97

Access to central markets

London STOCK EXCHANGE

ANNUAL REPORT 1997

Contents

Access to Central Markets ~ Our purpose is to provide issuers, investors and intermediaries with access to a portfolio of well-regulated and cost-effective markets.

Capital Raising ~ The London Stock Exchange provides an essential marketplace, where companies can raise finance for expansion and investors can share in their growth. 1996/7 saw our markets attract record numbers of new companies raising finance to fund their development.

Market Services ~ Our markets must be efficient, flexible and swift to adapt to meet the changing needs of our users. Our new electronic trading and information platform, completed last year, provides us with a high degree of flexibility. It has given us the technological base from which to develop our markets further and to enhance our trading services by the introduction of an electronic order book.

Regulatory Activities ~ Our guiding principle in providing fair, attractive and competitive markets is to achieve the right balance between regulation and cost to market users.

Promoting and Developing the Exchange's Markets ~ Demand for capital from UK and international issuers, and an increasing appetite among investors for ever more effective ways to invest, continue to present great challenges and opportunities for the Exchange. Working with our members, companies and others in the financial community, we are seeking to capitalise on these opportunities to the advantage of all the users of our markets.

We will strive to gain the greatest benefits for all the users of our markets

John Kemp-Welch
Chairman, London Stock Exchange

1996/7 was a significant year for the London Stock Exchange. On all our markets, levels of activity were very high. Equally, with regard to our own future, the year saw some important developments which I believe have helped to shape a stronger future for the Exchange.

Early in the year we completed a review of our strategy which was subsequently agreed by the Board. The essence of the conclusion of the review was that our purpose is to provide a dynamic portfolio of regulated markets where intermediaries can bring together issuers and investors on a cost-efficient and attractive basis. This has provided the clarity of direction needed for us to compete effectively in world markets. It will also help our new chief executive, Gavin Casey, and his team to take the Exchange steadily forward, which they are doing with determination and effectiveness.

The Board also agreed in July the recommendations of the deputy chairmen's report on the governance of the Exchange. The main recommendation was that there should be a significant change to the way our advisory committees are organised in order more effectively to integrate practitioner input into development of the Exchange's policy and to strengthen the links between our members, users and the Board. I am grateful to Ian Salter and Ian Plenderleith for having undertaken this valuable work.

Very importantly, good progress was made in the development of our plans for the electronic order book, building on the successful completion of our Sequence programme. This delivered our new trading and information platform after years of intensive work in partnership with Andersen Consulting. We also completed successfully the transition of stocks from Talisman to CREST. It is a great credit to our staff that this demanding process was completed so efficiently. We thank them and our best wishes go to those who are leaving the Exchange.

I should also like to pay tribute to Sir Mark Weinberg and his Wider Share Ownership Committee, whose excellent report helped considerably to inform opinion in this important area.

Internationally, we worked to promote London and our markets within the financial communities of Central and Eastern Europe, the Middle East and Asia. These efforts resulted in many new listings in London, notable among them being the first Russian company to list on the Exchange. A particular highlight of our international activities was the signing of a Memorandum of Understanding between the UK and Chinese regulatory authorities. In this context, we welcomed Chinese vice premier Mr Li Lanqing to the Exchange. Our work with China is now bearing fruit, with two Chinese companies raising new capital in London already this year.

1996/7 saw many notable visitors to the Exchange, including from the last Government the then Chancellor of the Exchequer, the Rt Hon Kenneth Clarke MP, and the Economic Secretary Mrs Angela Knight. From the Labour frontbench we welcomed MPs Mike O'Brien, Barbara Roche and Geoff Hoon. We look forward to working with the new Government in the years ahead.

Board

I have referred to the appointment of Gavin Casey, whom we were very pleased to welcome as chief executive last August.

During the preceding months, Ian Plenderleith gave me valuable support as a deputy chairman, and I owe him particular thanks.

At the end of March 1997, Giles Vardey left the Exchange after more than four years as a Board member and director of Markets Development and Marketing. We thank him for all his work on our behalf and wish him well for the future.

We also extend our thanks to Richard Barfield and Masashi Kaneko, who will be retiring from the Board at the AGM, for their valuable contributions.

We were saddened by the deaths of Board members Nicholas Verey, who died in October 1996, and Stephen Cooke, in May 1997. Both Nicholas and Stephen had distinguished careers in finance and the City and made very significant contributions to the affairs of the Exchange. They are both greatly missed.

The future

Looking ahead, it is clear that financial markets and exchanges internationally have entered a time of unprecedented challenge. The rewards for the London Stock Exchange and its customers are potentially great. I believe that the steps we have taken, and the clarity of purpose we have now formed, position us well to meet these challenges as we strive to gain the greatest benefit for London and for all the users of our markets.

John Kemp-Welch

John Kemp-Welch
Chairman, London Stock Exchange

Sound progress was made towards our agreed objectives

Gavin Casey
Chief executive, London Stock Exchange

Our strategic review, completed in July, provided us with a clear framework for our three main activities – listing, trading and information. Sound progress was made last year towards our agreed objectives and continues at a healthy pace in the current year.

The strategic review confirmed the need to:

- develop our markets further and enhance our trading services by the introduction of an electronic order book
- target our marketing and selling activities more clearly to reinforce our competitive strengths
- create a sound, sustainable, financial base for the business as we develop it further.

In each of these areas, we made significant headway.

Trading services

The structure for the order book was confirmed at the beginning of 1997 and the project is moving forward with the valued guidance and support of our Secondary Markets Committee.

Our proposals have been subject to extensive consultation with our members, other customers and regulators and the results of that consultation have been published.

We have made considerable efforts to reconcile differing points of view among the groups of users which we serve. The outcome is a detailed specification for the trading of stocks in the FTSE 100 index, which is designed to meet the needs of private clients, institutional fund managers, and those investors who need a block trading facility. Furthermore, we will keep the rules under careful review once the order book has started to operate so as to make sure that order-driven trading works effectively at all times.

As with any change of this scale, the overriding priority is to ensure successful implementation with the least disruption to the market. For that reason, as we go through the systems development and testing leading to implementation, we will monitor progress through a series of important milestones. In line with this process, we are due to reconfirm the launch date at the end of July 1997.

These changes will be made easier by the completion, last August, of our new electronic trading and information platform. The complex IT programme, known as Sequence, through which it was delivered – on time and under budget – has given us one of the most up-to-date trading facilities in the world.

Marketing

During the year, business was buoyant with record levels of turnover in UK and international equities. More companies – both UK and international – joined our main market than in any other year, while AIM had an extremely active year, meeting a clear need in the marketplace and attracting smaller companies from a wide range of business sectors.

To ensure that we continue to win business for our markets and for London generally, we are currently reinforcing our services to listed companies by reorganising and introducing new processes in the Exchange's Listing department. We are also strengthening our international marketing efforts, with particular emphasis on the fast-growing emerging markets. A listing in London can bring substantial advantages to international companies looking to raise additional capital, find new investors and increase their profile.

There are other opportunities for sources of business on the Exchange. Most

More companies – both UK and international – joined our markets than in any other year

Exchange chief executive, Gavin Casey (left) and deputy chairman, Ian Salter (right) welcome Chinese vice premier Mr Li Lanqing to the Exchange

recently, we have agreed to introduce a new trading facility for covered warrants. Other additional services are being worked on and will follow in the coming months.

We have also reaffirmed in recent months the benefits of share ownership for private investors, to support both our members and the newly demutualised companies. These companies are in the course of distributing shares to almost 19 million account holders, many of whom are becoming shareholders for the first time.

Effective regulation

A key strength of our markets is their reputation for fair and well balanced regulation. This was an important area of development during the year, particularly as rules were finalised for the electronic order book and some necessary regulatory amendments were made to AIM and to our other markets.

We also made significant strides in the use of technology to monitor abnormal trading patterns. New advanced techniques introduced during the year have greatly increased our ability to analyse trading data, making a substantial contribution to the maintenance of orderly markets. Proper investor protection remains a

We have been able to return to our members £10 million through a rebate on settlement and trading fees

key priority for us and we continue to look at ways of improving it further.

Since the end of the year under review, a new Government has been elected in the United Kingdom. Already a number of major initiatives have been unveiled which may affect our markets and those who use them. We look forward to participating in the discussions on such developments to help ensure that any changes are introduced in the most effective way.

A sound financial base

In order to concentrate more closely on our core business activities we have concluded the sale of our trade management service, Sequal, while production of the Daily Official List has moved from the Exchange to Extel.

At the same time, we are reorganising responsibilities at the Exchange to ensure that our operations are more commercially focused commensurate with our varied and very considerable regulatory obligations.

Our income totalled £191.8 million for the year, with the listing and trading activities showing increases due to the continued buoyancy of the market. The 2.2 per cent reduction on last year reflects reduced income as settlement moved to CREST.

Underlying operating costs at £122.4 million showed a 24 per cent reduction on last year. With the further provisions made this year, we are well on target with the financial restructuring upon which we have been engaged. This puts the Exchange on a sound footing for the next stage of our development. We continue to work to reduce our costs further while ensuring that our service levels are improved.

In the light of our results, we have been able to return to our members £10 million through a rebate on settlement and trading fees. After the rebate, and provisions, tax and interest, there was a surplus of £17.1 million which has been transferred to reserves.

The year ahead

We have a clear agenda for the year ahead – to complete the changes agreed in last July's strategic review, and to grow our business by providing the users of our markets with highly relevant services at effective cost.

We have a dedicated and able management team who have shown considerable resilience in the face of many different challenges over the past few years. With their support and our restructured finances, we are in a position to get on with the job. We expect to make further progress in the current year.

Gavin Casey

Gavin Casey
Chief executive, London Stock Exchange

The combined value of UK equities rose above £1 trillion for the first time

The majority of the world's leading stock markets benefited from positive economic conditions during the 1996/7 financial year, resulting in solid increases in stock market activity in most trading centres.

Global financial markets were aided by a combination of sound corporate profitability, high liquidity, and economic policies designed to balance growth with the need to control inflation.

Performance

The high levels of activity were reflected in the three UK series indices (FTSE 100, FTSE 250 and FTSE All-Share). The UK's benchmark FTSE 100 index recorded a closing high of 4444.3 in mid-March 1997. The overall advance during the 12-month period represented a sound performance with an increase of 16.6 per cent over the financial year. This took the combined value of UK equities above £1 trillion for the first time.

The Dow Jones Industrial Average rose 17.8 per cent, while the strongest performer during the year among the major markets was the DAX index of leading German shares with a 37.9 per cent rise. In contrast, Tokyo's Nikkei 225 fell by 15.9 per cent due to concerns about the Japanese economy.

Takeover activity was again a key factor in London's rise in share prices. Although merger and acquisition activity by UK companies slowed during the year, this was offset by a significant increase in foreign purchases of UK-listed companies, especially by US firms in the utilities sectors. Overseas investors' ownership of UK stocks rose to above 16 per cent of the total, compared to 12 per cent at the start of the decade.

Globalisation

1996/7 also saw a continuation of the increasing globalisation of world equity markets – a development of which London, as one of the world's largest and most active international stock markets, is a major beneficiary.

A key aspect of the markets is the growing importance of the emerging economies. Further reference is made to this subject on page 13 of this Report in the Capital Raising section.

EMU

A major factor on the horizon is European Monetary Union (EMU). If EMU proceeds according to the Maastricht timetable, the first week of 1999 will see the start of euro-denominated trading. Irrespective of the UK's position regarding membership, this historic change will present both opportunities and challenges to London's securities markets.

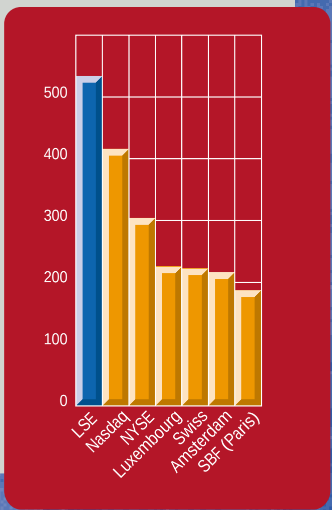
To prepare for the introduction of the single currency, the Exchange has established a team which has identified and is working on the key market issues and the practical implications.

The Exchange already operates a multi-currency trading platform, offering trading in 36 currencies. Therefore, whether the euro is the main or an additional currency, the Exchange's trading and information systems can accommodate the new arrangements.

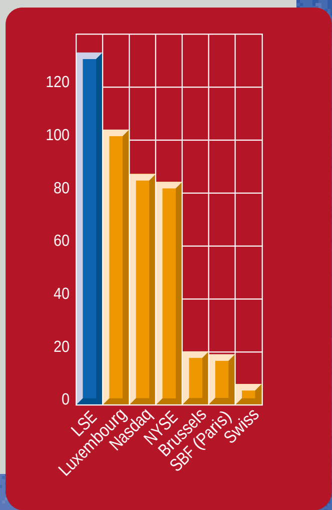
However, there are numerous detailed implications, both for the regulatory regime and the Exchange's information systems, regardless of the UK's decision about membership.

Therefore, as the debate continues, we shall continue to work with regulators, member firms and market participants so that together we can ensure that London's markets are ready to work effectively within the new environment.

Foreign listed companies at end of 1996



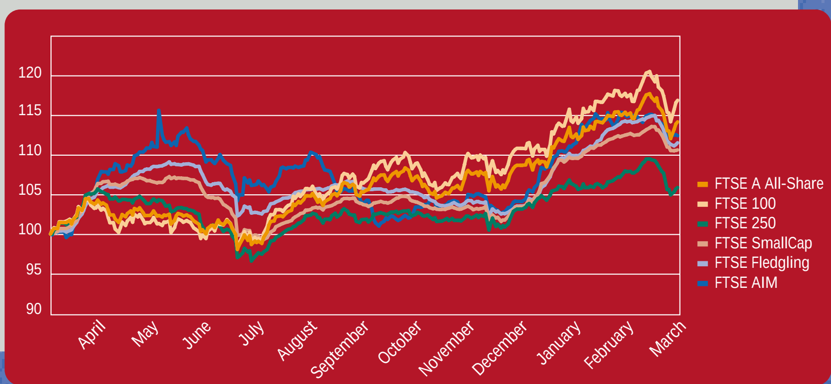
Emerging market listings at end of 1996



The following 36 currencies are traded on the Exchange's multi-currency trading platform:

ATS	Austrian Schilling
AUD	Australian Dollar
BEF	Belgian Franc
CAD	Canadian Dollar
CHF	Swiss Franc
CZK	Czech Koruna
DEM	German D-mark
DKK	Danish Krone
ESP	Spanish Peseta
FIM	Finnish Markka
FRF	French Franc
GBP	GB Pound Sterling
GRD	Greek Drachma
HKD	Hong Kong Dollar
HRK	Croatian Kuna
HUF	Hungarian Forint
IEP	Irish Punt
ILS	Israeli Shekel
ITL	Italian Lira
JPY	Japanese Yen
LUF	Luxembourg Franc
MYR	Malaysian Dollar
NLG	Dutch Guilder
NOK	Norwegian Krone
NZD	New Zealand Dollar
PHP	Philippines Peso
PLN	Polish Zloty
PTE	Portuguese Escudo
SEK	Swedish Krona
SGD	Singapore Dollar
SKK	Slovakian Koruna
THB	Thai Baht
TWD	Taiwan Dollar
USD	US Dollar
XEU	ECU
ZAR	South African Rand

Comparative UK indices performance 1996/7



Our markets played a central role in helping businesses to raise capital

A strong performance across our markets brought benefits to many companies listed on the Exchange in a year which also saw our markets attracting record numbers of new companies seeking to raise finance to fund their growth.

The substantial numbers of newcomers to the Exchange's markets, both UK-based and from around the world, consolidated the Exchange's position as a key international centre for capital raising.

A total of 431 UK and international companies were admitted to the main market (Official List) and to AIM, the market for young and growing companies – up 19.1 per cent on the previous financial year. A total of £13.5 billion was raised by these companies.

By the end of March 1997, there were 2,698 companies on the main market – 2,174 UK firms and 524 international. And there were 269 companies on AIM – made up of 251 UK and 18 from overseas.

United Kingdom

The Exchange's central role in the financing of UK businesses is reflected in the fact that 223 UK companies joined the main market in 1996/7, raising a combined total of £10.1 billion – more than three times the figure for the year ended March 1996. Another £8.1 billion was raised through further issues (excluding eurobonds) by existing UK companies, while eurobond issues by UK companies raised £38.5 billion.

There were signs that medium-sized UK companies are increasingly looking to the main market as a means of raising capital. Of the UK new joiners to the main market, 146 companies – almost two-thirds of the total – had market values below £50 million.

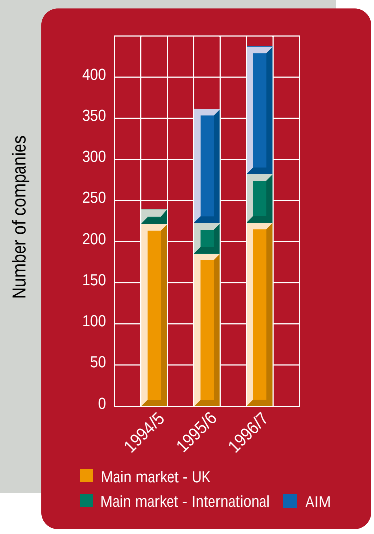
AIM

AIM continued to develop, meeting a clear need in the marketplace. During 1996/7 – its first full year of operation – a total of 155 companies from 27 different industrial sectors joined AIM. There were 13 international companies among these new entrants.

AIM companies raised £532.6 million from new issues during the year, and £398.4 million from further issues. By the end of the financial year, AIM companies had a total equity market value of £5.9 billion. Equity turnover continued to increase, reflecting the growing size and awareness of the market.

Pictured: Graham Howe, Group finance director of Orange Plc at Orange's retail outlet in Leadenhall Market, London. Orange floated on the London Stock Exchange in April 1996, raising £669 million.

New companies (UK & international) joining the London Stock Exchange

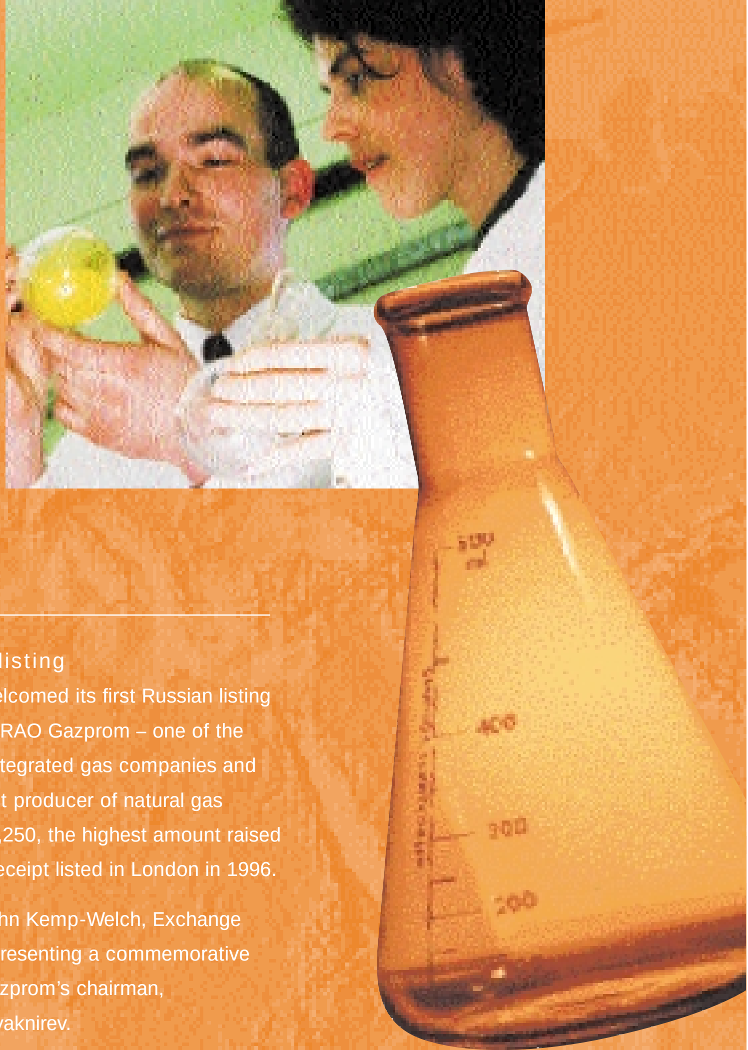


97

"As one of the highest profile flotations during the year, Orange's listing on the London Stock Exchange was good for business, realised the value in our company and allowed investors to share in the future with Orange".

Graham Howe
Group finance director, Orange Plc

97



AIM growth

Pharmaceuticals company, Alizyme plc, raised £5 million when it joined AIM in 1996.

By the end of the financial year AIM had attracted more than 270 UK and international companies, raising £1.2 billion.

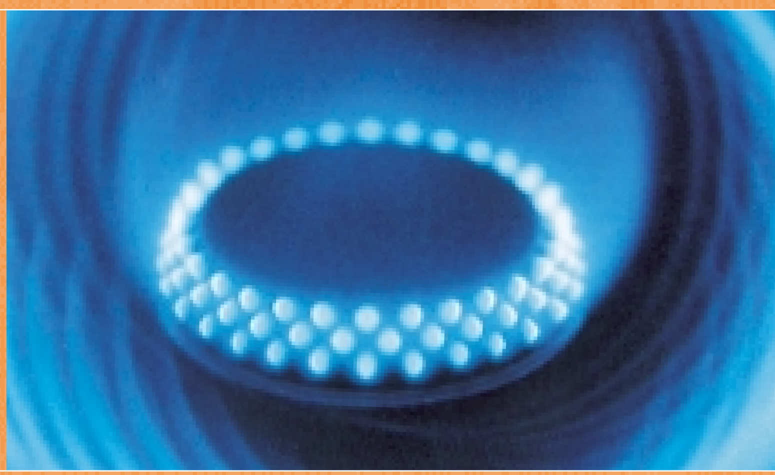
First Russian listing

The Exchange welcomed its first Russian listing in October 1996. RAO Gazprom – one of the world's leading integrated gas companies and the world's largest producer of natural gas –raised $429,266,250, the highest amount raised by a depositary receipt listed in London in 1996.

Picture shows John Kemp-Welch, Exchange chairman (right) presenting a commemorative salver to RAO Gazprom's chairman, Rem Ivanovich Vyakhirev.

Main market activity

The demerger of British Gas in February 1997 was a major event on the Exchange's markets. BG plc remained in the FTSE 100 with a market capitalisation of £7.7 billion while the newly formed Centrica Plc listed with a market cap of £2.9 billion.



Links with China

Angela Knight, the then Economic Secretary to the Treasury (centre) celebrates with London Stock Exchange and Chinese and UK regulatory representatives, the signing of the Memorandum of Understanding between the UK and Chinese authorities in October 1996.

During 1996/7, a further 53 international companies joined the main market

Domestic fixed income

The UK Government bonds market had a particularly successful year, following the introduction, in January 1996, of an open market in gilt sale and repurchase agreements, or gilt repos.

The performance of gilts traded on the Exchange reached an all-time high, with the total value rising by 16.5 per cent compared with the previous year. Average daily turnover in the market reached £7.9 billion per day in 1996/7.

International

London remains the exchange most often chosen by international companies looking to list their shares or global depositary receipts – GDRs (representing shares listed on local exchanges). During 1996/7, a further 53 international companies joined the main market. The average daily turnover in international equities on the Exchange was more than 19,700 bargains, at a value of £4.4 billion.

Emerging markets now account for 50 per cent of all global cross-border equity flows, compared with just 12 per cent in the late 1980s. Demand for capital from these economies is expected to continue to rise into the next century. An important element of our strategy is to access investment opportunities in emerging markets.

Notable during the year were our first Chinese companies to come to the Exchange, with the listing of a convertible issue for Zhenhai Refining and Chemical Co in December 1996, and a share listing for Beijing-based Datang Power in March 1997.

These developments were part of a broader business effort for the Exchange in emerging market equities, with listings and turnover rising strongly.

Among the country sectors showing the fastest growth were South Africa (with total turnover of £10.7 billion), Thailand (£7.7 billion), Malaysia (£7.6 billion) and India (£7.1 billion).

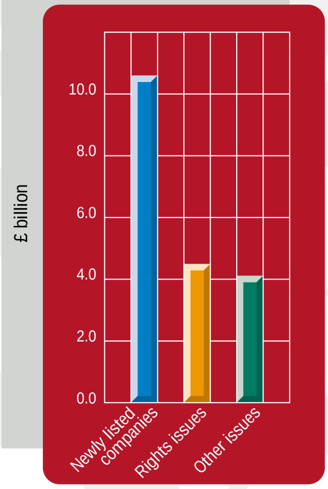
In 1996/7 the Exchange built on its success in GDRs. The Exchange attracted a further 23 GDR listings – including three from India, four from Taiwan and three from Korea. We also saw the first GDRs from Russia (RAO Gazprom and Tatneft), from Lebanon (Solidere), from Papua New Guinea (Orogen Minerals), and also the first ever listings from Egypt, Slovenia, Morocco, Croatia and Brazil.

Eurobonds

In eurobonds, we continued to promote the advantages of a London listing. During the year, the Exchange attracted 2,380 new eurobond listings (including eurobonds issued under programmes), raising a total of £97.1 billion.

The streamlined process of programme listings continues to reduce the time and expense for issuers listing bonds on the Exchange and remains extremely popular.

Equity capital raised by UK companies by source 1996/7



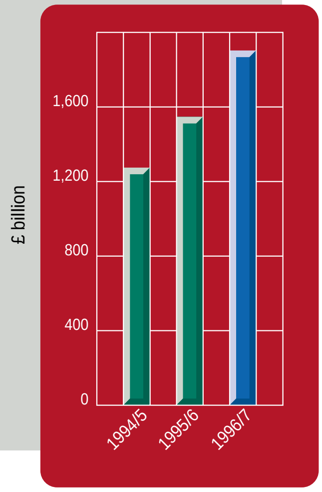
Our new trading platform has helped pave the way for automated trading

Against a backdrop of record trading volumes, major developments in our trading systems and services were achieved during the year.

Trading in equities was brisk and turnover on the UK market reached its highest level ever – a rise of 16.3 per cent from the previous record year in 1995/6. International equity trading was also at its highest ever level – up by 28.3 per cent. Within that figure, turnover in emerging market equities was especially strong, rising by 29.3 per cent.

At the same time, 1996/7 was a year of considerable change to the trading services operated by the Exchange for its members and other users. It saw the completion of our electronic trading and information platform. Planning also moved ahead strongly for further change – the introduction of fully automated trading, in the first instance for stocks in the FTSE 100 index.

Total equity turnover on the London Stock Exchange



Sequence

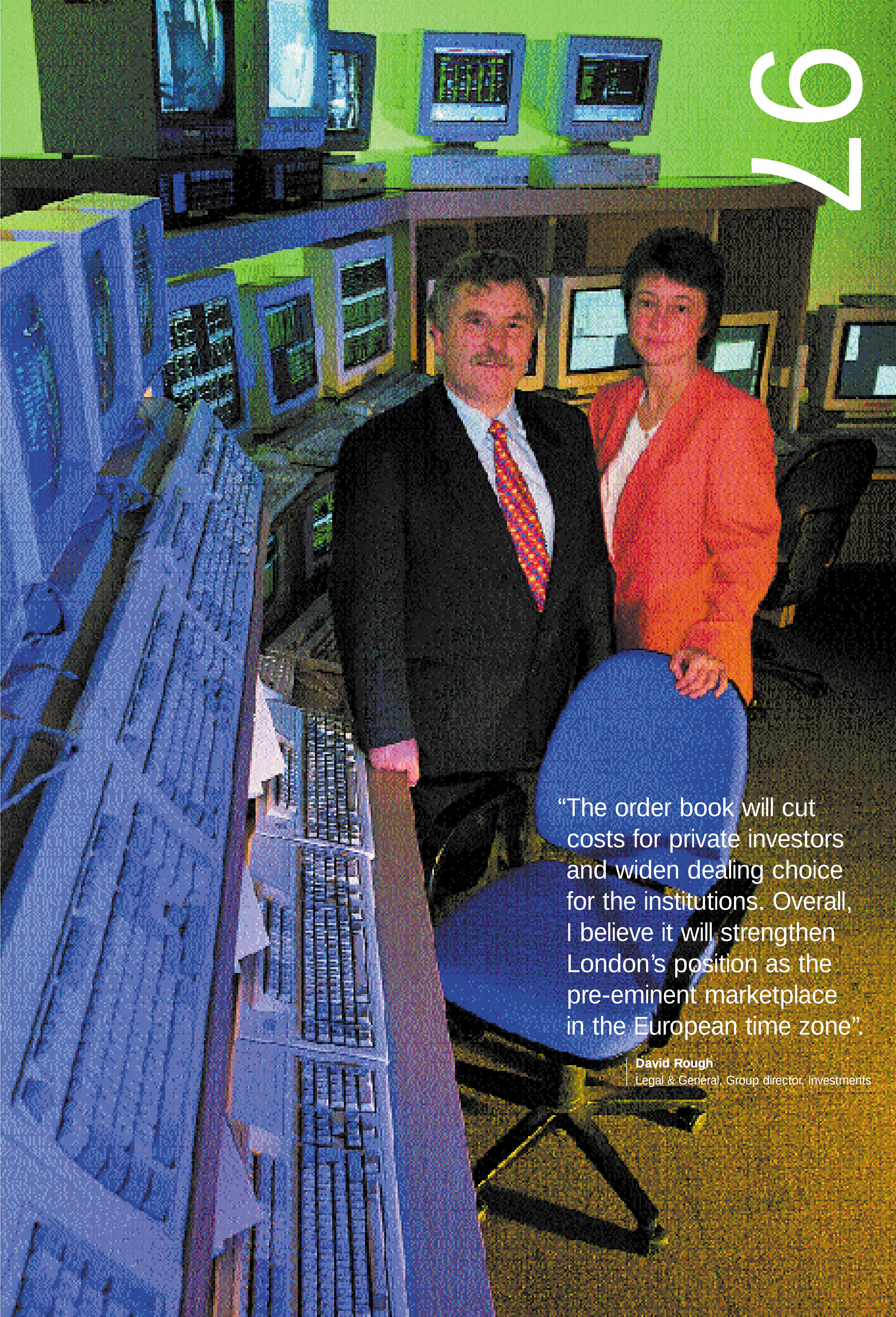
The first essential step on the road to the Exchange's future trading structure was the successful delivery and completion of the Sequence Programme in August 1996. This three-year project, completed on time and under budget – and without disruption to the market – has given the Exchange an integrated trading and information system, providing a range of trading services to underpin our different markets. It delivers enhanced services, not just for the Exchange, but also for the broad spectrum of market participants – including member firms, information vendors and software suppliers – whose support and co-operation were crucial to its success.

The next step

As well as modernising the existing trading platform, Sequence has helped pave the way for the introduction of SETS – the new Stock Exchange Electronic Trading Service.

At the moment, trading in all stocks on the Exchange is based on a system of competing quotes, where market makers advise investors and other market participants of the prices at which they are prepared to deal. Under the order-matching system, member firms will display bid (buying) and offer (selling) orders to the market on an electronic order book. When the bid and offer prices match, the orders will be executed against one another

Pictured: David Rough, Group director, Investments of Legal & General Group and Vanessa James, UK equity director of Legal & General Investment Management. The Legal & General Group has over £50 billion of assets under management.

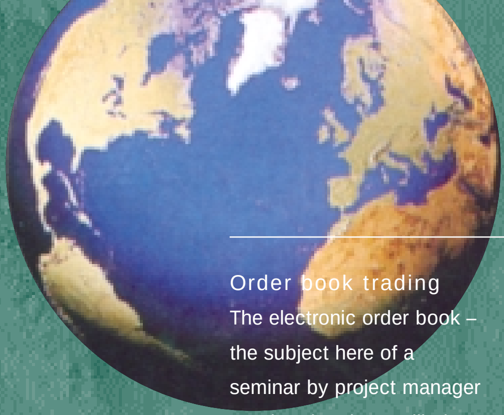


97

"The order book will cut costs for private investors and widen dealing choice for the institutions. Overall, I believe it will strengthen London's position as the pre-eminent marketplace in the European time zone".

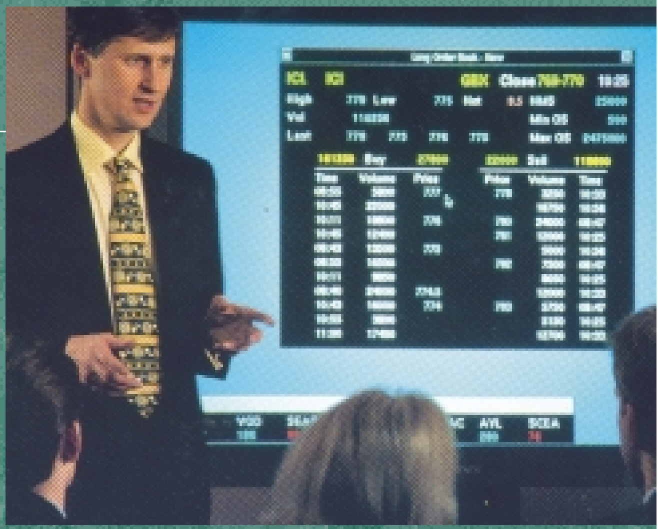
David Rough
Legal & General, Group director, investments

97



Order book trading

The electronic order book – the subject here of a seminar by project manager Martin Wheatley – will play a vital role in keeping the London Stock Exchange's markets among the most efficient in the world.

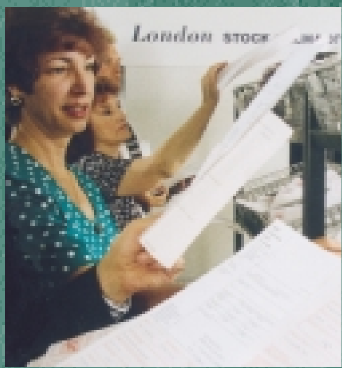


London Financial News

Sequence

The three-year Sequence Programme – completed in August 1996 on time and under budget – has provided the Exchange and its customers with an integrated electronic platform for both information and trading services.

Daily Telegraph



Settlement

The transfer of stocks from Talisman to CREST was completed in April 1997.

The closure of Talisman followed 18 years of consistent service and the settlement of more than 132 million bargains valued at around £5,000 billion.

Pricing policy

During the year, the Exchange revised its pricing policy for listing, information and trading services. The new simpler pricing structure was designed to reflect more accurately the value of specific services.

The new trading structure has been designed to maintain the risk-taking culture, liquidity and immediacy which are hallmarks of the London market

automatically on-screen – with an improvement in speed and efficiency.

Orders which have not yet been matched will remain on the electronic order book until either they are executed against another incoming order, or, failing that, are deleted when the specified expiry time is reached.

Large trades, which require negotiation and the commitment of substantial capital by member firms, will continue to be conducted away from the order book, helping to maintain the risk-taking culture, liquidity and immediacy which are hallmarks of the London market.

Benefits of SETS

When SETS is in place, it will offer a new trading service with a range of benefits. These will include:

- Greater trading choice
  Investors will be able to deal on the order book via a member firm, or else negotiate a trade with a member firm away from the order book – an option they may choose to take in the case of non-standard, very small or very large trades
- Increased flexibility of investor strategies
  Investors who are prepared to wait for a price movement before trading can use the order book to expose their order to the entire market – maximising their chances of a successful trade
- Greater automation
  The increased level of automation will bring greater opportunities for simultaneous trading in a number of stocks (also known as 'basket' trading) and hedging to limit exposure to risk
- Increased market transparency
  Changes to the publication of trades should result in a more transparent trading system with a much greater flow of market information.

Before SETS goes live, a comprehensive programme of testing and dress rehearsals will be carried out. A series of milestones has been set to determine market readiness and, on the basis of these, the date of the launch will be confirmed.

Settlement

For the market's settlement activities, 1996/7 was also a year of challenge and change. As the year began, the Exchange's settlement department had three major tasks ahead:

- to bring about the smooth migration of stocks from the existing Talisman system into the new electronic share settlement service provided by CRESTCo (in which the Exchange is a three per cent shareholder)
- to manage the steady reduction of staffing across their own functions, in readiness for the ultimate closure of the Talisman service during 1997 and, crucially
- to ensure that the quality of service delivered to members by Talisman in its final year continued to be as solid and reliable as that supplied in its previous 18 years.

Thanks to the consistent commitment of our staff and thorough and detailed planning, the settlement department achieved outstanding success with all three tasks.

When the last stocks were transferred to CREST in April 1997, Talisman left behind an honourable record. By then, Talisman had settled more than 132 million bargains worth around £5,000 billion, at a recent average of 50,000 bargains a day.

Since its introduction in 1979, Talisman had proved to be a secure and reliable system, never failing to deliver settlement on any business day.

Investor protection is fundamental to our work

Investor protection is one of the most fundamental aspects of our work. We aim at all times to achieve the right balance between regulation and cost to market users.

Throughout our regulatory activities, we worked to maintain and enhance our markets' reputation for fairness, while streamlining our processes to increase their attractiveness and efficiency.

As part of our continuing drive for improvement we:

- began a wide-ranging review of the listing process
- streamlined our pricing structure and introduced a split between listing fees and a charge for the right to be traded
- worked to simplify the regulatory regime and increase the transparency of our markets
- strengthened our monitoring and surveillance systems.

Listing review

The Listing Rules set by the Exchange, and the way in which those rules are enforced, play an important part in determining the attractiveness of the Exchange's markets.

1996/7 saw the launch of a fundamental review of business processes in the Exchange's Listing department aimed at ensuring that we give an outstanding service to those UK and international companies which want to raise capital through equity or debt issues.

In particular, we are examining our management and IT systems to ensure a consistently responsive and rapid service in reviewing and approving applications to list, as well as to monitor effectively companies' continuing obligations.

When the review is completed and implemented, by the end of 1997, improvements will include:

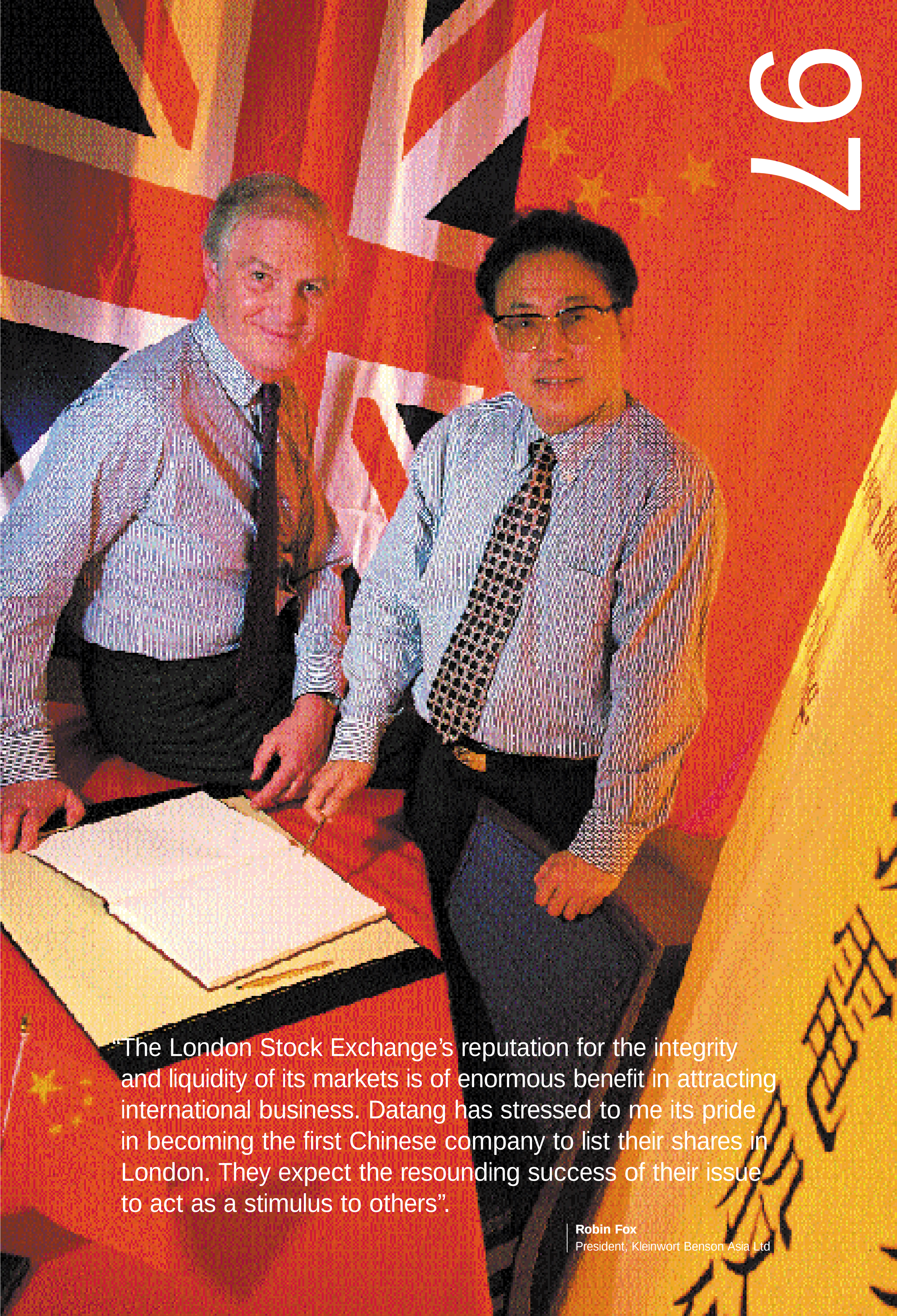
- reduced response times for approving applications
- improved communications to advise the market on the rules
- a centralised enquiry service.

Transparency

Transparency of trading is key to our reputation for open and fair markets. During the year, we met our commitment

Pictured: Robin Fox, president, Kleinwort Benson Asia Ltd (left) and Jiao Yian, chairman of Beijing Datang Power Generation, one of the largest independent electric power producers in China, and the first Chinese company to list in London raising over US$387 million.

97



"The London Stock Exchange's reputation for the integrity and liquidity of its markets is of enormous benefit in attracting international business. Datang has stressed to me its pride in becoming the first Chinese company to list their shares in London. They expect the resounding success of their issue to act as a stimulus to others".

Robin Fox
President, Kleinwort Benson Asia Ltd

97

Exchange and SEC share information

In May 1996, the Exchange and the USA Securities and Exchange Commission (SEC) agreed to share regulatory information in relation to shares traded on both the London and US markets.

Supervising the markets

The Exchange's ability to protect investors against market abuse was stepped up in March 1997 with the introduction of the final phase of a highly sophisticated market monitoring system.

The new Intelligent Alerting System (IAS) is designed to identify irregular market movements and suspicious transactions.

Gilts reporting

In April 1996, the Exchange and the Bank of England announced a simpler and more cost-effective method for market users to report gilt transactions to meet the Exchange's regulatory needs as a Recognised Investment Exchange.

New service for companies

A notable innovation during the year was the introduction of new modems and software – supplied free to companies on the main market and AIM – to make it quicker and safer to deliver announcements to the Exchange's Regulatory News Service.

Our regulatory activities were assisted by our integrated monitoring and surveillance system – IMAS

to the Securities and Investments Board (SIB) that 75 per cent of trades by value should be published immediately on completion. Taking into account trades published within one hour, that proportion reached 97 per cent.

Since the end of the financial year, we have brought forward proposals in relation to our order book which should significantly increase transparency in large trades.

The detailed parameters related to these recommendations are subject to further discussions with the regulatory authorities and will be confirmed to the market in due course.

Stamp duty

A particularly significant change to the regulatory regime was announced last autumn, when, as the Exchange had advocated, HM Treasury announced proposals to simplify the stamp duty regime.

Relief on stamp duty is expected to be extended to all recognised intermediaries from autumn 1997, helping to make the London market more accessible and attractive to a wider range of investors.

Another important proposal made during the year was to remove non-stamp duty restrictions from stock borrowing and lending. This liberalisation of the tax regime is expected to increase the liquidity of our markets. The SIB issued a consultation document which supported their advice to the Chancellor of the Exchequer on any outstanding regulatory issues arising from this proposal at the at the end of 1996 and we welcome publication of their final recommendations.

Monitoring and surveillance

During 1996/7, the Market Regulation department conducted investigations into potential market abuses and rule breaches. Those investigations resulted in 42 referrals to other regulators including the DTI, SFO, SFA, overseas regulators and other stock exchanges.

The department's regulatory activities continued to be assisted by the Exchange's integrated monitoring and surveillance system (IMAS). IMAS electronically monitors trading continuously in real-time during market hours, and raises 'alerts' over suspicious or unusual trades.

During 1996/7, IMAS highlighted up to 50 transactions a day, of which just over a thousand merited further investigation.

A further major deterrent in the Exchange's surveillance activities was introduced early in 1997 – with the new Intelligent Alerting System (IAS). IAS, an advanced artificial intelligence system, has been designed to track down suspicious transactions by identifying previously undetected patterns in the trading data. It will enable sophisticated analysis of data to be undertaken electronically, far more rapidly and effectively than is possible using conventional techniques. The system was launched in March 1997.

Working with our member firms, companies and the financial community, we aim to capitalise on market opportunities

Demand for capital from UK and international issuers, as well as an increasing appetite among investors, both personal and institutional, for ever more effective ways to invest, continue to present great challenges and opportunities for the Exchange.

Working with our member firms, companies and others in the financial community, we are seeking to capitalise on these opportunities to the advantage of all the users of our markets.

As part of this process, we have run extensive programmes both across the UK and to international audiences to explain the benefits of the main market and AIM. And we have welcomed the opportunity to support the business development of our member firms, providing key market statistics, presentation materials and targeted literature to assist their marketing activities.

New markets

During the year, a major project was undertaken to research the demand for – and practicalities of – establishing a market for covered warrants.

By increasing the range of instruments traded on the Exchange for knowledgeable investors, the new covered warrants trading service is expected to provide new business opportunities to our member firms.

Information

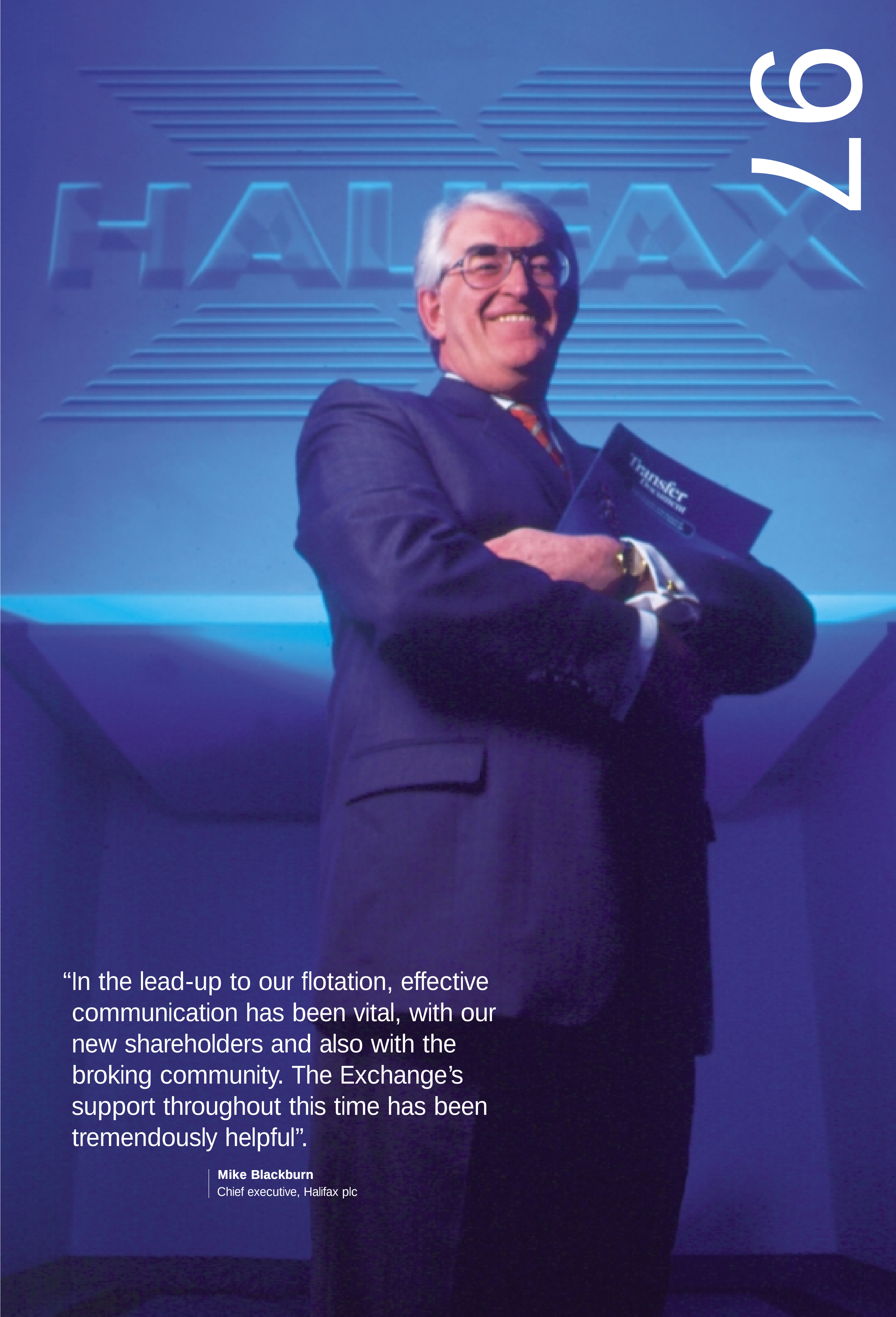
A key means of promoting our markets is to increase their visibility around the world. To encourage wider use of our data we took steps during the year to reduce the cost of the information we supply via data vendors. This is resulting in thousands more people worldwide choosing to access data about the London markets.

This move was part of a major review of our information pricing structure, carried out during the year, which also enabled share price information to be distributed free of charge after a delay of only 20 minutes. Combined with the many new services offered by information vendors, this move has created much wider access to more timely share price information – particularly benefiting private investors.

Private investors

Private shareholders are a vital part of our markets and our commitment to the promotion of share ownership

Pictured: Mike Blackburn, chief executive, Halifax plc. The flotation of the Halifax in June 1997 will be among the largest ever on the London Stock Exchange – distributing shares to 7.6 million people overnight.



97

"In the lead-up to our flotation, effective communication has been vital, with our new shareholders and also with the broking community. The Exchange's support throughout this time has been tremendously helpful".

Mike Blackburn
Chief executive, Halifax plc

Briefing Parliament

The Exchange works closely with the Industry and Parliament Trust to help brief MPs on the work of the Exchange and its role in the UK economy. Four seminars organised during the year attracted over 40 MPs, peers and parliamentary candidates and advisers.

Private share ownership

To promote the opportunities of equity participation, the Exchange has produced new user-friendly guides for private shareholders, giving a helpful introduction to the stock market and answering key questions on how to buy and sell shares.

The booklets are part of an information programme supported by the Exchange's web site and public information telephone service.

Annual report awards

The Exchange jointly sponsors the Annual Awards for Published Accounts to encourage a high standard of financial reporting.

Pictured right: The Rt Hon The Lord Mayor Roger Cork (right) presented the smaller company award to Mark Opzoomer of Hodder Headline plc.

Korean seminar

An Exchange fact-finding mission to Korea in January 1997 paved the way for a major marketing initiative in Seoul in June. The initiative, in conjunction with British Invisibles and many major member firms of the London Stock Exchange, will be led by Exchange deputy chairman, Ian Salter.

The picture left, taken during the fact-finding mission, shows (left to right): In-seok Park, Korea Stock Exchange, Colin Crooks, British Embassy and Joanne Langdale and Caroline Goodman from the London Stock Exchange.

Overseas we worked with representatives of our member firms to promote listing and trading in London

was an important focus for the Exchange during the year. This corresponded with the recommendations of the Weinberg Committee on Wider Share Ownership.

This year's programme of demutualisations – distributing shares to almost 19 million account holders – is providing the biggest impetus to private share ownership since the initial wave of privatisations in the early 80s.

The Exchange is working closely with the companies involved to help their members understand the benefits of equity investment. And we are promoting wider share ownership through new guides for private investors, advertisements, conferences and the Exchange's own web site. At the same time, we are working closely with private client brokers, providing support and statistical information to assist their marketing.

International

Internationally, we worked with representatives of our member firms to promote listing and trading in London. Business development visits and promotions included addressing US investors, holding seminars in the Middle East and Asia, and making presentations in Central Europe to issuers and local exchanges. In every case, these activities have been followed by new issues from the countries concerned.

We were also active in developing links with the emerging markets of Eastern Europe and this year organised training programmes for the Prague and Ljubljana stock exchanges.

A key result of our international efforts was the signing of the Memorandum of Understanding with the Chinese authorities. This memorandum resulted from intensive work by HM Treasury and the Securities and Investments Board, with the support of the Exchange and close co-operation with many other parties. These included company advisers in London, Hong Kong and Beijing, the British and Chinese Embassies, the Department of Trade and Industry and the China-Britain Trade Group. Two Chinese companies have since listed in London and the further potential is significant as China continues to seek funds for growth.

The Exchange continues to develop stronger links with overseas regulators and exchanges. During the year we also signed Memoranda of Understanding with the Johannesburg and Stockholm stock exchanges, as well as a multilateral agreement between the 17 member exchanges of the Federation of European Stock Exchanges.

Working with the City and Westminster

The Exchange continued to promote close ties with key City organisations and Westminster, to ensure that our role is better understood and to forge the links which are vital for us to be able to work together to the benefit of London and the UK as a whole.

As well as a series of visits by Government Ministers and Opposition frontbench spokespeople, we were pleased to arrange – in conjunction with the Industry and Parliament Trust – four half-day seminars for Members of Parliament and Westminster staff. And, for the first time, we arranged a series of presentations at the Exchange for prospective parliamentary candidates.

In October, we marked the 10th anniversary of 'Big Bang' with a conference at Westminster, attended by representatives of the main political parties.

We were pleased to co-operate with an inquiry by the House of Commons' Treasury Select Committee. This reviewed developments at the Exchange, given "the Stock Exchange's central role in the securities industry."

Our committees are vital in providing expertise, advice and feedback

A comprehensive restructuring of the Exchange's committees was completed during the financial year, following a review of the Exchange's governance arrangements. The new structure is operating effectively and has enhanced the role played by the committees in providing practitioner input into the Exchange's decision-making processes.

This section highlights the major areas of deliberation undertaken by the committees during the period.

Primary Markets Committee
Chaired by Ian Salter, Exchange deputy chairman and director of SOCGEN Investment Management Ltd, this committee advises the Exchange on all primary market matters, in particular the main market and AIM.

The focus of its early meetings has been the proposals to streamline the Listing Rules (the Yellow Book) to eliminate unnecessary rules and the development of the AIM market. The AIM Advisory Committee, which reports to the Primary Markets Committee and consists of practitioners with specific expertise in this area, reviews proposed AIM rule changes and has been particularly involved with the discussions which led to the changes in the role of the nominated adviser.

The Listing Rules Committee, which also reports to the Primary Markets Committee, reviews detailed rule changes as they are developed.

Secondary Markets Committee
Chaired by Hector Sants, an Exchange Board director and vice chairman of UBS Ltd, this committee advises on issues relating to the secondary markets.

During the year, the committee has been the principal focus for practitioner debate on the new electronic trading service. Its agenda in this key area has covered such matters as the rules for the new market, the appropriate transparency regime and the state of readiness of the market at critical points in the process.

While the order book has dominated its work to date, the committee has also reviewed proposals for a covered warrants market. Specific sub-committees for equities and fixed income activities review any proposed rule changes to ensure that they will be effective in prevailing market conditions.

Listed Companies Advisory Committee

Chaired by Sir Ian Prosser, chairman of Bass plc, the committee brings together the chairmen/chief executives of listed companies to provide expert advice to the Exchange on matters affecting listed companies.

Corporate governance matters (Cadbury, Greenbury, Hampel) feature on its agenda. It has also been kept informed of the transition from Talisman to CREST and has recently reviewed the IMAS system which the Exchange uses to monitor its markets.

Institutional Investors Advisory Committee

Chaired by Graham Allen, a member of the Exchange Board and managing director of ICI Investment Management Ltd, this committee provides a link to the investor trade associations – Association of British Insurers (ABI), National Association of Pension Funds (NAPF) and Institutional Fund Managers Association (IFMA).

With an expanded membership, the committee now includes overseas as well as domestic investors. It has provided an investor's view in connection with the development of the order book, other market development matters and amendments to the Listing Rules.

Private Investors Advisory Committee

Chaired by Nigel Sherlock, an Exchange Board director and chairman of Wise Speke Ltd, the Private Investors Advisory Committee's membership includes private client stockbrokers and private investors. The committee advises the Exchange on how it can best meet the needs of private investors. The committee has also taken forward the Exchange's response to the recommendations included in the Weinberg Report.

The committee's focus this year has been on the demutualisations, which provide an excellent opportunity to promote and increase share ownership.

Our new committee structure is operating effectively

Underlying operating and development costs were down by 24 per cent

The principal financial challenge for the Exchange during 1996/7 was to cut running costs to provide increasingly cost-effective services, as well as to take account of reducing income from our Talisman settlement services. At the same time, we had to provide for the strategic restructuring of the Exchange and maintain an appropriate level of investment for the future.

During the period, underlying operating and development costs were reduced by 24 per cent, well on course to meet our target cost base. The provisions necessary to implement the required restructuring were made in full, and further investment was made in the development of new trading services and regulatory systems.

We are returning to our members £10 million through a rebate on settlement and trading fees, while retaining sufficient surplus to ensure adequate flexibility during this period of significant change and continuing development.

Accounting developments

These accounts include the adoption of the revised Financial Reporting Standard FRS1 for cash flow statements. The format of the cash flow statement has been revised in line with this standard and the prior year comparisons amended accordingly. The new format shows the actual movement in the cash balance during the year with separate disclosure on the management of liquid resources.

Income

Gross income for the year was £191.8 million, only 2.2 per cent lower than last year (1995/6, £196.1 million) despite the transfer of settlement services from Talisman to CREST during the second half of the year. Settlement income, at £55.0 million, was £10.3 million lower than the previous year (1995/6, £65.3 million). This income stream has now ceased with the final transfer of securities to CREST and the cessation of the Talisman settlement service in April 1997.

Of the three continuing income streams, information services was down slightly in line with our pricing strategy at £60.4 million, but both listing and trading increased with higher market activity.

Costs

Operating costs of £122.4 million showed an underlying reduction from last year of £38.9 million (24.1 per cent). This was the fourth consecutive year in which costs have been reduced.

Staff

Staff numbers at 750 were 20 per cent lower than a year ago, due to the strategic restructuring as well as to the closure of our settlement operations.

Property

We have continued to reduce our property costs through letting surplus space. As we reduce our own headcount, we are making available extra space on which we can earn rental income. In this regard, the agreement with the London International Financial Futures and Options Exchange (LIFFE) last year to sub-let the Market Floor and extra floors in the Stock Exchange Tower is being implemented.

Provisions

The accounts include new provisions of £41.5 million in three major areas. The first – £18 million – is for enhancements to our trading systems (the Stock Exchange Electronic Trading Service – SETS), and support to the market to implement the new services successfully. The second, for £11.6 million, is for restructuring and redundancy costs. The third is an increase of £11.9 million to our provision for surplus leasehold properties.

Final results

After these provisions, our share of income from our associated company, FTSE International Limited, and higher net interest income, we ended the year with a pre-tax surplus of £25.3 million, compared with £9.5 million in the previous year. After tax of £8.2 million, we will be transferring £17.1 million to reserves.

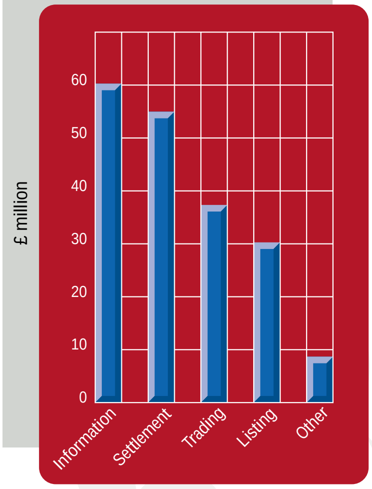
Balance sheet and cash flow

Cash flow for the year was positive, with the inflow from operating activities exceeding the requirements for taxation and capital investment. We have a long-term debenture outstanding of £30 million, repayable in 2016. The end-of-year settlement balances for debtors, cash and creditors are all significantly lower than the previous year-end due to the migration of securities from Talisman to CREST.

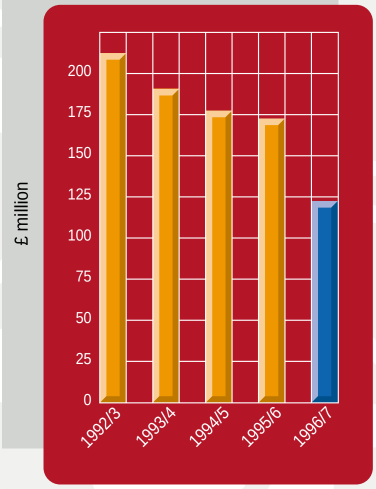
Going concern

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

Income (by activity) 1996/7



Costs 1992/3-1996/7

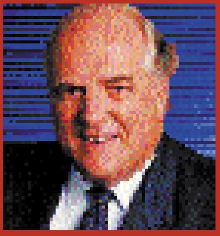


Board of Directors


Gavin Casey
Chief executive

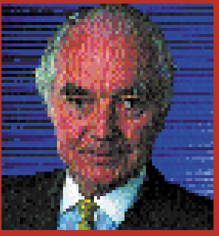

John Kemp-Welch
Chairman

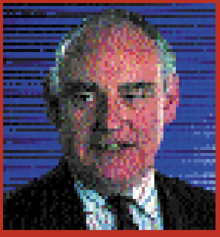

Ian Salter
Deputy chairman

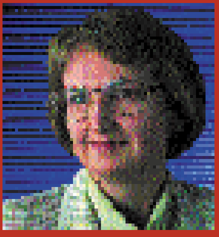

Gary J Allen, CBE, DL


Graham K Allen

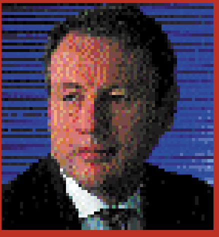

Richard Barfield

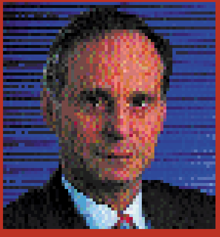

John Bond

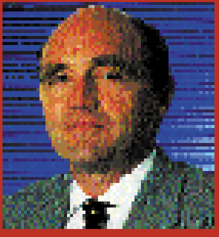

Donald Brydon, OBE

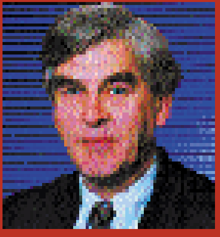

Christine Dann

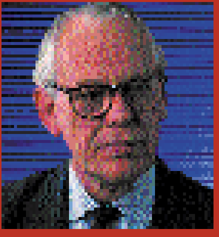

Masashi Kaneko


Richard Kilsby

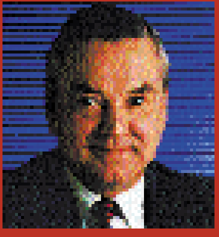

Michael Marks


Robert Metzler


Ian Plenderleith


Mark Radcliffe


Hector Sants


Nigel Sherlock, DL


Bernard Solomons


Fields Wicker-Miurin

John Kemp-Welch 61
Chairman

Chairman since July 1994. He was formerly joint senior partner, Cazenove & Co, the firm he joined in 1959. He is deputy chairman of the Financial Reporting Council, chairman of The Scottish Eastern Investment Trust plc, and a director of Royal & Sun Alliance Insurance Group plc, ProShare (UK) Ltd, British Invisibles and The Savoy Hotel plc. He is also a member of the Panel on Takeovers and Mergers and a director of the Securities and Futures Authority Ltd.

Gavin Casey 50 *
Chief executive

Chief executive since August 1996, he is a chartered accountant and was previously chief operating officer of Smith New Court (acquired by Merrill Lynch in 1995).

Ian Salter 54 •
Deputy chairman

Director, SOCGEN Investment Management Ltd. He is a director of ProShare (UK) Ltd.

Gary J Allen, CBE, DL 52 ▲
Chief executive, IMI plc since 1986. He was appointed to IMI's Board in 1978, having joined the company in 1965. He is a non-executive director of NV Bekaert SA, Belgium and a member of the Council of the CBI.

Graham K Allen 46 ▲
Managing director, ICI Investment Management Ltd. He joined ICI in 1974. He is chairman of the NAPF Investment Committee, vice chairman of the NAPF Council and a member of the Panel on Takeovers and Mergers.

Richard Barfield 49
Director of Clyde Blowers PLC, Quintain Estates and Development PLC, Equitas Holdings Ltd and RTZ Pension Investments Ltd. Until 1996 he was chief investment manager of Standard Life Assurance Co.

John Bond 55 •
Group chief executive of HSBC Holdings plc and director of The Hongkong and Shanghai Banking Corporation Ltd in Hong Kong and Midland Bank plc. He is also non-executive director of British Steel plc, Visa International and Orange plc.

Donald Brydon, OBE 51 •
Chairman and chief executive of AXA Asset Management Europe. Previously he was acting chief executive of BZW. He is a director of Allied Domecq plc. He has been vice president of NAPF and chairman of the Institutional Shareholders Committee.

Christine Dann 48 *
Director of Business Operations since March 1994. She has been with the Exchange since 1974. After managing the Birmingham Stock Exchange, she transferred to London in 1983. She became chief operating officer of the Primary Markets Division in 1991 and head of Information Services in July 1992. She is chairman of FTSE International Limited and a director of CRESTCo Limited.

Masashi Kaneko 58
Executive deputy president, head of Nikko Securities Co Ltd, international operations from February 1996. He was formerly chairman, Nikko Europe Plc and chairman, European Division, Nikko Securities Co Ltd, the company he joined in 1962. He was appointed executive deputy president in 1997.

Richard Kilsby 46 *
Director of Market Services since September 1995. He was formerly a managing director with Bankers Trust for three years in the UK and USA before moving to the Exchange. From 1990 to 1992 he was vice chairman of Charterhouse Bank and prior to that a partner in Price Waterhouse.

Michael Marks 55 •
Deputy chairman, Merrill Lynch International and chief executive officer of Merrill Lynch Europe, Middle East and Africa. He is a member of NASD's International Markets Advisory Board.

Robert Metzler 59
A managing director of Morgan Stanley Securities since 1984 and vice chairman of Morgan Stanley & Co. International Limited.

Ian Plenderleith 53 ▲
Appointed government broker in 1989, he is an executive director of the Bank of England responsible for monetary stability (operations). During his career at the Bank of England since 1965, he has worked on secondment at the IMF in Washington DC and served on the Board of the European Investment Bank.

Mark Radcliffe 59 ▲
Previously a director of the TI Group plc and deputy director general of the CBI, he is currently a director of a number of listed companies. He is a member of the Board of the Securities and Futures Authority Ltd.

Hector Sants 41
Vice chairman of UBS Ltd since 1988, responsible for UBS's worldwide European equity operations. He is a member of the management committee for UBS in Europe and the Securities Trading Committee of the London Investment Banking Association.

Nigel Sherlock 57
Chairman of Wise Speke Ltd, having formerly been a partner of Wise Speke & Co from 1969 to 1987. He is deputy chairman of APCIMS, a member of the Securities Institute, and an associate member of the Institute of Investment Management and Research.

Bernard Solomons 52 ▲
Chairman of Scottish Amicable Investment Managers. Until 1996 he was deputy chairman, Greig Middleton & Co Ltd. He is a non-executive director of Scottish Amicable Life Assurance Society and The Edinburgh Income Trust.

Fields Wicker-Miurin 38 *
Director of Strategy and Finance since September 1994. She is also a director of ProShare (UK) Ltd. Previously she was vice president and partner of Mercer Management Consulting/ Strategic Planning Associates, following an earlier career as vice president of the Philadelphia National Bank in Europe.

Key:
- ▲ Member of the Audit Committee
- • Member of the Senior Appointments and Remuneration Committee
- * Member of the Executive Committee

The following are also members of the Exchange's Executive Committee:

Steve Hull head of Personnel and Property

Claire Mascall head of Corporate Affairs

Keith Robinson secretary to the Board and head of Secretariat

Nicholas Verey was a director through part of the financial year until his death in October 1996.

Stephen Cooke was a director throughout the financial year until his death in May 1997.

Directors' Report and Accounts

Contents

The Exchange continues to be committed to the principle of improved and strengthened corporate governance arrangements.

The Exchange's Board is satisfied that it has complied throughout the year ended 31 March 1997 with the Code of Best Practice published by the Cadbury Committee.

Board of directors

The Board, at 31 March 1997, comprised the chairman, deputy chairman, chief executive, three executive and 14 non-executive directors. The non-executives represent various aspects of the Exchange's membership, but also include six independent directors. Directors considered to be independent are those who are not an employee or partner of an Exchange member firm. To preserve the division of responsibilities, the Board had two non-executive deputy chairmen during the period when the chairman took responsibility for the Executive Committee prior to the appointment of the new chief executive in August 1996.

Board committees

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

The Executive Committee is chaired by G F Casey and currently comprises three other executive directors, the company secretary and two other business department heads. The Board has delegated to the Executive Committee the responsibility of managing the day to day business operations of the Exchange and to report regularly to the Board on those activities.

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

The Senior Appointments and Remuneration Committee is chaired by J R H Bond, an independent director, and currently comprises three other non-executive directors. The report from this committee is set out on page 34.

Internal financial control

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

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

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

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

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

Risk management – The operation of effective risk management is the responsibility of all line managers. This has been enhanced by risk management and control self-assessment workshops coordinated by Internal Audit. Other risk management work last year was linked to the major projects managed by the Exchange.

Going concern

As explained in the Financial Review on page 29, the directors continue to adopt the going concern basis in preparing the accounts.

Audit review

The Company's auditors have reported to the Board that in their opinion the directors' statements above on internal financial control and on going concern, included in the Financial Review on page 29, provide the disclosures required by the Listing Rules. The statements are consistent with the information of which the auditors are aware from their audit work on the financial statements, and the above statement on corporate governance appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have not carried out the additional work necessary to, and do not express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor the ability of the Company to continue in operational existence.

This report has been prepared in accordance with the recommendations made in the Code of Best Practice published by the Study Group on Directors' Remuneration (the Greenbury Committee).

Membership and terms of reference

The Committee currently comprises four non-executive directors who are appointed by the Board. The Committee members are shown on page 31. The Committee meets as required to:

- review and present recommendations to the Board regarding the appointment, remuneration and conditions of service of the chairman, chief executive and executive directors
- perform the function of a Nomination Committee for the appointment of directors
- review the remuneration of non-executive directors

Each of the above is ratified by the whole Board

- monitor the remuneration and conditions of service of members of the Executive Committee who are not directors.

The members of the Committee have no personal financial interests in the areas covered by the Committee. They have no potential conflicts arising from cross-directorships or day to day involvement in running the Company.

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

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

Remuneration policy

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

All executive directors normally have one year rolling service contracts with the Company. The chief executive's contract is for an initial period through to August 1998, but from August 1997 is subject to a rolling notice period of one year. No other director has an employment contract with a notice period which exceeds one year.

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

Executive directors' rewards

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

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

Benefits in kind provided to executive directors are principally a company car, or cash allowance in lieu, and private health care arrangements. Within the disclosures of individual director's remuneration, included in note 3 to the financial statements, benefits in kind represent the amounts assessable to income tax in respect of the benefits provided.

The annual performance bonus is a non-pensionable cash payment for achieving targets set each year. These targets are linked to the performance of individual and organisational objectives. During the period in 1996 when the position of chief executive was vacant, an additional bonus was provided for each executive director dependent on meeting financial and non-financial targets.

Pension benefits are also part of the remuneration package. Executive directors may join the Company pension scheme which offers Inland Revenue approved retirement benefits on final salary. The core benefit, which is non-contributory, comprises a pension accrual rate of 1/60th of final basic salary for each year of service (up to a limit of 2/3rds of final base salary). Alternatively, executive directors may elect to have a payment of 22$^1/_2$ per cent of their base salary paid into an appropriate provision for pension according to their individual circumstances.

The amounts paid for pension provision are shown for each director in note 3 to the financial statements. The note also includes details in respect of the director who is a member of the Company defined benefit scheme. The information provided is the increase in accrued benefit and the accumulated pension at the end of the year and the transfer value of the increase in accrued benefit during the year.

Non-executive directors' fees

The standard fee for non-executive directors is currently £12,500 per annum as approved by the Board. Additional amounts are paid to directors who carry out further activities for the Company in their non-executive role.

Compliance

The constitution and operation of the Committee is in compliance with Section A of the best practice provisions annexed to the Listing Rules and derived from the Code of Best Practice issued by the Study Group on Directors' Remuneration (the 'Greenbury Report').

The Committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in framing its remuneration policy for executive directors.

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

John Bond
Chairman of the Senior Appointments and Remuneration Committee

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 1997.

The Exchange was originally constituted by Deeds of Settlement dated 27 March 1802 and 31 December 1875. It was incorporated under the Companies Act 1985 as a private limited company on 19 November 1986 under the name of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ('the Exchange'). The Exchange changed its name to London Stock Exchange Limited on 9 December 1995 following the separation of the Irish Stock Exchange as a result of EC legislation.

Directors

The directors of the Company at 31 March 1997 are shown on pages 30 and 31.

H N Verey died on 16 October 1996.

G E Vardey resigned as a director on 31 March 1997.

G F Casey was appointed as a director on 5 August 1996 and H W H Sants on 5 December 1996.

Under the Articles of Association of the Company, G J Allen, G K Allen, M J P Marks, R A Metzler, N Sherlock and Mrs F Wicker-Miurin retire by rotation and G F Casey and H W H Sants retire following appointment during the year; they all offer themselves for re-election.

The share interests of the directors are shown in note 24 to the financial statements. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

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

Membership

The number of member firms as at 31 March 1997 was 312 (1996, 318).

Interests in share capital

14,072 (1996, 14,066) 'B' shares are held by The Stock Exchange (Holdings) Limited as the share trustee in accordance with the Company's Articles of Association.

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

Principal activities and results

The principal activities of the Exchange and its subsidiaries are the organisation and regulation of markets in securities, the provision of associated settlement and information services and the admission of securities to listing which are regarded as a single class of business. During the year, the settlement of securities was progressively transferred from the Exchange's Talisman system to CREST, operated by CRESTCo Limited in which the Exchange has a three per cent interest. The Talisman system ceased operation on 11 April 1997.

The surplus of the Group on ordinary activities before taxation for the year ended 31 March 1997 was £25.3 million compared with a surplus of £9.5 million in 1996. The premium of £1.32 million on redemption of 132 'A' shares has been deducted from the capital redemption reserve.

The business and systems developments and future developments of the Company are described more fully in the Chairman's Statement and the Chief Executive's Review on pages 2 to 7, and the Financial Review on pages 28 and 29.

Tangible assets

All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts.

Employment

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

All employees are provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications. There is also a Forum of elected representatives through which staff are consulted on business issues.

Donations

During the year the Exchange gave £113,000 (1996, £113,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

The Exchange's policy with suppliers is to agree payment terms and to abide by those terms.

Auditors

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

By Order of the Board
K O Robinson
Secretary
22 May 1997

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

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

The directors consider that in preparing the financial statements on pages 37 to 52 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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

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

Report of the Auditors

To the shareholders of London Stock Exchange Limited.
We have audited the financial statements on pages 37 to 52.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1997 and of the surplus, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Talisman Settlement System review

In addition to our financial statements audit, we have carried out a review of the manual and computer controls used in the support and operation of systems known as the Talisman Settlement System. The Talisman Settlement System includes the core Talisman mainframe system and the peripheral systems for input and control. In our opinion, based on this review, the controls which provide reasonable assurance over the completeness, accuracy and existence of data received, processed and the production of computerised and paper outputs were operated satisfactorily throughout the year ended 31 March 1997.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
22 May 1997

1. Basis of accounting and consolidation

The financial statements are prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets. The consolidated financial statements include the accounts of all subsidiaries. As permitted by section 230 of the Companies Act 1985, the holding company's revenue account has not been included in these financial statements.

2. Associated undertakings

The Group's share of profits, less losses of associated undertakings, is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned.

3. Tangible assets and depreciation

a) Freehold properties

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

Freehold buildings and related fixed plant are depreciated, based on cost or valuation at the beginning of the year plus subsequent additions, over their estimated economic lives. The estimated economic lives of properties range from 15 to 40 years, the estimated useful lives of fixed plant range from 7 to 20 years.

b) Leasehold properties

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

c) Plant and equipment

Plant and equipment is stated at cost and is depreciated on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from 3 to 10 years.

d) Leased plant and equipment

Plant and equipment leased from finance houses for effectively the whole of the useful lives of the assets are treated in the financial statements as tangible assets and the amount due to the lessors over the remainder of the leases, excluding an amount representing future finance charges, is included as a liability. The cost of leased plant and equipment is depreciated on a straight line basis over the lease period.

e) Service equipment

Computer and communications equipment acquired in respect of services in operation is stated at cost and depreciated on a straight line basis over the estimated useful lives ranging from 3 to 7 years.

4. Operating leases

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

5. Income

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

6. Pension costs

The pension costs are assessed in accordance with the advice of an independent actuary. The accounting cost for providing pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Further details of the Company's pension scheme and the basis upon which the charge to the revenue account is determined are set out in note 22 to the financial statements.

7. Development costs

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

8. Deferred taxation

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

Continuing operations	Notes	1997 £000	1996 £000
Gross income	1	**191,745**	196,090
Rebate	1	**(10,000)**	–
Net income after rebate		**181,745**	196,090
Operating costs	2	**(122,392)**	(173,312)
Operating surplus		**59,353**	22,778
Provisions for restructuring and for implementation of the Stock Exchange Electronic Trading Service (SETS)	5	**(41,500)**	–
Rationalisation of settlement operations	6	**–**	(19,500)
Share of profits of associated undertaking		**309**	–
Net interest receivable	7	**7,096**	6,223
Surplus on ordinary activities before taxation		**25,258**	9,501
Taxation on surplus on ordinary activities	8	**(8,164)**	(7,534)
Surplus for the financial year		**17,094**	1,967
Appropriation to the Irish Stock Exchange	9	**–**	(1,176)
Transfer to reserves	18	**17,094**	791

Statement of Total Recognised Gains and Losses

Surplus for the financial year		**17,094**	1,967
Other recognised gains and losses for the year:			
Unrealised surplus on the revaluation of tangible assets	18	**21,094**	69
Total recognised gains for the year		**38,188**	2,036

Note of Historical Cost Profits and Losses

Surplus on ordinary activities before taxation	**25,258**	9,501
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**1,309**	6,021
Historical cost surplus on ordinary activities before taxation	**26,567**	15,522
Historical cost surplus retained after taxation	**18,403**	7,988

	Notes	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Fixed assets					
Tangible assets	*10*	**111,149**	102,301	**111,149**	102,301
Investments	*11*	**595**	390	**463**	491
		111,744	102,691	**111,612**	102,792
Current assets					
Debtors: due within one year					
Settlement	*12 & 14*	**3,990**	66,605	**3,990**	66,605
Other	*12*	**26,315**	28,972	**26,315**	28,899
Deferred tax: due after more than one year	*13*	**15,259**	12,287	**15,259**	12,287
Investments – term deposits with banks		**167,000**	65,000	**167,000**	65,000
Cash at bank:					
Settlement		**3,425**	67,495	**3,425**	67,495
Other		**7,427**	43,880	**7,427**	43,880
		223,416	284,239	**223,416**	284,166
Creditors: due within one year					
Settlement	*14*	**7,415**	134,100	**7,415**	134,100
Other	*14*	**54,324**	44,460	**54,495**	44,666
		61,739	178,560	**61,910**	178,766
Net current assets		**161,677**	105,679	**161,506**	105,400
Total assets less current liabilities		**273,421**	208,370	**273,118**	208,192
Creditors: due after more than one year	*15*	**30,000**	30,000	**30,000**	30,000
Provisions for liabilities and charges	*16*	**76,323**	48,140	**76,323**	48,140
Net assets		**167,098**	130,230	**166,795**	130,052
Capital and reserves					
Called up share capital	*17*	**1**	1	**1**	1
Reserves:					
Revaluation	*18*	**56,370**	36,585	**56,370**	36,585
Capital redemption	*18*	**37,750**	39,070	**37,750**	39,070
Revenue	*18*	**72,977**	54,574	**72,674**	54,396
Total shareholders' funds		**167,098**	130,230	**166,795**	130,052
Analysed between:					
Equity shareholders' funds	*18*	**129,348**	91,160	**129,045**	90,982
Non-equity shareholders' funds	*18*	**37,750**	39,070	**37,750**	39,070
		167,098	130,230	**166,795**	130,052

The financial statements on pages 37 to 52 were approved by the Board on 22 May 1997 and signed on its behalf by:

Gavin Casey Chief executive
Fields Wicker-Miurin Director of Strategy and Finance

	Notes	1997 £000	1996 £000
Net cash inflow from continuing operating activities	*20(i)*	**72,389**	43,141
Returns on investments and servicing of finance			
Interest received		**11,899**	11,828
Interest paid		**(3,106)**	(4,258)
Appropriation to the Irish Stock Exchange	*9*	**–**	(500)
Net cash inflow from returns on investments and servicing of finance		**8,793**	7,070
Taxation			
Corporation tax paid	*20(ii)*	**(10,295)**	(5,153)
Capital expenditure			
Payments to acquire tangible fixed assets		**(6,196)**	(13,376)
Receipts from sale of tangible fixed assets		**318**	292
Net cash outflow from capital expenditure		**(5,878)**	(13,084)
Net cash inflow before use of liquid resources and financing		**65,009**	31,974
Management of liquid resources			
Increase in term deposits	*20(iii)*	**(102,000)**	(65,000)
Financing			
Repayment of bank loan		**–**	(5,102)
Redemption of debenture		**–**	(7,735)
Redemption of ‘A’ shares		**(1,320)**	(1,340)
Cash outflow from financing		**(1,320)**	(14,177)
Decrease in cash in the year	*20(iii)*	**(38,311)**	(47,203)

1. Income

	1997 £000	1996 £000
Analysis of income:		
Membership fees	**1,660**	1,878
Listing	**30,248**	27,340
Trading	**37,254**	34,990
Information services	**60,371**	60,829
Settlement services	**55,042**	65,346
Other income	**7,170**	5,707
Gross income	**191,745**	196,090
Rebate	**(10,000)**	–
Net income after rebate	**181,745**	196,090

The rebate is payable to member firms in 1997 based on income received during the year from Trading and Settlement services.

2. Operating costs

Operating costs include:			
Development costs for market systems	*i)*	**–**	11,255
Depreciation of tangible assets	*ii)*	**18,253**	33,959
Operating lease rentals – properties		**5,212**	5,287
– plant and machinery		**27**	35
Auditors' remuneration		**198**	176
Other fees payable to Coopers & Lybrand	*iii)*	**202**	249

Notes

i) Development costs for market systems are for fees paid to third parties for the design and development of replacement market trading systems which were implemented in 1996.

ii) The 1996 charge for depreciation of tangible assets included £12,000,000 to reduce the book value of one freehold property to its estimated recoverable amount.

iii) Other fees payable to Coopers & Lybrand, the Company's auditors, are primarily in respect of taxation, pensions and actuarial services.

iv) The revenue account includes £2,443,000 (1996, £1,671,000) for the operating costs of the Regulatory News Service. Total income for this service for the year ended 31 March 1997 was £586,000 (1996, £451,000).

3. Directors' emoluments

The report of the Senior Appointments and Remuneration Committee on directors' remuneration is on page 34

	1997				1996				**1997**	1996
	Salary £	Performance Bonus £	Benefits £	**Total £**	Salary £	Performance Bonus £	Benefits £	Total £	**Pensions (Note i) £**	Pensions (Note i) £
Chairman										
J Kemp-Welch	196,603	–	2,692	**199,295**	162,179	–	2,152	164,331	**–**	–
Chief executive										
G F Casey from 5 August 1996	181,218	55,528	12,172	**248,918**	–	–	–	–	**40,774**	–
Executive directors										
C L Dann (note i)	179,000	98,230	11,181	**288,411**	163,000	64,000	11,200	238,200	**–**	–
R P Kilsby from 28 September 1995	181,250	99,430	11,162	**291,842**	88,938	70,000	3,847	162,785	**–**	–
pension provision (note i)	40,882			**40,882**	20,107			20,107		
relocation allowance				**–**	28,333			28,333		
F Wicker-Miurin	171,200	98,230	13,404	**282,834**	160,175	48,000	13,589	221,764	**39,500**	39,500
G E Vardey resigned 31 March 1997	180,700	81,030	13,518	**275,248**	170,237	56,000	13,332	239,569	**30,000**	30,000
M J Lawrence until 4 January 1996	–	–	–	**–**	182,580	–	12,210	194,790	**–**	–
pension provision	–			**–**	63,333			63,333		
	1,130,853	432,448	64,129	**1,627,430**	1,038,882	238,000	56,330	1,333,212	**110,274**	69,500
Compensation for contractual commitment										
G E Vardey				**129,000**				–		
Compensation for loss of office										
M J Lawrence				**–**				395,000	**–**	–
Total emoluments for chairman and executive directors				**1,756,430**				1,728,212	**110,274**	69,500
Non-executive directors' fees										
Directors in office throughout both years										
I Plenderleith – deputy chairman from 4 January 1996 to 5 Aug 1996				**16,087**				15,000	**–**	–
I G Salter – deputy chairman				**22,500**				18,750	**–**	–
G J Allen				**12,500**				12,500	**–**	–
J R H Bond				**12,500**				12,500	**–**	–
D H Brydon				**12,500**				12,500	**–**	–
S P Cooke				**13,433**				15,000	**–**	–
M Kaneko				**12,500**				12,500	**–**	–
M J P Marks				**12,500**				12,500	**–**	–
R A Metzler				**12,500**				12,500	**–**	–
M J H Radcliffe				**12,500**				12,500	**–**	–
B Solomons				**12,500**				12,500	**–**	–
Directors who did not hold office for the whole of the two financial years										
G K Allen from 13 July 1995				**12,500**				9,375	**–**	–
R A Barfield from 13 July 1995				**12,500**				9,375	**–**	–
R G Mueller until 13 July 1995				**–**				4,125	**–**	–
H Post until 13 July 1995				**–**				5,875	**–**	–
M J Rivett-Carnac until 13 July 1995				**–**				4,125	**–**	–
H W H Sants from 5 December 1996				**4,050**				–	**–**	–
N Sherlock from 13 July 1995				**12,500**				9,375	**–**	–
H N Verey until 16 October 1996				**6,764**				12,500	**–**	–
Total non-executive directors' fees (note ii)				**200,334**				203,500	**–**	–
Total directors' emoluments				**1,956,764**				1,931,712	**110,274**	69,500

3. Directors' emoluments continued

Notes

i) **Pensions**

The Company provided additional emoluments to R P Kilsby of £40,882 (1996, £20,107) for him to apply towards his pension arrangements. No separate pension contributions are made.

Mrs C L Dann is a member of the Company's defined benefit scheme. The increase in the accrued benefit during the year was £5,756 (1996, £7,716), and the accumulated accrued pension at the end of the year was £67,513 (1996, £58,762). The transfer value of the increase in her accrued benefit during the year was £52,100 (1996, £62,809).

The Company made payments into senior executive defined contribution pension schemes for G F Casey, G E Vardey and Mrs F Wicker-Miurin.

ii) **Non-executive directors' fees**

Fees paid directly to the employer companies of non-executive directors were £156,584, representing 14 directors (1996, £174,750, representing 15 directors).

iii) **Waiver of emoluments**

None of the directors waived emoluments during 1996 or 1997.

4. Employees

	1997	1996
Employees of the Group and their employment costs are summarised below.		
The number of employees was:		
At the year end	**750**	941
Average for the year	**872**	983

Staff costs during the year amounted to:	**£000**	£000
Wages and salaries	**26,732**	26,138
Social security costs	**2,768**	2,657
Other pension costs	**3,359**	3,441
Total	**32,859**	32,236

5. Provision for restructuring and for implementation of the Stock Exchange Electronic Trading Service (SETS)

	1997 £000
Changes to the Exchange's trading systems and support to the market to implement the Stock Exchange Electronic Trading Service (SETS)	**18,000**
Redundancy and restructuring costs	**11,600**
Increase in provision for leasehold properties	**11,900**
Total Provision	**41,500**
Taxation	**(9,768)**

Further details on these provisions are included in the financial review on page 29 and expenditure incurred to date is shown in note 16. The taxation relief of £9,768,000 has not been applied to the increase in the leasehold provision because this will not be allowable for tax purposes within the next few years.

6. Rationalisation of settlement operations

	1997 £000	1996 £000
Rationalisation of settlement operations	–	19,500
Taxation	–	(6,435)

The total cost of the rationalisation of settlement operations was provided for in 1996 *(see note 16)*. These costs are being incurred by the Company to support the orderly and efficient transfer of securities from Talisman to CREST. They comprise redundancy and support costs for staff being made redundant as a result of the transfer, trading losses incurred during the final phase of the transfer when the settlement operation continued at below break-even and the system changes resulting from this rationalisation.

7. Interest

	1997 £000	1996 £000
Interest receivable:		
Bank deposits	**12,025**	10,710
Other	**405**	1,250
	12,430	11,960
Interest payable:		
On bank and other loans repayable after five years	**(3,038)**	(3,038)
On bank and other loans repayable within five years	**–**	(550)
Other interest	**(75)**	(329)
Interest on discounted provision for leasehold properties *(see note 16)*	**(2,221)**	(1,820)
	(5,334)	(5,737)
Net interest receivable	**7,096**	6,223

8. Taxation

	1997	1996
Corporation tax for the year at 33% (1996, 33%)	**17,126**	16,154
Overseas taxation	**–**	59
Deferred taxation *(see note 13)*	**(3,660)**	(4,826)
Adjustment for previous years:		
Corporation tax	**(6,094)**	(7,742)
Deferred taxation	**688**	3,889
Associated undertaking	**104**	–
Taxation charge	**8,164**	7,534

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

9. Appropriation to the Irish Stock Exchange

At an Extraordinary General Meeting on 13 July 1995, a special resolution was passed for the Company to make a contribution to the Irish Stock Exchange Limited upon its separation from the Exchange to form a separate Irish Exchange. The contribution, which was made on 8 December 1995, comprised a capital sum of £500,000 and a building and assets valued at £676,000. The special resolution was required to amend the Exchange's Articles of Association to permit the contribution to be made to the Irish Stock Exchange which is owned by a number of 'B' shareholders of the Company *(see also note 19)*.

10. Tangible assets

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Plant and equipment £000	Service equipment £000	Total £000
GROUP & COMPANY					
Cost or valuation:					
1 April 1996	146,316	4,995	15,918	62,146	229,375
Additions	788	42	2,663	2,703	6,196
Disposals	–	(250)	(5,005)	(9,900)	(15,155)
Transfers	–	–	368	(368)	–
Revaluation	6,296	–	–	–	6,296
31 March 1997	**153,400**	**4,787**	**13,944**	**54,581**	**226,712**
Depreciation:					
1 April 1996	67,139	4,995	12,881	42,059	127,074
Provision for the year	9,079	42	2,150	6,982	18,253
Disposals	–	(250)	(4,842)	(9,874)	(14,966)
Transfers	–	–	254	(254)	–
Revaluation	(14,798)	–	–	–	(14,798)
31 March 1997	**61,420**	**4,787**	**10,443**	**38,913**	**115,563**
Net book values:					
31 March 1997	**91,980**	**–**	**3,501**	**15,668**	**111,149**
1 April 1996	79,177	–	3,037	20,087	102,301
Net book values at 31 March 1997 are analysed as follows:					
Valuations	91,980	–	–	–	91,980
Cost less depreciation	–	–	3,501	15,668	19,169
	91,980	**–**	**3,501**	**15,668**	**111,149**

Notes

i) Freehold land and buildings includes freehold properties and the associated fixed plant. All freehold properties were revalued as at 31 March 1997 by DTZ Debenham Thorpe, International Property Advisers, in accordance with the RICS Appraisal and Valuation Manual. The directors have reviewed the valuations and are of the opinion that the total value of freehold properties amounts to £91,980,000 based on the Existing Use Value or Open Market Value as appropriate.

ii) Based on historical cost at 31 March 1997, the aggregate cost of Group tangible assets was £187,230,000 (1996, £196,189,000), and the aggregate depreciation was £132,451,000 (1996, £130,473,000).

11. Fixed asset investments	Associated undertaking note (i) £000	Subsidiary undertakings Shares note (ii) £000	Subsidiary undertakings Loans £000	Other note (iii) £000	Total £000

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

	Associated undertaking £000	Shares £000	Loans £000	Other £000	Total £000
a) GROUP					
Cost:					
1 April 1996	–	–	–	390	390
Share of retained profit	205	–	–	–	205
31 March 1997	**205**	**–**	**–**	**390**	**595**
b) COMPANY					
Cost:					
1 April 1996	–	73	28	390	491
Recovery of loan	–	–	(28)	–	(28)
31 March 1997	**–**	**73**	**–**	**390**	**463**

Notes

(i) Associated undertaking

The Company owns 50% of the 100 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is an associated undertaking owned jointly with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The first accounting period of FTSE International Limited was to 31 December 1996. The Company is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. Profits are shared equally between the Company and The Financial Times Limited. At 31 March 1997, the Company owed £110,000 (1996, £335,000) to FTSE International Limited in respect of amounts invoiced to third parties. The Group investment of £205,000 shown above represents the Exchange's share of the associate's net assets as at 31 December 1996.

The following amounts were receivable from FTSE International Limited during the year:	**1997 £000**	1996 £000
Royalties	**1,487**	–
Facilities management and other data services	**164**	85
Rent and service charges	**69**	–
Other miscellaneous charges	**23**	–
	1,743	85

(ii) Subsidiary undertakings

The Company holds directly or indirectly 100% of the ordinary shares, being the only class of shares in issue, of the subsidiaries listed below. All subsidiaries operate in the country of incorporation.

	Country of Incorporation	**Nature of business**
SE Mutual Reference Limited	Great Britain	Non trading
Sepon Limited	Great Britain	Non trading
Sepon (South Africa) (Proprietary) Limited	South Africa	Non trading
Talisman (Australia) Proprietary Limited	Australia	Non trading
The Birmingham Stock Exchange Buildings Company Limited	Great Britain	Non trading
The London Stock Exchange Retirement Plan Trustee Company Limited	Great Britain	Non trading
The Stock Exchange (Holdings) Limited	Great Britain	Non trading
The Stock Exchange (Properties) Limited	Great Britain	Non trading

(iii) Other investment

The other investment of £390,000 represents the cost of the Company's 3.2% interest in unlisted redeemable fixed interest shares in CRESTCo Limited.

12. Debtors

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Due within one year:				
Trade debtors – Settlement *(see note 14)*	**3,990**	66,605	**3,990**	66,605
– Other	**10,070**	15,485	**10,070**	15,424
VAT recoverable	**–**	458	**–**	446
Other debtors	**623**	612	**623**	612
Prepayments and accrued income	**15,622**	12,417	**15,622**	12,417
	30,305	95,577	**30,305**	95,504
Representing:				
Settlement *(see note 14)*	**3,990**	66,605	**3,990**	66,605
Other	**26,315**	28,972	**26,315**	28,899
	30,305	95,577	**30,305**	95,504

13. Deferred taxation: due after more than one year

	£000
1 April 1996	12,287
Credit to revenue account during the year	2,972
31 March 1997	**15,259**

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

	1997 £000	1996 £000
Tax allowances available in excess of related depreciation	**3,201**	4,523
Other timing differences	**12,058**	7,764
	15,259	12,287

Potential deferred taxation assets, not recognised in these accounts, comprise:

	1997 £000	1996 £000
Tax allowances available in excess of related depreciation	**9,651**	8,792
Other timing differences	**8,148**	9,931
	17,799	18,723

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

14. Creditors: due within one year

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank overdraft	**1,858**	–	**1,858**	–
Trade creditors – Settlement	**7,415**	134,100	**7,415**	134,100
– Other	**4,154**	4,262	**4,154**	4,262
Amounts owed to subsidiary undertakings	**–**	–	**210**	248
Amounts owed to associated undertaking	**110**	335	**110**	335
Corporation tax	**16,290**	15,553	**16,251**	15,528
Other taxation and social security	**3,840**	1,255	**3,840**	1,255
Other creditors	**3,050**	3,054	**3,050**	3,054
Accruals and deferred income	**25,022**	20,001	**25,022**	19,984
	61,739	178,560	**61,910**	178,766
Representing:				
Settlement – Member firms and other Talisman participants	**4,556**	80,647	**4,556**	80,647
– Inland Revenue	**2,859**	53,453	**2,859**	53,453
	7,415	134,100	**7,415**	134,100
Other	**54,324**	44,460	**54,495**	44,666
	61,739	178,560	**61,910**	178,766

The liability in respect of settlement arises from the functions of the Company as the principal responsible for the central clearing house for the settlement of transactions in securities and the collection of stamp duty. The total liability is matched by debtors and cash as follows:

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Trade debtors *(from note 12)*	**3,990**	66,605	**3,990**	66,605
Cash	**3,425**	67,495	**3,425**	67,495
Trade creditors	**(7,415)**	(134,100)	**(7,415)**	(134,100)
Net current assets	**–**	–	**–**	–

The debtor, cash and creditor balances are all significantly lower than the previous year due to the transfer of settlement from the Stock Exchange's Talisman system to CREST operated by CRESTCo Limited. The transfer was completed in April 1997.

15. Creditors: due after more than one year

	1997 £000	1996 £000
Repayable in five years or more – otherwise than by instalments		
$10^1/_8$ % Mortgage Debenture Stock 2016	**30,000**	30,000

The $10^1/_8$ % Mortgage Debenture Stock 2016 is secured by a mortgage on the freehold site and buildings known as The Stock Exchange, London. The Company may purchase and cancel any of the stock at any time and except in so far as previously purchased or redeemed and cancelled, the stock will be redeemed at par on 1 November 2016. Earlier redemption of the stock in certain circumstances could be at an amount above par.

16. Provisions for liabilities and charges

	Pensions note (i) £000	Property note (ii) £000	Rationalisation note (iii) £000	SETS note (iv) £000	Total £000
1 April 1996	2,140	27,000	19,000	–	48,140
Utilised during the year	(198)	(3,597)	(8,528)	(3,215)	(15,538)
Interest on discounted provision	–	2,221	–	–	2,221
Provided in the year *(see note 5)*	–	11,900	11,600	18,000	41,500
31 March 1997	**1,942**	**37,524**	**22,072**	**14,785**	**76,323**

Notes

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

ii) The property provision represents the estimated net present value of future costs for lease rentals less the expected receipts from sub-letting for those properties which are surplus to the business requirements. The provision was increased at 31 March 1997 to reflect the risks attaching to long-term letting opportunities and interest rates.

iii) The rationalisation provision represents the estimated costs to be incurred in the rationalisation of settlement operations *(see note 6)* and further redundancy and restructuring costs.

iv) The SETS provision represents the estimated costs for changes to the Exchange’s trading systems and support to the market to implement the Stock Exchange Electronic Trading Service (SETS).

17. Share capital

	1997 £000	1996 £000
The authorised share capital comprises 5,601 ‘A’ shares and 14,399 ‘B’ shares of 5p each.		
Issued, called up and fully paid		
3,775 ‘A’ shares of 5p (1996, 3,907 shares)		
14,399 ‘B’ shares of 5p (1996, 14,399 shares)	**1**	1

Each ‘A’ share of 5p shall be redeemed at a price of £10,000 (i) in the case of a shareholder being a natural person, not earlier than attaining 60 years of age or on death or insolvency, or (ii) in the case of a shareholder who is not a natural person, on 31 December 2026. The shares are non-voting and have a preferential right to be redeemed on a winding up. The premium on these redemptions is charged to the capital redemption reserve.

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

Redemption period	**1997 No of shares**	1996 No of shares
Within 5 years	**945**	910
Between 5 and 10 years	**1,109**	1,042
Between 10 and 15 years	**789**	923
Between 15 and 20 years	**462**	478
After 20 years	**470**	554
	3,775	3,907

18. Reserves

	Group			Company		
	Revaluation £000	Capital redemption £000	Revenue £000	Revaluation £000	Capital redemption £000	Revenue £000
1 April 1996	36,585	39,070	54,574	36,585	39,070	54,396
Surplus for the financial year	–	–	17,094	–	–	16,969
Premium paid to 'A' shareholders *(see note 17)*	–	(1,320)	–	–	(1,320)	–
Revaluation of tangible assets	21,094	–	–	21,094	–	–
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(1,309)	–	1,309	(1,309)	–	1,309
31 March 1997	**56,370**	**37,750**	**72,977**	**56,370**	**37,750**	**72,674**

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

Equity shareholders' funds on the balance sheet comprise the issued share capital of 'B' shares together with the revaluation and revenue reserves. Non-equity shareholders' funds comprise the issued share capital of 'A' shares and the capital redemption reserve. As explained in note 17, the 'A' shares have preferential rights to be redeemed on a winding up.

19. Reconciliation of movements in shareholders' funds

	1997 £000	1996 £000
Surplus for the financial year	**17,094**	1,967
Appropriation to the Irish Stock Exchange	**–**	(1,176)
Redemption of 'A' shares	**(1,320)**	(1,340)
Unrealised surplus on the revaluation of tangible assets	**21,094**	69
Net addition to (reduction from) shareholders' funds	**36,868**	(480)
Opening shareholders' funds	**130,230**	130,710
Closing shareholders' funds	**167,098**	130,230

20. Notes to the Group cash flow statement

i) Analysis of continuing operating activities

Operating surplus	**59,353**	22,778
Depreciation of tangible assets	**18,253**	33,959
Profit on disposal of tangible assets	**(129)**	(186)
Decrease/(increase) in debtors	**2,657**	(992)
Increase/(decrease) in creditors	**7,269**	(7,859)
Expenditure relating to exceptional items	**(15,538)**	(5,032)
Increase in net accrued interest payable	**524**	473
Net cash inflow from continuing operating activities	**72,389**	43,141

Changes in debtors and creditors exclude those relating to settlement as these, together with the changes in settlement cash balances, do not give rise to a movement in net current assets as shown in note 14.

20. Notes to the Group cash flow statement continued

	1997 £000	1996 £000
ii) Taxation		
Corporation tax paid	**(10,295)**	(12,957)
Redemption of certificates of tax deposit	**–**	7,804
Total corporation tax paid	**(10,295)**	(5,153)

iii) Reconciliation of net cash flow to movement in net funds

	1997 £000	1996 £000
Decrease in cash in the year	**(38,311)**	(47,203)
Increase in liquid resources	**102,000**	65,000
	63,689	17,797
Repayment of bank loan	**–**	5,102
Redemption of debenture	**–**	7,735
Change in net funds	**63,689**	30,634
Net funds at 1 April 1996	**78,880**	48,246
Net funds at 31 March 1997	**142,569**	78,880

iv) Analysis of changes in net funds

	At 1 April 1996 £000	Cash flows £000	**At 31 March 1997 £000**
Cash in hand and at bank	43,880	(36,453)	**7,427**
Bank overdrafts	–	(1,858)	**(1,858)**
	43,880	(38,311)	**5,569**
Debt due after more than one year	(30,000)	–	**(30,000)**
Current asset investments	65,000	102,000	**167,000**
Total net funds	78,880	63,689	**142,569**

21. Commitments

	1997 £000	1996 £000
Contracted capital commitments not provided for in the accounts	**5,667**	843

The contracted commitments were mainly in respect of additional computing facilities.

Financial commitments under property operating leases at 31 March 1997 for payments in the year to 31 March 1998 are as follows:

	1997 £000	1996 £000
Leases expiring – in one year	**168**	137
– between two and five years	**200**	206
– in five years or more	**4,862**	4,884
	5,230	5,227

22. Pension costs

The Company operates a non-contributory pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, and on 23 January 1997 the fund manager was changed from Pension Management (SWF) Limited to Schroder Investment Management Limited. Pension costs are charged to the revenue account so as to spread the costs of pensions over employees' working lives with the Company. The pension costs are determined by an independent qualified actuary on the basis of regular valuations using the projected unit method. The most recent actuarial valuation was carried out at 31 March 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in pensionable pay and pensions. The principal assumptions for the March 1994 valuation were that over the long term the annual rate of return on investments would be 2% above increases in pensionable pay, 4% above the level of inflation and 4$^1/_2$% above the level of increases in present and future pensions. Contributions to the pension scheme are made in accordance with advice given by an independent qualified actuary and were at a rate of 16% of pensionable payroll (1996, 16%).

In addition to the Company's contributions to the pension scheme, the Company matches certain additional voluntary contributions by employees; in the year to 31 March 1997 the cost of this match amounted to £274,000 (1996, £281,000).

As an alternative to being members of the pension scheme, employees may opt for a personal pension plan. The Company will make contributions to these plans instead of its contribution to the main scheme. In the year to 31 March 1997 the cost of these contributions amounted to £332,000 (1996, £273,000).

The total pension charge for the year was £3,359,000 (1996, £3,441,000).

The actuarial valuation at 31 March 1994 showed that the market value of the scheme's assets was £88,800,000 and that the actuarial value of those assets represented 109% of the value of benefits that had accrued to the members, after allowing for expected future increases in earnings.

23. Transactions with related parties

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

FTSE International Limited
Details of transactions with FTSE International are included in note 11.

ProShare (UK) Limited
Three of the Company's directors are non-executive directors of ProShare (UK) Limited. The Company provided property space to ProShare (UK) Limited for a charge of £55,000 (1996, £55,000). The Company also makes a contribution to the annual expenditure of ProShare (UK) Limited. The contribution during the year was £400,000 (1996, £410,000).

24. Share interests of directors

The following directors were each the beneficial owner of one 'A' share of the Company as at 31 March 1996 or at subsequent appointment and at 31 March 1997:

G F Casey (appointed 5 August 1996)
S P Cooke
J Kemp-Welch
M J P Marks
I G Salter
H W H Sants (appointed 5 December 1996)
N Sherlock
B Solomons

There have been no changes in the above interests since 31 March 1997.

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

London EC2N 1HP. Telephone 0171 797 1000.
Registered in England and Wales No 2075721.
www.londonstockex.co.uk

Photography by Glynn Williams
(page 23 by Michael Harding).
Printed by CTD. Designed by Black Sun Plc.

London STOCK EXCHANGE