular and this document.

Dated 18 June 2001

In this document, the following words and expressions have the following meanings, unless the context requires otherwise:

''Act''	the Companies Act 1985 (as amended)
''Admission''	the admission of the Ordinary Shares to the Official List and admission to trading on the London Stock Exchange's market for listed securities becoming effective
''Annual General Meeting''	the annual general meeting of the Exchange convened for 19 July 2001, including any adjournment thereof
''Annual Share Plan''	the Annual Share Plan adopted on 15 March 2000 containing one of the Share Award Schemes, one of the Share Option Schemes, the SAYE Option Scheme and the Deferred Bonus Plan
''Board'' or ''Directors''	the directors of the Exchange
''Bonus Issue''	the proposal for the issue of Bonus Shares as set out in this document
''Bonus Shares''	the new ordinary shares of 5p each in the capital of the Exchange to be issued under the Bonus Issue
''Cazenove''	Cazenove & Co. Ltd
''Combined Code''	the Combined Code on Corporate Governance
''CREST''	a relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations)
''CRESTCo''	CRESTCo Limited
''CREST Regulations''	The Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
''Deferred Bonus Plan''	the London Stock Exchange Deferred Bonus Plan
''EGM Circular''	the circular sent to Ordinary Shareholders dated 18 June 2001
''ETF''	Exchange Traded Funds
''Exchange''	London Stock Exchange plc
''Extraordinary General Meeting''	the extraordinary general meeting of the Exchange convened for 19 July 2001, including any adjournment thereof
''Facility''	the off–market matched bargain trading facility operated by Cazenove on which the Ordinary Shares are currently traded
''Financial Services Act''	the Financial Services Act 1986
''FSA''	the Financial Services Authority
''Group''	the Exchange and its subsidiaries

''Initial Share Plan''	the Initial Share Plan adopted on 15 March 2000 containing one of the Share Award Schemes and one of the Share Option Schemes
''Introduction''	the proposed introduction of the Exchange such that the Ordinary Shares are admitted to listing on the Official List and admitted to trading on the London Stock Exchange's market for listed securities
''IP''	internet protocol
''IPO''	initial public offering
''Listing Rules''	the rules of the UK Listing Authority covering admission to the Official List
''LMIL''	London Market Information Link
''New Articles''	the articles of association of the Exchange which are proposed to be adopted at the Extraordinary General Meeting, as described in paragraph 4 of Part VI
''Official List''	the Official List maintained by the UK Listing Authority, pursuant to Part IV of the Financial Services Act
''Ordinary Shareholder''	the holder of an Ordinary Share
''Ordinary Shares''	ordinary shares of 5p each in the capital of the Exchange which, from issue, will include the Bonus Shares
''Record Date''	the record date for the Bonus Issue being 6.00 p.m. on 19 July 2001
''RIE''	Recognised Investment Exchange as defined in section 207(1) of the Financial Services Act
''RNS''	the Exchange's Regulatory News Service
''Schroder Salomon Smith Barney''	Salomon Brothers International Limited, doing business as Schroder Salomon Smith Barney. Schroder is a trademark of Schroders Holdings plc and is used under licence by Salomon Brothers International Limited
''SAYE Option Scheme''	the London Stock Exchange SAYE Option Scheme
''Share Award Schemes''	the London Stock Exchange Share Award Schemes contained in the Annual Share Plan and the Initial Share Plan
''Share Option Schemes''	the London Stock Exchange Share Option Schemes contained in the Annual Share Plan and the Initial Share Plan
''Share Schemes''	the Initial Share Plan and the Annual Share Plan
''subsidiary''	subsidiary as defined in section 736 of the Act
''Trustee''	the trustees of the London Stock Exchange Employee Benefit Trust

''UK''	United Kingdom of Great Britain and Northern Ireland
''UKLA'' or ''UK Listing Authority''	the FSA in its capacity as the competent authority for listing in the UK under Part IV of the Financial Services Act
''US''	United States of America

imprima de bussy C82754