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London
STOCK EXCHANGE

The world's capital market

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ANNUAL REPORT 2006

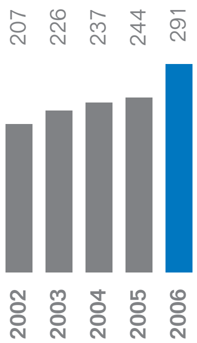
ALL THE CORE BUSINESS AREAS PERFORMED STRONGLY IN WHAT WAS AN OUTSTANDING YEAR FOR YOUR COMPANY. SINCE 31 MARCH 2006, TRADING CONDITIONS HAVE REMAINED VERY POSITIVE. NEW ISSUE ACTIVITY HAS BEEN BUOYANT AND VERY STRONG GROWTH ON SETS IS CONTINUING

CONTENTS

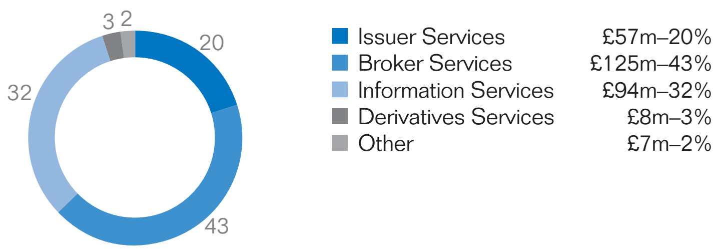
FINANCIAL HIGHLIGHTS

Year ended 31 March	2006	2005	Growth
Revenue before exceptional items	£291m	£244m	19%
Operating profit before exceptional items	£120m	£85m	42%
Operating profit	£85m	£84m	1%
Profit before tax	£93m	£92m	1%
Basic earnings per share	27.8p	24.2p	15%
Adjusted basic earnings per share	37.4p	24.2p	55%

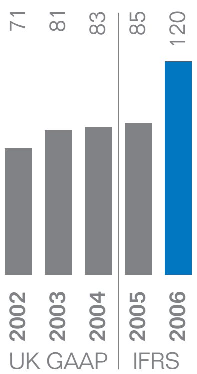
REVENUE BEFORE
EXCEPTIONAL ITEMS (£m)*
Years ended 31 March



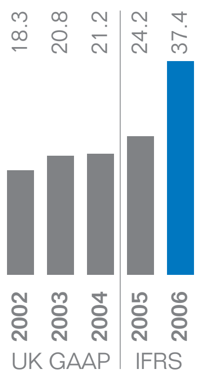
REVENUE BEFORE
EXCEPTIONAL ITEMS (%)
Year ended 31 March 2006



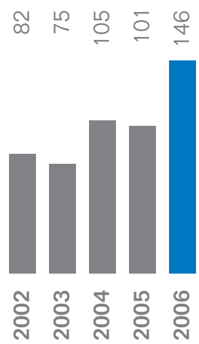
OPERATING PROFIT
BEFORE EXCEPTIONAL
ITEMS AND GOODWILL
AMORTISATION (£m)*
Years ended 31 March



ADJUSTED BASIC
EARNINGS PER SHARE
(pence per share)*
Years ended 31 March



CASH GENERATED
FROM ONGOING
OPERATING
ACTIVITIES (£m)
Years ended 31 March



* Based on IFRS for 2005 and 2006, and UK GAAP for 2002, 2003 and 2004, consistent with the Basis of presentation of the Financial Record as set out on page 66.

DIVISIONS

ISSUER SERVICES
Receives revenue from fees for admission to trading and from annual fees

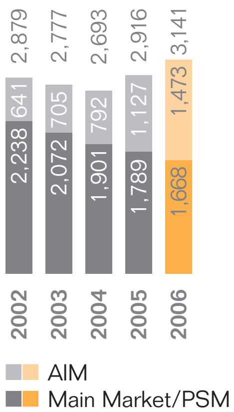
BROKER SERVICES
Derives its revenue principally from charges levied on trades

INFORMATION SERVICES
Receives revenue principally from charges levied on terminals with access to Exchange trade and price data

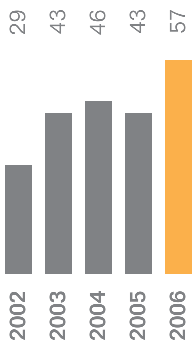
DERIVATIVES SERVICES
Earns its revenue from EDX London, our international derivatives exchange and the Covered Warrants market for retail investors

ISSUER SERVICES

TOTAL NUMBER OF COMPANIES
As at 31 March

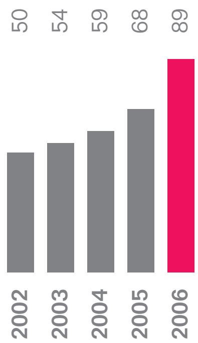


REVENUE (£m)
Years ended 31 March

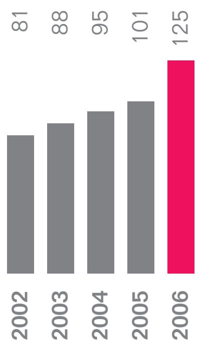


BROKER SERVICES

NUMBER OF EQUITY BARGAINS (million)
Years ended 31 March

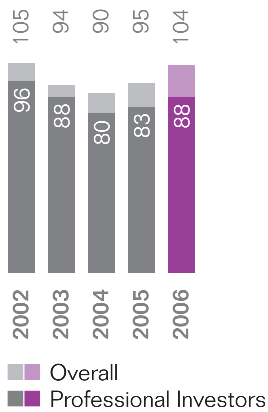


REVENUE (£m)
Years ended 31 March



INFORMATION SERVICES

TOTAL NUMBER OF TERMINALS (thousand)
As at 31 March



REVENUE (£m)
Years ended 31 March

THE FUNDAMENTAL STRENGTHS OF THE EXCHANGE'S BUSINESS HAVE PRODUCED AN EXCELLENT FINANCIAL PERFORMANCE. THIS HAS UNDERPINNED THE BOARD'S DECISIONS IN RELATION TO THE UNSOLICITED OFFERS RECEIVED DURING THE YEAR

We have delivered another year of very strong growth in our primary and secondary markets. Over the last three years the number of IPOs and the growth in order book trading volumes have outperformed other major exchanges.

The quality of this performance underlines the success of the Exchange's strategy and demonstrates our ability to capitalise on our unique strategic position. Through the power of our global brand and our position at the heart of the City of London, with its effective and trusted regulatory environment and governance regime, we have attracted companies of all sizes from all corners of the world. It is clear that London has become the international listing venue of choice, outstripping every other global equity market by a large margin.

It is also clear that, as well as experiencing strong market conditions, equity markets are undergoing a period of profound change that we are helping to drive. The development of complex trading strategies, coupled with a step change in technological innovation, places a premium on increased market efficiency and lower transaction costs. As a result of investing in next generation technology and by focusing on customer service, product innovation and competitive pricing we have been rewarded with the highest order book trading volume growth of the major exchanges, extending London's advantage over other equity markets.

With revenue up by 19 per cent and adjusted earnings per share rising by 55 per cent, the Board remains confident about the Exchange's future growth prospects. That confidence has enabled us to return more than 20 per cent of our market capitalisation to shareholders in under two years.

In February the Board announced a capital return of approximately £510 million. The return represents a significant move towards a more efficient capital structure putting the Exchange at the forefront of good capital management in the exchange sector, while still leaving us the ability to invest for the future. Recognising the strong cash generation of the business, we also announced our intention to implement an ongoing share buyback programme of up to £50 million per annum.

In addition to the capital return, the Board resolved to pay a second interim dividend, in lieu of a final dividend for the year ended 31 March 2006, of 8.0 pence per share. This takes the full year dividend to 12.0 pence per share, a 71 per cent increase on the full dividend for the previous year.

The strong ongoing performance of the business was reflected in the Board's response to a number of unsolicited offers we received for the Exchange during the year. It was immediately clear to us that the offer from a consortium led by Macquarie Bank was far below the value of the Company. It disregarded our unique strategic position, ignored the quality and value of our franchise and incorrectly claimed that we have low growth prospects. The Board had no hesitation in recommending that shareholders reject it. Similarly, the Board was very clear that the pre-conditional offer of 950p per share from NASDAQ did not begin to reflect the growth prospects of the business or the value arising from its unique strategic position.

Following the proposals for a possible combination received by the Exchange in the previous financial year, the UK Competition Commission conducted a thorough review of the structure of the industry. Our belief has always been that the success and innovation of the London equity market depends in large part on its open and competitive characteristics. We were very pleased that this was endorsed by the Competition Commission, which reported in November 2005. It made clear that our business model, with its separate ownership of clearing and settlement from equity trading, is in the best interests of the market. We have long argued that this is the optimum model and is one of the reasons why London is the pre-eminent place to trade equities and raise capital in Europe. We hope that these considerations will now be at the centre of changes across all European equity markets, making cross border trading in equities more open and efficient, so reducing companies' cost of capital across the EU.

The Board is confident that the growth prospects of the business are built on very firm foundations. A structural shift in trading patterns, driven by new technology, is producing record trading volumes. Looking ahead, this, combined with our ability to attract international listings to London, should help deliver further strong growth for the London Stock Exchange. We remain focussed on driving the business forward, while continuing to explore options to create additional value for shareholders and customers.

C. S. Gibson-Smith.

CHRIS GIBSON-SMITH
Chairman

IT HAS BEEN A DEFINING YEAR FOR THE LONDON STOCK EXCHANGE DURING WHICH THE VALUE AND STRATEGIC IMPORTANCE OF YOUR COMPANY WAS ESTABLISHED BEYOND DOUBT

OUR STRATEGY IS DELIVERING STRONG GROWTH

The Exchange occupies a unique strategic position at the heart of the City of London. We have a customer franchise of exceptional and international quality. Active promotion of our strong global brand has helped to secure our position as the world's IPO venue of choice. We are facilitating and benefiting from a secular shift to derivatives linked and high volume electronic trading which has produced a surge in volumes on SETS, our primary engine of growth. Our information services and products reach into all corners of the globe. In the first half of 2007, our new technology platform (TRM) is expected to provide customers with the fastest, most reliable and scalable equity trading platform in the world. This promises a continuation if not an acceleration of our very strong growth prospects for the foreseeable future.

FINANCIAL PERFORMANCE

This year's financial performance underlines how much more valuable an asset your company is becoming. Revenue (before exceptional items) grew 19 per cent to £291.1 million while costs rose just seven per cent to £171.0 million. Operating profits before exceptional items rose 42 per cent to £120.1 million. Reflecting this, adjusted basic earnings per share rose 55 per cent to 37.4p per share.

THE WORLD'S CAPITAL MARKET

We are successfully leveraging our global reputation, the quality of our markets and access to our deep pools of international capital to attract companies to a London listing.

Our specialist marketing teams are working with the market to focus on the key growth markets of Russia, India and China, as well as markets that are developing an appetite for the growth capital available in London, including the Middle East, South Korea and even the United States. This year Issuer Services activity helped to bring 622 companies from 32 countries around the world to our market, including 67 per cent of Western Europe's IPOs. The Main Market's international reputation was enhanced with 107 new listings – 89 from the UK and 18 from overseas.

AIM is the world's most vibrant growth market. Supported by the Exchange's own regulatory regime it is specifically designed for smaller growing companies. This year AIM has become a truly international market with 247 foreign companies now quoted. Our international plans for AIM continue to develop. In October we announced our intention to build AIM for Europe, in order to supply the capital needs of thousands of smaller growing companies across Europe. We believe AIM will help the European economy achieve more dynamic and faster growth.

Last year's record of 432 new issues on AIM was easily surpassed this year. 510 new companies joined, taking the total to 1,473, raising over £7.9 billion. Now established as a mainstream asset class, AIM has over 40 per cent of its stock in the hands of institutional investors.

A key factor in the Exchange's international success is the number and range of firms and individuals who access our information to do business on our markets. Our real-time market data is received on terminals in more than 100 countries as numbers increased from 95,000 to 104,000.

SEDOL Masterfile, our new worldwide securities identifier has delivered 1,100 licences in its third year of operation, improving market efficiency on a global scale and adding to our growth story.

A SECULAR CHANGE IN TRADING

We are experiencing a structural shift in the way that UK equities are traded. SETS, our electronic order book, is experiencing strong growth and is at the heart of the biggest change to secondary market trading since Big Bang 20 years ago.

The rapid recent development of the off-exchange UK equity derivatives market has been assisted by the increasingly efficient hedging mechanism that SETS provides. Moreover, the historic drag of stamp duty on UK equity markets activity is being diminished over time by more tax efficient trading structures hedged on SETS. The growth of sophisticated algorithmic trading, which seeks to execute ever more complex technical trading strategies, is also a major driver of change and growth. Such trading may already account for as much as 40 per cent of our total electronic trading and continues to grow rapidly while derivatives linked SETS trades are estimated to account for around a third of SETS business.

This means that value traded on SETS this year increased by 35 per cent to £1,190 billion; there were record consecutive months in January, February and March 2006 and we experienced 19 of the 20 busiest trading days ever in this quarter. Not only did SETS value traded grow faster than other major global cash equity exchanges, it also grew significantly faster than the major global derivatives platforms in the final quarter of the year.

SETSmm, the hybrid order book we launched in 2003, made a significant contribution to growth with a 91 per cent increase in the value of midcap stocks traded. This year SETSmm was extended to a further 300 Main Market small cap stocks as well as the AIM 50, bringing the benefits of narrower spreads and increased liquidity to even more companies and driving additional business onto the order book – a more efficient market creating benefits for customers, investors and our shareholders alike.

In February we forecast that SETS volumes would double in the three years from 2005 to 2008. Already the rate of growth in average SETS bargains per day achieved in 2006 – 38 per cent – is well ahead of the rate required to meet this target.

TECHNOLOGY LED GROWTH

Our commitment to the development of cutting edge technology is a distinct competitive strength. In early 2003, despite being in the middle of a difficult bear market, we launched our Technology Roadmap (TRM). We intend it to set a new global benchmark for exchange platforms, providing our customers with the fastest, most efficient and technologically advanced equities market in the world by the first half of 2007. Improved efficiency, transparency and latency are already reducing customers' costs, fuelling liquidity growth and cutting the cost of capital for our companies.

This year we have achieved two key TRM milestones. In September Infolect, our new market data ticker plant, went live, reducing information broadcast latency from 30 to two milliseconds. In October the trading platform upgrade doubled core trading capacity. These two developments were implemented while maintaining 100 per cent availability – for the sixth consecutive year.

Marking a new phase in global exchange technology, the transition to our new trading platform that will occur in the first half of 2007 will deliver the speed and robustness, the capacity and agility that is central to our technology strategy and fundamental to the growth of our market.

Multiple currencies, time zones and asset classes all present medium and long-term opportunities. A cost effective multi-asset class trading platform is now in sight. The Exchange's commitment to technological innovation has put us in prime position to lead this important development.

OUTLOOK

Since 31 March 2006, trading conditions have remained very positive. New issue activity has been buoyant, on both the Main Market and AIM, with total money raised on our markets ahead of the same period last year. The very strong growth on SETS seen in the last quarter of the last financial year, continues, and the number of professional terminals taking the Exchange's real time data is up again. We have made an excellent start to the financial year and continued strong trading should keep us on track to deliver another very strong financial performance in 2007.

The Company continues to explore opportunities for additional growth within the industry. The Exchange has a unique franchise and strategic position, and a number of strategic options are available to it.

We are committed to our customers. They drive our growth and we will continue to work with them to realise our vision around their rapidly developing global businesses, in developing **the world's capital market**.

CLARA FURSE
Chief Executive

+ 31 %

£57m

A STRONG YEAR FOR NEW ISSUES ON THE MAIN MARKET AND A RECORD YEAR FOR AIM

" We are successfully leveraging our global reputation, the quality of our markets and access to our deep pools of international capital to attract companies to a London listing." – Chief Executive's Review

It was a record year for primary listings on the London Stock Exchange. Issuer Services is the division responsible for attracting companies and supporting them before, during and after listing. This year 107 companies listed on the Main Market and five on the new Professional Securities Market (PSM). 510 joined AIM – an increase of 18 per cent. 409 of the new companies joining our markets were IPOs, representing 67 per cent of all those in Western Europe. A total of £21.1 billion was raised, 136 per cent more than last year. At 31 March 2006, there were 3,141 companies traded on our markets with a total market capitalisation of £4.3 trillion. In the bond markets we increased our share of listed debt by nine per cent, with over 900 additional securities admitted to our markets. London now accounts for 14 per cent of all bonds listed in Europe.

These figures reflect the step change in our product development and marketing activity which saw Issuer Services increase its focus on promoting London listings in the UK and other key markets across the world.

There are many strands to this effort – explaining the benefits of a London listing to the widest possible audience; working with companies to choose the right market for their listing, before helping them maximise the value of the listing. At the same time we are constantly liaising with regulators and governments, to ensure effective and proportionate regulation that helps make London a compelling and cost-efficient place to raise money and maintain a listing.

Unique among major international exchanges, London offers a real choice of markets. This choice is widening: as well as the different options for listing on the Main Market and AIM we introduced this year the PSM for major corporate debt and depositary receipt issuers. We have also successfully lobbied the Treasury for Real Estate Investment Trusts to be a Main Market listed product. Expanding our markets and making them more efficient is a direct response to our customers' requirements: that is why it is central to our strategy. It is hard to overestimate the role of our secondary markets in attracting issuers to the primary markets. For most companies issuing equity or debt is not only about raising money or profile, it is also about investors being able to trade securities easily. The liquidity and fast growing volumes on the London Stock Exchange – especially in smaller stocks – are an important consideration for issuers. For the Exchange there is a crucial interdependence between primary and secondary markets.

THE MAIN MARKET: A STRONG YEAR
The Main Market is one of the world's blue-chip markets, offering the highest levels of coverage, liquidity and access to the deepest pool of capital. Virtually all of the world's major investors are active in the Main Market and its stocks are core assets in the portfolios of pension funds, hedge funds and private investors around the globe. The companies on the Main Market also enjoy the highest levels of publicity and media focus.

The professional investor base in London is unrivalled globally, with over US$14 trillion of total assets managed by firms based here. Together with 75 per cent of European hedge fund assets under management in London, this huge pool of capital attracts even more investors and so makes a London listing still more attractive to issuers. This year the Main Market attracted 107 listings, comprising 89 UK and 18 overseas issuers. Of the international companies listing during the year, seven were from Russia with two each from India and Gibraltar. The total number of Main Market and PSM companies at year end stood at 1,668, a net decrease of 121.

Highlights included Britvic, one of Britain's leading soft drinks businesses which raised £405 million on admission in December. In February Lotte Shopping Co. became the second South Korean company to simultaneously dual-list in London and Seoul. The company raised a total of US$3.5 billion, the largest ever IPO by a Korean company. Also in February Comstar's US$ 1.06 billion offering was the second largest Russian IPO ever, after Sistema's offering also on the Main Market in February 2005 (see International Strategy below).

AIM: NOW A MAINSTREAM ASSET CLASS
It was an important year for AIM, the world's most vibrant growth market, which celebrated its tenth anniversary in June 2005. Not only did AIM continue along its impressive growth trajectory – with 510 companies raising more than £7.9 billion – it also widened its investor base. The total number of companies at year end rose to 1,473, a net increase of 346 with a combined market capitalisation of £71.6 billion.

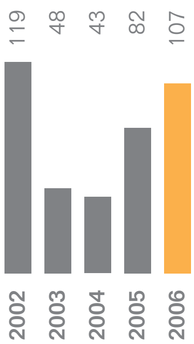
Last year AIM re-affirmed its status as a mainstream asset class, with over 40 per cent owned by institutional investors. Almost every major institution in the UK now invests in AIM and AIM securities have become an important asset class in their own right. The creation of the FTSE AIM100 and FTSE AIM UK 50 indices and the introduction of SETSmm to AIM has helped maintain this momentum, reducing spreads, increasing trading volume while cutting trading costs. Value traded in the FTSE AIM UK 50 index by institutional investors has increased by around a quarter since the index constituents moved to SETSmm in December 2005.

In the UK we continue to market AIM actively through regular seminars and through our network of Nominated Advisers (Nomads). In October we announced our intention to turn AIM towards Europe, part of our long term vision of AIM as the pan European growth market (see AIM Goes Global below).

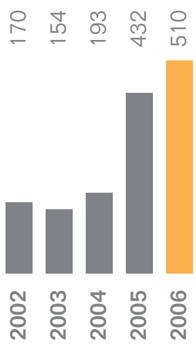
INTERNATIONAL STRATEGY
It was a record year for international companies joining our markets, as our strategy of targeting growing economies around the world continued to bear fruit. There was a combined total of 149 international admissions to the Main Market and AIM, raising a total of £8.9 billion, an increase of 194 per cent. Fees generated from new international companies grew threefold.

"IT WAS A RECORD YEAR FOR INTERNATIONAL COMPANIES JOINING OUR MARKETS, AS OUR STRATEGY OF TARGETING GROWING ECONOMIES AROUND THE WORLD CONTINUED TO BEAR FRUIT"

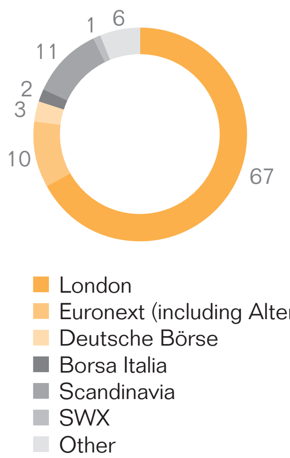
NUMBER OF NEW ISSUES MAIN MARKET



NUMBER OF NEW ISSUES AIM



PERCENTAGE OF WESTERN EUROPEAN IPOs
For financial year 2006



TOTAL NUMBER OF COMPANIES
As at 31 March

In July we reviewed and clarified our Main Market product offerings. The International Main Market now offers multiple listing options, depending on the stage reached in the company's lifecycle and its objectives. As well as primary and secondary equity listings, global depositary receipts enable issuers from developing markets to attract international institutional investment.

This wide choice of listing products is matched by a continued focus on developing countries characterised by high GDP growth and immature domestic capital markets. Our key target markets continue to be China, Russia and India. We have also been successful in South Korea, Kazakhstan and the Middle East. Companies from these markets want to list in London because of the high standards of regulation and corporate governance, as well as access to international capital and the chance to trade on a liquid market.

London is now the market of choice for Russian companies listing overseas – eight companies have raised £3.2 billion on our markets in the last two years. Russia now accounts for 60 per cent of trading on the International Order Book (IOB). We have demonstrated our commitment to helping Russia's capital market develop and to attract even more Russian companies to London, by actively promoting dual listings in Moscow and London. In February we developed our Russian relationships further by signing a co-marketing agreement with MICEX, the leading Moscow exchange.

The Exchange's Asia Pacific office in Hong Kong was opened in October 2004. The Asia Pacific team targets large privatisation deals, particularly the Chinese state-owned enterprises and other medium to large enterprises across the region. Since the office opened we have attracted major listings, including Air China, Kumho Tyre and Lotte Shopping to the Main Market and 14 companies to AIM. We now plan to open another marketing office in mainland China.

In India, REI Agro was among seven Indian companies to list in London this year. The pipeline of companies from Asia, particularly for China and South Korea, remains promising. South Korea is now second in terms of trading volumes on the IOB. New entrants Bank Muscat, Telecom Egypt and KazakhGold further add to the increasingly significant international component on our markets.

AIM GOES GLOBAL

AIM is now a growth market with global appeal, attracting young international companies who want access to the advantages of a London market within a flexible regulatory regime. This year we have seen increasing interest from Asia Pacific and continental Europe, as well as from North America, Australia and Israel. Our approach is to work closely with Nomads, lawyers and accountants in these key markets.

In October we announced our ambition to transform AIM into Europe's market for growth companies. This is an important strategic move by the Exchange that places us at the heart of Europe's capital markets. Our goal is to supply the capital for Europe's next generation of companies that will provide future wealth and, in so doing, help to stimulate economic growth across the continent. We are adopting a phased approach, prioritising those countries where we expect highest demand, recruiting companies, advisers and investors to enable still more people in more countries to access the success story that is AIM.

THE PROFESSIONAL SECURITIES MARKET

In July we launched the Professional Securities Market, an Exchange-regulated market which will allow greater flexibility for companies to report according to home accounting standards. The PSM therefore provides an ideal platform for the listing of corporate debt and depositary receipts aimed at institutional investors. We worked closely with the UKLA in creating an attractive market and are now further developing relationships with the debt community, thus encouraging issuers and their advisers to consider the advantages of a London listing for their securities.

DELIVERING FOR CUSTOMERS

This year Issuer Services has continued to develop our customer service approach – both in the UK and internationally. We profile Main Market technology and healthcare companies through techMARK and techMARK mediscience to make it easier for investors and issuers to benchmark their performance. Across the UK regional managers also support listed companies with issues such as trading, liquidity and regulation, so helping maximise the value of their listing. This provides an opportunity to showcase other Exchange offerings to a large customer base of existing and new issuers. This approach to solving customers' problems with tailor-made Exchange service solutions is also being rolled out internationally, where issuers and overseas exchanges are important potential markets for the Exchange's training and consultancy business.

RNS, part of the Exchange's effort to promote transparency and openness on our markets, remains the UK's leading provider of regulatory news disclosure and capital markets news. This year, almost 160,000 announcements were published and distributed by RNS. Over 90 in the FTSE 100 companies use RNS to release regulatory announcements, as do all major PR companies.

THE MEDIA AND BUSINESS COMPLEX

Our strategic location at the heart of the City of London is vital to companies that need a focal point to meet with investors, customers, advisors, journalists and other stakeholders. The facilities at Paternoster Square, including our four state of the art broadcasting studios and high spec event space, are in great demand. 9,995 broadcasts, equating to 500 hours of live time reporting on company, business and market news, were delivered by broadcasters from around the globe, including the BBC, CNN, Sky News and CNBC. 351 events were held in the Business Complex, including results presentations, investor road shows and product launches by companies as diverse as International Power, State Street Global Markets and Compass Group. Events are already being booked through to 2009.

BROKER SERVICES

+ 25%

£125m

RECORD VOLUMES ON OUR TRADING PLATFORMS STIMULATED BY OUR FOCUS ON CUSTOMERS AND NEW TECHNOLOGY

"We are experiencing a structural shift in the way that UK equities are traded. SETS, our electronic order book, is experiencing strong growth and is at the heart of the biggest change to secondary market trading since Big Bang 20 years ago." – Chief Executive's Review

It was a stellar year on the Exchange secondary markets, and in particular for SETS and SETSmm, our central limit electronic order books. In total there were 56.8 million trades on SETS and SETSmm, with a total value of £1,190 billion – up by 35 per cent on last year, itself a record. Average daily value traded on SETS increased by 33 per cent to £4.7 billion while the average yield of a SETS trade remained stable at approximately £1.50.

The total volume traded on the Exchange also increased by 31 per cent on last year's performance, to a record 89.0 million trades during the year. The combined value traded was also a record at £5,752 billion, up 22 per cent. As a result Broker Services, the division responsible for providing our trading platform and working with customers to help them develop their businesses saw revenues increase to £125 million.

The good market conditions and the strong relative performance of SETS, especially to both SEAQ and to other markets around the world, has made explicit what we at the Exchange have understood for some time – that there is a major change taking place in the way equities are traded and in the investment strategies behind those trades.

The rapid recent development of the off-exchange UK equity derivatives market has been assisted by the increasingly efficient hedging mechanism that SETS provides. Moreover, the historic drag of stamp duty on UK equity markets activity is being diminished over time by more tax efficient trading structures hedged on SETS.

Program and algorithmic trading, which continues to evolve rapidly and proliferate, depends on fully automated, transparent and liquid order books that are robust and above all fast. Our current investment strategy in SETS and SETSmm technology ensures that our order books meet these client and market criteria exactly. Throughout the year new records were set, only to be broken month after month. March alone accounted for 11 of the 20 busiest trading days ever. On 8 March we surpassed the previous record for the highest number of SETS trades in a single day by more than 17,000, with a total of 350,689 trades. It was also a record month for SETSmm, with the average daily value traded reaching over £400 million for the first time in February (and increasing to £459 million in March). The average daily number of trades on SETSmm during March was 56,164.

It was not just in SETS stocks that records were set. Our International Order Book (IOB), one of the world's leading electronic trading platforms for international depositary receipts, saw record yearly volumes, with over 400,000 trades worth US$60 billion, rises of 47 and 80 per cent respectively on the previous year.

TECHNOLOGY DRIVES VOLUMES
This year saw the successful implementation of two stages in the delivery of the Exchange's Technology Roadmap (see Technology, page 16): the introduction of Infolect, the replacement for LMIL in September and, in October, the capacity upgrade to SETS. Both of these important milestones were successfully launched without any interruption to our platforms.

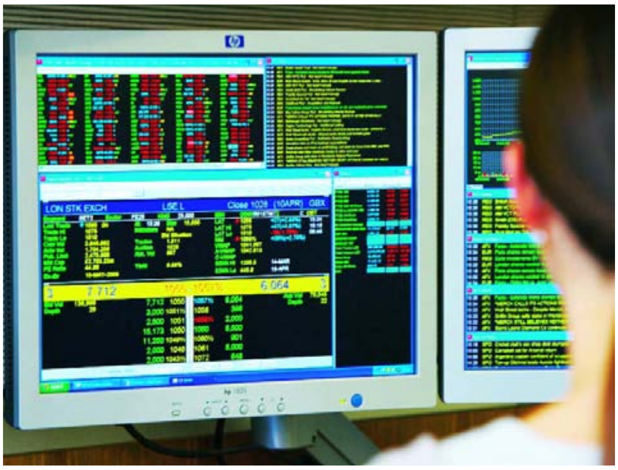
Of course reliability is vital to any exchange, but so too are capacity and speed. Between them Infolect (now the fastest real time information delivery system of any exchange in the world) and the trading capacity upgrade have doubled trading capacity and significantly reduced trading latency. It is no coincidence that 19 of the 20 busiest trading days ever have occurred since this double technological upgrade in the autumn of 2005.

Technology not only facilitates existing business but it can also stimulate new trading. As new, more sophisticated algorithms are developed, so trading becomes more time and price-sensitive. Offering the lowest latency boosts volumes by improving efficiency and helping traders capture the prices they want. So the fastest platform draws the most trading. We now estimate that algorithmic trading accounts for over 40 per cent of executions on SETS.

TRADING SENSITIVE TO MARGINAL COSTS
Technical strategies, which are aimed at making relatively small profits many times over, are especially sensitive to marginal costs. So new activity becomes viable where the costs are reduced. In the nine years since its launch SETS has narrowed spreads on the Exchange's markets by 70 per cent. As volumes continue to rise, so costs are driven down again, creating a virtuous circle. In this sense SETS makes new trading strategies possible for our customers.

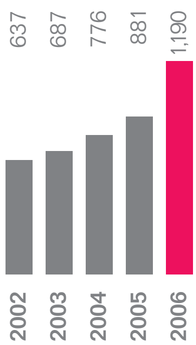
So too does the volume discount scheme, introduced in April 2004, but which this year saw even more customers benefiting as volumes surged. There is powerful evidence that it is now one of the major factors fuelling the strong volume growth across our markets.

Broker Services teams – including both Primary Account Managers and Product Managers – continue to work closely with customers, analysing the patterns of their trading behaviour. Such analyses, based on the tick data captured on our platforms, can help customers understand inefficiencies in their trading profile and so identify new ways to grow revenues and cut their costs. Such a service makes market participants more efficient – Broker Services can point to £50 million that we have helped remove from the market's cost base – and also maximises our customers' capacity, so drawing more business onto our markets. Another area where we can deliver value for our customers is post-trade where, by working to promote efficiency and competition, at least £30 million of annual market costs has been removed.

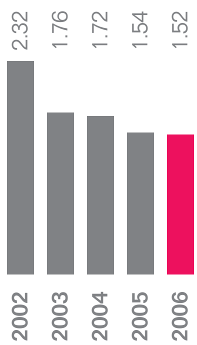


"THERE IS A MAJOR CHANGE TAKING PLACE IN THE WAY EQUITIES ARE TRADED AND IN THE INVESTMENT STRATEGIES BEHIND THOSE TRADES"

SETS VALUE TRADED (£bn)



YIELD PER SETS TRADE (£)



SETS VOLUMES (bargains million)

EVOLVING FOR SUCCESS
SETSmm is perhaps the best example of how promoting transparency and liquidity can improve the whole market, creating opportunities for market participants (especially member firms) while powering trading on the Exchange's markets.

Introduced in November 2003 SETSmm, our hybrid midcap stock trading order book, coincided with the asset allocation trend toward mid caps and made it more attractive for investors to access FTSE 350 stocks. It has delivered a truly global marketplace for midcap stocks listed in London.

SETSmm also shows how SETS can continue to grow by connecting liquidity to traders and investors – wherever they are in the world. As SETSmm has been extended down the market, so trading in the stocks it covers has been invigorated – as witnessed by the 300 additional Main Market small cap stocks and the AIM UK 50 where activity by institutional investors has increased by around a quarter since they were moved to SETSmm in December.

It is not just about large institutions being drawn into smaller stocks. By breaking down barriers to trading, reducing spreads and cutting trading costs, while increasing trading volumes, SETSmm also breaks down traditional business silos. Former FTSE 250 specialists trading FTSE 100 stocks; traditional retail brokers accepting institutional business; new brokers and investors coming onto the markets – US aggregators and retail investors among them – this is the SETS effect.

It is not just on the sell side that we can improve markets. We also use our understanding of how technology is evolving to help buy-side customers, such as hedge funds, grow their business. Direct Market Access (DMA) and our own FIX Gateway, in parallel, now help investors to interact directly with the order book and connect to their choice of liquidity pools. It is our role to be at the heart of such innovative developments, using technology to provide access to the widest choice of counterparties along with the functionality to support multiple trading strategies.

THE FUTURE OF TRADING
Over the coming years, the most efficient, most liquid markets will continue to exert the strongest pull on investors. Just as Infolect and the trading capacity upgrade this year helped power the volume growth on our markets, so the introduction of the new trading platform the final destination of our Technology Roadmap (see Technology, page 16), scheduled for the first half of 2007, will create exciting new possibilities for our customers and further drive the growth of volumes on the order book.

Regulatory developments present other stimuli to change. The implementation of MiFID at the end of 2007 is a challenge to many European exchanges. In Broker Services and at the Exchange as a whole we view it as an opportunity. We believe that MiFID enshrines the London model – in particular genuine competition between liquidity pools.

Our job is to provide the most efficient and effective market for people to trade on. So we are committed to making it easier for our customers to do business, by providing direct connectivity on a pan-European basis. The potential offered by a single set of trading rules, across Europe as well as across asset classes is real: the most efficient, liquid and transparent market will be best placed to take full advantage of the opportunities offered by MiFID.

INFORMATION SERVICES

+ 9%

£94m

TERMINAL NUMBERS CONTINUED TO GROW AS MARKET CONDITIONS IMPROVE; DELIVERING **NEW PRODUCTS** THAT FULFIL CUSTOMERS' NEEDS

" A key factor in the Exchange's international success is the number and range of firms and individuals who access our information to do business on our markets." – Chief Executive's Review

The London Stock Exchange is the source of some of the most widely followed and analysed data in the world. Prices from our market not only affect the trading decisions of thousands of equity markets professionals, they are also studied closely by private investors, by the pension fund industry, by hedge fund managers and derivatives traders, by economists, central governments and the media. Information Services is the division responsible for broadcasting data from our markets – in real time, delayed and historic reference data – to the widest possible global audience.

As the Exchange's primary and secondary markets continue to grow, with more companies listing and more participants trading more often, so the data from the Exchange becomes still more important. At year end our real-time market data was being received on terminals in more than 100 countries. Over the course of the year terminal numbers rose by 9,000 to 104,000. Revenues in Information Services grew by nine per cent to £94 million.

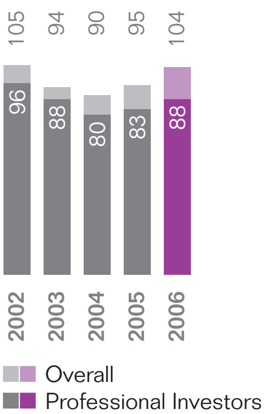
The strong performance of our secondary markets played a part in this – though the growth in terminal numbers tends to lag behind markets – but so too did the increasing diversity of individuals and organisations following and investing in our markets. Hedge funds, specialists in Contracts for Differences and spread betters are just some of these. This year we signed some significant contracts with buy side firms.

THE PRIMACY OF SPEED
As the focus on 'latency' or speed of data in the investment community is growing more intense, so the successful delivery of Infolect in September, an important milestone in our Technology Roadmap (see Technology page 16), came at a vital moment.

UBS Investment Bank Equities Trading Floor

"INVESTMENT AND HEADCOUNT IN LONDON AND OTHER MAJOR FINANCIAL CENTRES, KEY LEADING INDICATORS OF INFORMATION SERVICES' REVENUES, ARE BOTH GROWING"

TOTAL NUMBER OF TERMINALS (thousand)
As at 31 March



Infolect now carries over 15 million messages a day to our customers' terminals at speeds of two milliseconds from broadcast to delivery. Not only is Infolect 15 times faster than its predecessor LMIL, but it is now the fastest real time information delivery system of any exchange in the world.

As firms work to minimise latency and give their trading desks the crucial advantage of superior speed, the importance of minimising network 'hops' and taking data direct from the Exchange looks set to grow. Market data vendors are themselves increasingly offering direct feeds, inviting customers to pay a premium for the high speed data that is so important on latency-sensitive desks, alongside their traditional consolidated feeds.

The next generation of algorithmic trading strategies are already under development and teams from Information Services are working with clients to understand their data priorities on both functionality and cost. While investment in automated trading strategies does in some cases supplant people, investment and headcount in London and other major financial centres, key leading indicators of Information Services' revenues, are both growing.

THE INTERNATIONAL ANGLE
Just as our primary and secondary markets become more international, so too the potential audience for our data grows. Real-time data from the Exchange is viewed in more than 100 countries around the world. From our target primary markets of China, India and Russia to developed markets with a strong equity investment culture like the US, people are now connecting to the Exchange for both real-time and delayed data.

Information Services now works with data vendors globally, exploring ways to distribute data and so promote trading on our markets. This year we have forged a number of new alliances and tested pilot schemes to allow retail investors from other countries access to our markets. The technological advantage that the Technology Roadmap gives us, coupled with the growing liquidity on our markets, has the potential to open the Exchange to a new class of international investors.

QUALITY DATA AND INFORMATION YOU CAN TRUST
Successful algorithms depend on exhaustive mining of historic data, which highlights the Exchange's position as the source for quality trusted data. Our Tick Data suite of products, part of our Corporate Data Warehouse, the first milestone on the Technology Roadmap, can deliver the accurate high quality historic data that writers of algorithms need, as they seek to use past behaviour to predict the future. It is part of our purpose in Information Services to leverage our agile technology to deliver products that help our customers develop and refine their trading strategies and so boost market liquidity.

The SEDOL Masterfile is another example of how the Exchange can help customers improve processes and become more efficient. It was the third full year for SEDOL, which now includes more than a million securities, across 200 markets worldwide. With over 1.2 million SEDOL codes in circulation, linked to global ISIN and third party identifiers, the service offers a universal trusted instrument identification solution, helping customers reduce errors and the cost of failed trades and sub-optimal trading.

SEDOL and the growing suite of Corporate Data Warehouse products, all developed in consultation with customers, are part of the continuing diversification of revenues. One third of Information Services' revenues are now generated by businesses other than our market data terminals. Yet all these initiatives derive from the same core instincts: to help customers trade more efficiently on our markets and so promote liquidity; and to leverage our data in ways that can help customers and solve market problems.

ACCESSING MARKET DATA

Providing low-cost access to market data is another way we help customers to trade more efficiently. Proquote, the Exchange's trading and market data system, continues to enhance its data and functionality and to grow its terminal numbers. The new Proquote International product was introduced and has increased the potential institutional buy side market for Proquote. Proquote now provides a full global and highly competitive market data information service.

Improving front office efficiency is a new key area and a selling point for Proquote. The new order management functionality will allow firms using Proquote to capture, route and execute orders to any required market. A number of integration options are now available to clients, giving them instant access to up-to-date information on orders and trades. These new trading features will fully complement the data coverage of the information services available.

At the year end there were 3,000 Proquote terminals. New customers arriving in the year included Henderson Global Investors, KPMG and Williams De Broë. The number of Retail Service Providers available for automatic execution through Proquote has increased and now includes JPMorgan Cazenove, Canaccord and Teather & Greenwood.

The value and importance of being the source of quality and trusted data is further demonstrated by the performance of our website, www.londonstockexchange.com. The site remains one of the most popular destinations for private investors and anyone interested in investing in our markets. Across the year it received an average of 1.6 million visits per month, with more than 1 million unique users. The first round of InvestaQuest, the national stock-picking competition designed to promote understanding of and involvement in the Exchange's markets using the website, drew more than 10,000 entrants; a new round of InvestaQuest was launched in March 2006.

FTSE

FTSE is the Exchange's joint venture index provider that licences and distributes globally recognised benchmarks. Through innovative index design, and customised index solutions, FTSE now calculates more than 60,000 indices in 50 markets worldwide, including hedge fund and bond indices. Issuers and investors recognise the FTSE 100 index as one of the world's blue-chip equity indices, thereby enhancing the Exchange's already strong global brand. The continuing development of new indices, such as FTSE AIM UK 50, helps to improve liquidity on our markets by creating increased transparency and profile, and further extending the range of available investment opportunities. FTSE had a very good year, increasing its revenue by 20 per cent to £36.7 million.

DERIVATIVES SERVICES

+ 13%

£7.7m

A RECORD YEAR IN DERIVATIVES TRADING: NEW MEMBER FIRMS JOINING EDX LONDON

EDX LONDON

It was a record year in derivatives trading on EDX London and its linked Exchange partners: OMX Exchanges and Oslo Børs. The average daily volume of contracts traded was up 33 per cent bringing the total number of contracts traded across these exchanges to a record 126.1 million.

Trading in equity and equity index derivatives contracts across the exchanges was up 31 per cent to 448,621 contracts per day. Growth in trading in the OMXS30 Index Future was a key contributor with average daily volumes increasing by 27 per cent to almost 81,000 contracts per day. Ericsson continued to be the most heavily traded derivative contract, with an average of 153,606 contracts traded daily. Of the combined Nordic markets, EDX London's international members traded approximately 19 per cent of total equity and index-related volumes. Growth in fixed income and interest rate derivatives was also strong across these exchanges, with the average daily volume of contracts traded up 62 per cent on the year.

During the period we sought to continue the development of services for the over-the-counter equity derivatives market. However, it became apparent that the service did not justify further investment. Accordingly, we recognised an exceptional charge of £23.1 million, principally in respect of the impairment of goodwill associated with this initiative.

However, EDX London's Market Place Service, an innovative service which facilitates large and complex orders for member firms, traded a total of 9.7 million of the 22.2 million contracts traded by EDX London, an increase of 21 per cent on the previous year. Seven new members joined EDX London during the period, bringing the total number of EDX London member firms to 63.

COVERED WARRANTS

The covered warrant market has evolved into two separate markets; covered warrants and structured products. The latter is very much targeted at the institutional market, offering a wide variety of pay-out structures and underlying assets. Trading has seen strong growth, despite a significant drop in the number of instruments in issue, reflecting more concentrated and better targeted issuance programmes. Growth in the number of bargains over the last four months has been at its strongest since launch and we expect continued success in 2007.

“SEVEN NEW MEMBERS JOINED EDX LONDON DURING THE PERIOD, BRINGING THE TOTAL NUMBER OF EDX LONDON MEMBER FIRMS TO 63”

TECHNOLOGY

AVAILABILITY

100%

OUR NEW TICKER PLANT **INCREASED SPEED** OF DATA DISTRIBUTION 15 FOLD; CAPACITY OF TRADING PLATFORM DOUBLED

“ Our commitment to the development of cutting edge technology is a distinct competitive strength. ...our new technology platform (TRM) is expected to provide customers with the fastest, most reliable and scalable equity trading platform in the world. ”
– Chief Executive's Review

It has been a major year for the technology that underpins the markets of the London Stock Exchange. We achieved two important milestones along the Technology Roadmap, the programme of trading platform renewal that by the first half of 2007 will have moved all of the Exchange's core systems onto agile, next-generation systems.

Infolect, our new ticker plant replacing LMIL, went live in September. Containing approximately half a million lines of code, Infolect now distributes more than 15 million messages every business day. Speed of data has increased 15 fold, cutting latency from 30 milliseconds to two. One month after successfully launching Infolect, the Trading Platform upgrade was successfully implemented; doubling the Exchange's trading capacity, whilst significantly reducing latency. These two significant Technology Roadmap initiatives have brought our customers closer to the market and provided increased trading opportunities – so improving the efficiency and liquidity of our markets.

We plan to provide customers with the fastest, most reliable and scalable equity trading platform in the world. It is no coincidence that 19 of our 20 busiest days ever have occurred since these system upgrades. Just as important, both these major improvements were implemented while maintaining 100 per cent availability – for the sixth consecutive year. No other major global exchange can claim such a record of reliability.

DESTINATION 2007

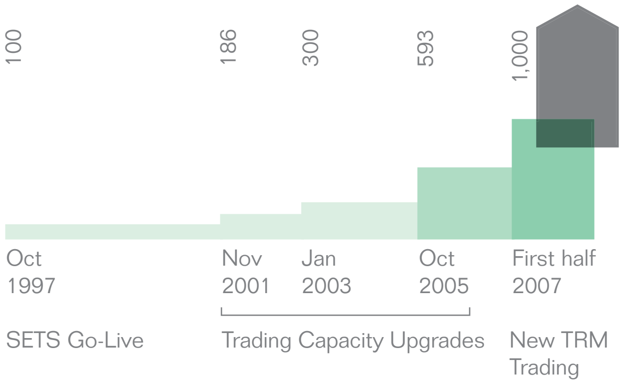
The final destination for the Technology Roadmap, now in sight, is to migrate the Exchange's trading platform onto the new technology. Once completed, adding new capacity and business functionality – including support for multiple asset classes, currencies and time zones – will be quicker and more cost-efficient by a factor of ten. The project remains on schedule and client testing begins in Q4 2006. The new platform will go live in the first half of 2007 with implementation completion determined through client conformance testing. Because the core technology has already been proven in Infolect, we have every confidence that the new platform will be robust and world leading.

We continue to work closely with our customers, examining how the Exchange's technology can help them deliver their business vision. Minimising latency is a priority across the industry and we are consulting widely on offering hosted services that could all but eliminate data delay.

In all major technology projects the partners you choose are key. Microsoft's .NET architecture is at the heart of our Technology Roadmap. Accenture continues to be a significant technology partner providing architecture, programme management, development and systems operations expertise. Additionally, HP hardware, coupled with AMD processors and the network skills of Verizon and Cisco Systems all play their part in creating the Exchange's world-class technology.

> "WE PLAN TO PROVIDE CUSTOMERS WITH THE FASTEST, MOST RELIABLE AND SCALABLE EQUITY TRADING PLATFORM IN THE WORLD"

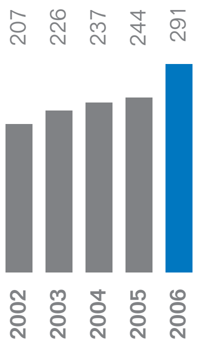
TRADING CAPACITY GROWTH
(Units*)



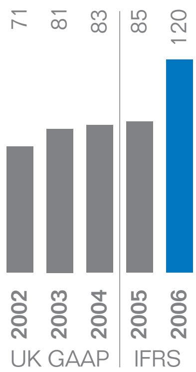
* Unit = the average system capacity needed to process a single order

FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2006 REFLECTED **SIGNIFICANT GROWTH** IN REVENUE AND EARNINGS PER SHARE, WITH STRONG OPERATING CASH FLOWS

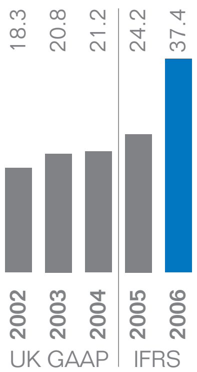
REVENUE BEFORE EXCEPTIONAL ITEMS (£m)*
Years ended 31 March



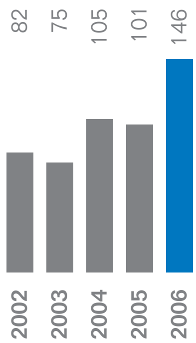
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND GOODWILL AMORTISATION (£m)*
Years ended 31 March



ADJUSTED BASIC EARNINGS PER SHARE (pence per share)*
Years ended 31 March



CASH GENERATED FROM ONGOING OPERATING ACTIVITIES (£m)
Years ended 31 March



* Based on IFRS for 2005 and 2006, and UK GAAP for 2002, 2003 and 2004, consistent with the Basis of presentation of the Financial Record as set out on page 66.

HIGHLIGHTS

Revenue at £297.5 million (2005: £244.4 million) was up 22 per cent, including exceptional income of £6.4 million in relation to information services. Operating profit was £85.4 million (2005: £84.5 million) and basic earnings per share were 27.8 pence (2005: 24.2 pence). Before exceptional items, revenue grew 19 per cent to £291.1 million (2005: £244.4 million) and operating profit increased 42 per cent to £120.1 million (2005: £84.6 million). Adjusted basic earnings per share, before exceptional items, increased 55 per cent to 37.4p per share (2005: 24.2p).

Cash generated from operations increased to £140.6 million (2005: £100.9 million), with cash generated from ongoing operating activities increasing to £145.9 million (2005: £100.9 million). The £510 million capital return to shareholders in May 2006 is made possible by the Exchange's strong growth prospects and robust cash generation.

REVENUE

Issuer Services' revenue increased 31 per cent to £56.9 million (2005: £43.3 million) reflecting increases in the number and size of new issue activity. Total equity raised increased to £34.1 billion (2005: £18.8 billion) with the average market capitalisation of a Main Market IPO increasing to £285 million (2005: £131 million). Total new issues on the Exchange's markets increased 21 per cent to 622 (2005: 514) with Main Market new issues increasing 30 per cent to 107 (2005: 82) including 18 international listings. AIM saw another record year with 510 new issues (2005: 432) including 131 international issues. As at 31 March 2006, the total number of companies on our markets increased to 3,141 (2005: 2,916). Of these, 1,473 companies were traded on AIM, an increase of 31 per cent (2005: 1,127), including 247 international companies. RNS also performed well during the year with a 24 per cent increase in the number of company announcements.

Broker Services' revenue increased 25 per cent to £125.5 million (2005: £100.6 million), reflecting a very strong performance for SETS, our electronic order book. The number of SETS bargains for the year ended 31 March 2006 rose to a total of 56.8 million (2005: 42.8 million), reflecting a 31 per cent increase to an average of 223,000 bargains per day (2005: 170,000). Value traded on SETS increased 35 per cent to £1,190 billion (2005: £881 billion). The total number of equity bargains rose 31 per cent to 89.0 million (2005: 67.9 million), a daily average of 349,000 bargains (2005: 271,000).

Information Services' revenue before exceptional items rose nine per cent to £94.1 million (2005: £86.7 million). This growth reflects a nine per cent increase in the number of terminals taking the Exchange's real-time market data to 104,000 (2005: 95,000).

Of this total, 88,000 terminals (2005: 83,000) were attributable to professional users. SEDOL Masterfile, the extension to the Exchange's securities numbering service now provides unique identification for more than a million securities on a global basis and Proquote, the Exchange's provider of financial market software and data increased the number of screens at year end by 11 per cent to 3,000 (2005: 2,700).

During the year ended 31 March 2006 exceptional revenue of £6.4 million was recognised following a one off settlement with a user of Exchange data relating to a past under declaration of terminals accessing Exchange data.

Derivatives Services contributed £7.7 million to revenue (2005: £6.8 million) up 13 per cent. EDX London, our 76 per cent owned equity derivatives business, traded a total of 22.2 million contracts (2005: 18.3 million), representing an average of 86,000 per day (2005: 73,000) up 18 per cent.

Other income, primarily from property subletting, declined from £7.0 million to £6.9 million.

EXPENDITURE
Administrative expenses (excluding exceptional items) increased seven per cent to £171.0 million (2005: £159.8 million) mainly reflecting the expected increase in staff costs. Exceptional costs of £41.1 million were incurred reflecting advisers' fees in respect of potential offers for the Company (£12.1 million), impairment of goodwill and provision in respect of EDX (£23.1 million) and restructuring costs associated with the implementation of the cost saving programme announced in February 2006 (£5.9 million). These cost savings will be derived from IT, further integration of business processes, and other efficiencies.

PROFIT FOR THE YEAR
Operating profit before exceptional items increased 42 per cent to £120.1 million (2005: £84.6 million). Operating profit including exceptional revenues and costs increased one per cent to £85.4 million (2005: £84.5 million). Profit before taxation of £93.5 million was one per cent above last year (2005: £92.2 million). The taxation charge of £26.7 million is below the standard tax rate due mainly to adjustments in respect of prior years. After tax and minority interests, profit attributable to equity holders for the year was £70.7 million (2005: £65.0 million).

Basic earnings per share increased 15 per cent to 27.8p per share (2005: 24.2p) and adjusted basic earnings per share (excluding exceptional items) increased 55 per cent to 37.4p per share (2005: 24.2p), principally reflecting growth in underlying business and the impact of the share consolidation in August 2004.

CASH FLOW AND BALANCE SHEET STRENGTH
Cash generated from operations increased to £140.6 million (2005: £95.4 million), with cash generated from ongoing operating activities increasing to £145.9 million (2005: £100.9 million), due to the strong operating performance during the period. Together with the receipt of the final instalment of £33.2 million from the disposal of Stock Exchange Tower, and lower capital expenditure, this resulted in a total increase in cash of £102.4 million. This compared to a cash outflow of £103.5 million in 2005 (due to the payment of a special dividend of £162.5 million in August 2004).

At 31 March 2006 sterling cash resources were £226.8 million (2005: £124.4 million) with debt of £1.1 million (2005: £3.3 million). The Company invests the majority of its funds in fixed term deposits with banks, for periods of up to one year.

Net assets of the Group increased to £288.8 million (2005: £236.3 million), mainly due to the increase in cash arising from operating performance, partly offset by the £23.1 million charge arising from the impairment and provision in respect of EDX London Ltd.

CAPITAL RETURN
During the period the Exchange announced a capital return of approximately £510 million. The return represents a significant step change towards a more efficient capital structure and builds on the Exchange's track record of good capital management. Recognising the strong cash generation of the business, the Exchange also announced its intention to implement an ongoing share buyback programme of up to £50 million per annum.

In order to facilitate the return, a Scheme of Arrangement was implemented on 15 May 2006, under which London Stock Exchange Group plc (Exchange Group) became the holding company of London Stock Exchange plc. After the subsequent reduction in the Exchange Group's ordinary share capital, the capital return to shareholders of Exchange Group was effected as at 22 May 2006, to be paid to shareholders on 26 May 2006.

The return will be funded by existing cash reserves, and by a £200 million revolving loan facility agreement, available until February 2011, and a £250 million facility, available until April 2008, which the Company entered into on 9 February 2006. £350 million of debt was drawn down on these facilities in May 2006.

DIVIDEND
The Board declared a second interim dividend of 8.0 pence per share to be paid on 26 May 2006, in lieu of a final dividend for the year (2005: 5.0 pence), giving a total dividend of 12.0 pence (2005: 7.0 pence) per share in respect of the financial year, and total distribution of £30.7 million (2005: £17.7 million). This is consistent with the re-setting of the dividend payout announced in November 2005, and signals the Company's new dividend policy of sustainable, progressive dividends.

ACCOUNTING POLICIES
This is the first set of Group consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Up until 31 March 2005 the Group prepared its financial statements under UK Generally Accepted Accounting Principles (UK GAAP).

The key changes arising from the introduction of IFRS are in respect of goodwill amortisation, pensions, share-based payments, lease rentals, property depreciation and dividends, as set out in note 33 to the financial statements.

The restatement of the Group's financial statements to 31 March 2005, arising from the transition from UK GAAP to IFRS, was published on 21 July 2005, with the following impact on the comparative numbers for the year ended 31 March 2005 as reported in these accounts:

- profit before tax under IFRS was £92.2 million, three per cent higher than £89.1 million under UK GAAP; and
- net assets at 31 March 2005 under IFRS were £236.3 million, six per cent lower than £251.6 million under UK GAAP.

GOING CONCERN
After making appropriate enquiries, the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The accounts are, therefore, prepared on the going concern basis.

JONATHAN HOWELL
Director of Finance

AS A PUBLICLY LISTED COMPANY AT THE HEART OF THE MOST INTERNATIONAL MARKET IN THE WORLD, INTEGRITY IS CENTRAL TO OUR SUCCESS AND WE ARE PROUD OF THE WAY IN WHICH WE DO BUSINESS

Exchange staff at Brainwave helping to get their sensory garden ready for the Summer in 'Operation Groundforce'

BRAINWAVE
Therapy for Brain Injured Children

Our long-term growth ambitions require the absolute trust of our stakeholders and the best possible performance from our employees. We always strive for openness and honesty in all our business dealings and treat our customers, shareholders and employees as valued partners in our business.

Our approach continues to give priority to those activities that are of real relevance to our stakeholders and where we consider we can have most impact. Priorities are therefore:

COMMUNITY PROGRAMME

We encourage our staff to share their skills, experience and enthusiasm for the benefit of the wider community through active participation in our Community Programme and by rewarding their own charitable fundraising efforts.

The cornerstone of our Community Programme is a partnership approach with a single charity for a two to three year period. Our current partner charity is Brainwave, a small charity based in Somerset that helps children with developmental delay caused by Cerebral Palsy, genetic disorder or brain injury. Most of the children that follow a Brainwave programme make real and measurable progress, achieving levels of independence far beyond their families' dreams and expectations.

For the last two years we have worked closely with Brainwave, helping to develop their profile in the business community and raise much needed funding for their important work. During this time our corporate financial contribution of £150,000 has been more than doubled by the voluntary efforts of our staff through a myriad of imaginative and profitable fundraising activities. We are very grateful for the support they have been given by our customers, suppliers, families and friends, which has resulted in a total financial contribution to Brainwave of over £380,000 since the partnership began in April 2004.

One of the highlights of the programme this year was when we divided the company into 10 teams and challenged each to raise enough money to sponsor an 'adopted' child through a Brainwave programme for a year. The staff response was magnificent, and the £40,000 raised through this initiative exceeded our target figure by 30 per cent.

Additionally our staff matching programme matches funds raised by staff for any UK registered charity, pound for pound. During the year we supported 18 charities through our staff matching programme and by making 'community awards' to charities in recognition of the time spent by members of staff performing voluntary work in their own time.

In addition, last year we were able to support The National Deaf Children's Society, YouthNet, and the National Council for Voluntary Organisations by giving them the use of our event facilities and in-house catering so they could hold business development events at our new headquarters in Paternoster Square, at zero cost.

ENVIRONMENT
We recognise that our activities inevitably have an impact on the environment and endeavour to manage this as responsibly as possible.

We are committed to a programme of environmental management and continual improvement, considering legislation as only the starting point for our environmental objectives. To facilitate this, detailed processes are in place to ensure accurate measurement of our environmental performance.

Our relocation to Paternoster Square enabled us to implement a number of initiatives designed to reduce consumption of both energy and water. For example, we now purchase only green energy. These initiatives have resulted in CO_2 emissions reducing by 88 per cent this financial year.

We continue to be awarded the Gold Award each year under the Clean City Awards Scheme which recognises good practice to reduce consumption and reuse and recycle where practicable.

Our Environmental Policy Statement, which provides a framework for developing and reviewing environmental objectives can be found on our website at www.londonstockexchange.com company overview section.

GOVERNANCE
We remain committed to delivering the highest standards in boardroom practice and financial transparency by:

- facilitating open and transparent dialogue with our investor audience;
- maintaining accurate financial records which transparently and honestly reflect the financial position of our business; and
- striving to meet the expectations of our shareholders by maximising shareholder value and providing competitive returns.

Contact is maintained with key audiences, including institutional and private shareholders and analysts, through a full programme of investor relations activity including regular meetings, periodic presentations and publication of information. Communication is conducted in a manner that effectively provides information on Company performance whilst ensuring the protection of price sensitive information not already available to all shareholders.

Although the company has been restricted in its normal investor contact programme due to potential offers for the Company, the Exchange nevertheless held over 100 meetings and calls with major UK and overseas investors in the past year.

The effectiveness of the communication programme is monitored directly through feedback to the company and indirectly through feedback to our brokers and periodic third party perception audits.

Our financial reporting has always sought to comply with each of the requirements we are set. Additionally, transparency in the detail of what we report continues to be an overriding objective.

Regular trading and market data is provided on the company website.

EMPLOYEES
Employing the best people and providing them with the skills, resources and motivation to be as effective as possible is fundamental to our success. We aim to create the right environment for people to do their best work by:

- creating a working environment which enables employees to develop their skills and knowledge;
- providing the required resources, in terms of technology, information and access to expertise to allow our employees to succeed in their roles;
- creating a culture which encourages open and honest assessment of employee performance and behaviour on a regular basis;
- providing the opportunity for employees to share in the success of the Exchange through bonus arrangements linked to the financial performance of the Exchange and share plans focussed on longer term performance; and
- enabling our employees to make informed decisions about the effect of a wide range of benefits on their lifestyle, wealth and financial security;

In addition, we recognise the absolute importance of operating with integrity and openness and strive to ensure this is an integral part of our culture by:

- encouraging a working environment in which employees feel comfortable about highlighting wrongdoing;
- promoting an environment of equality of opportunity which is intolerant of discrimination, harassment or victimisation; and
- maintaining healthy and safe working conditions and operating in an environmentally-responsible manner.

Health and Safety management forms an integral part of our business with legislative compliance monitored by representatives from each business unit. A full annual audit is completed with support from external consultants and advice provided on new or changing legislation and its impact on our business.

There were no reportable illnesses, dangerous occurrences or liabilities, nor were any health and safety enforcement notices received.

PRINCIPAL RISKS AND UNCERTAINTIES

The London Stock Exchange operates a business-wide risk management process to identify potential threats to the achievement of its objectives, assess their relative likelihood and impact, and manage them through appropriate controls and mitigating actions.

There are a number of potential risks and uncertainties which could have a material impact on the Exchange's long-term performance, not all of which are wholly within our control. Some of the issues influencing our performance are macro-economic and may affect the performance of businesses generally, but others are specific to our business.

The following section contains our view of the important risks and uncertainties currently facing the Exchange. In addition, the main risks arising from the Exchange's use of financial instruments are discussed in note 28 to the financial statements below. Our response to corporate events during the year is addressed in the Chairman's Statement.

RISKS RELATING TO THE INDUSTRY

ECONOMIC ENVIRONMENT

Conditions in the savings market can affect investment in securities. These conditions are influenced by a variety of factors, and the Exchange is not in a position to control these factors directly. However, the Exchange continuously monitors trends and developments and engages in dialogue with regulatory and governmental authorities at both national and EU level.

STRUCTURE OF THE INDUSTRY

In response to the gradual liberalisation of world financial markets, participants in the securities market are undergoing a significant level of corporate restructuring. In particular, a high proportion of business in the securities market is becoming increasingly concentrated in a smaller number of institutions and the Exchange's revenue may therefore become concentrated in a smaller number of customers. Over recent years the Exchange has introduced an enhanced Customer Relationship Management process.

RISKS RELATING TO THE BUSINESS

MARKET ACTIVITY

Exchange revenues and profitability are dependent upon the levels of activity on its markets. A slowdown in trading activity or a shift in liquidity could lead to a drop in trading volumes, fewer initial public offerings and a drop in the number of information terminals receiving the Exchange's data. Such a slowdown might adversely affect Exchange revenues. Based on trends in activity on its markets, the Exchange has no reason to believe such a slowdown is likely to occur medium-term.

RECOGNISED INVESTMENT EXCHANGE (RIE) RECOGNITION

The Exchange is an authorised RIE, regulated by the Financial Services Authority (FSA). In order to obtain RIE status, the Exchange had to satisfy the Recognition Requirements. If it fails to continue to meet the Recognition Requirements, or to comply with any obligation to which it is subject under the Financial Services and Markets Act, then the FSA ultimately has the power to revoke its RIE status. The Exchange has comprehensive procedures in place to ensure continued compliance with all Recognition Requirements and the Directors are not aware of any circumstances which would result in the FSA revoking the Exchange's RIE status.

COMPETITIVE PRESSURE

The terms under which business is conducted in the UK have been further liberalised by recent EU directives, presenting the opportunity to conduct and publish trades in different ways and on alternative venues. The Exchange also faces competition from other exchanges as well as from electronic communication networks and alternative trading systems (including a move towards greater systematic internalisation by member firms). Whilst these developments might reduce the flow of business to the Exchange, they also provide an opportunity for the Exchange to develop new products and services.

IT INFRASTRUCTURE

The Exchange is currently renewing its IT infrastructure with the aim of providing its customers with the fastest, most efficient and technologically advanced equities market in the world by the first half of 2007 (the Technology Roadmap). Major IT replacements of this kind can have high levels of risk attached to them. The Exchange, in conjunction with Accenture, the Exchange's primary IT service provider, is employing rigorous software design methodologies, logistics planning and assembly and testing regimes to minimise this risk. Infolect, which represents an important part of the project, was successfully implemented in September 2005.

FINANCING

In order to develop its business, the Board expects that the Exchange's capital requirements will be met from existing cash resources, internally generated funds and access to lending facilities. However, capital requirements may vary from those currently planned and additional funds may be raised through equity or debt financings or from other sources. Any additional equity financing may be dilutive to holders of ordinary shares and any debt financing, if available, may require restrictions to be placed on future financing and operating activities.

PRICING RISK

In 2003, following an inquiry into its issuer fees, the Exchange reduced its annual and admission fees for AIM and annual fees for the Main Market, and provided an undertaking to the Office of Fair Trading (OFT) not to increase UK annual and admission fees for the UK Main Market and AIM by more than the increase in the ONS service sector wage index from April 2003 to April 2007. Restrictions on pricing may continue beyond 2007.

EMPLOYEES

The success of the Exchange depends, inter alia, upon the support of its employees and, in particular, the Executive Directors and senior managers within business divisions. The loss of key members of the Exchange's staff could have a material adverse effect on its performance. To prevent this, key employees are appropriately incentivised and succession plans are in place.

BOARD OF DIRECTORS

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1 Chris Gibson-Smith 60 [3]
Chairman
Chris is also Senior Non-Executive Director of British Land Company plc and Non-Executive Director of Qatar Financial Centre Authority. He is a Trustee of the London Business School and of the arts charity Arts and Business Limited. He was previously Chairman of National Air Traffic Services Ltd from 2001 to 2005, Director of Lloyds TSB plc from 1999 to 2005, Group Managing Director of BP plc from 1997 to 2001, and a past Trustee of the Institute of Public Policy Research.

2 Clara Furse 48
Chief Executive
Appointed Chief Executive in January 2001. Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. At Phillips & Drew (now UBS) from 1983 to 1998; became a Director in 1998, Executive Director in 1992, Managing Director in 1995 and Global Head of Futures in 1996. Director of LIFFE from 1991 to 1999. Deputy Chairman from 1997 to 1999. She is a Non-Executive Director of Euroclear plc and LCH.Clearnet and has recently been appointed to the Board of Fortis with effect from 31 May 2006. Formerly Non-Executive Director of RICS Foundation 2002 to 2005.

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3 Jonathan Howell 43
Director of Finance
Director of Finance since December 1999, responsible for Finance and Business Operations. He was previously Head of Market Regulation from 1998 and Director of Regulation from March 1999. He is a Non-Executive director of FTSE International Ltd. He joined the Exchange in 1996 from PricewaterhouseCoopers.

5 Gary Allen CBE DL 61 [1]
Non-Executive Director
Chairman IMI plc from May 2001 until December 2004, Chief Executive from 1986 to January 2001. Board director of IMI plc from 1978 until 2005, having joined the company in 1965. He is a Non-Executive Director of NV Bekaert SA, Belgium, the National Exhibition Centre Ltd and Temple Bar Investment Trust plc.

7 Robert Webb QC 57 [2 3]
Non-Executive Director
General Counsel of British Airways plc since September 1998, responsible for government and industry affairs, safety, security, risk management and the environment. Board member of London First, and of Hakluyt Ltd. Bencher, Inner Temple.

9 Nigel Stapleton 59 [1 2 3]
Non-Executive Director
Chairman Uniq plc and Chairman Postal Services Commission. Previously Chairman of Reed International plc from 1997 to 1999, Co-Chairman of Reed Elsevier plc from 1996 to 1998, Chief Financial Officer of Reed Elsevier plc from 1993 to 1996.

4 Baroness (Janet) Cohen 65 [1 2 3]
Non-Executive Director
A Life Peer, Non-Executive Chairman of BPP Holdings plc and Non-Executive Director of Management Consulting Group plc, Proudfoot Trustees Limited and TRL Electronics plc. Previously Advisory Director of HSBC Investment Bank, a Non-Executive Director of Charterhouse Management Services Ltd from 1988 to 1999 and Charterhouse Financial Services Ltd from 1989 to 1993.

6 Peter Meinertzhagen 60 [2]
Non-Executive Director
From 1999 to 2004 Chairman Hoare Govett Ltd, Hoare Govett Corporate Finance Ltd and of Hoare Govett Small Companies Index Trust plc. He joined Hoare Govett in 1965.

8 Oscar Fanjul 57 [1 3]
Non-Executive Director
Vice-Chairman and Chief Executive of Omega Capital. Former Chairman and CEO of REPSOL-YPF and Chairman of Hidroeléctrica del Cantábrico. Non-Executive Director of Acerinox, Marsh & McLennan Companies, Lafarge and Areva (Conseil de Surveillance). He is also Trustee of the International Accounting Standards Committee (IASC) Foundation.

[1] Member of the Audit Committee
[2] Member of the Remuneration Committee
[3] Member of the Nomination Committee

CORPORATE GOVERNANCE

London Stock Exchange plc is committed to the highest standards of corporate governance and the Company has complied with all provisions of the Combined Code throughout the period except as explained in the Report below.

Following the introduction of London Stock Exchange Group plc as the new holding company of London Stock Exchange plc, London Stock Exchange Group plc will follow the same commitment to the highest standards of corporate governance as has been followed by the London Stock Exchange plc. Each member of the Board of London Stock Exchange plc has been appointed to the Board of London Stock Exchange Group plc and members of the Board will continue in the same roles and positions. Statements below in relation to the ongoing measures for corporate governance will apply to the Board of London Stock Exchange Group from the date the scheme became effective, on 15 May 2006.

The Audit and Remuneration Committees have not been comprised of fully independent directors in that the senior director Gary Allen and Peter Meinertzhagen, who sit on the Audit and Remuneration Committee respectively, are not determined to be independent in accordance with the Combined Code.

Gary Allen was appointed Senior Director in 2004 and is also Chairman of the Audit Committee. The Board considers that it is appropriate for Gary Allen to continue to act as Senior Director and to chair the Audit Committee. In particular Gary has wide domestic and international business experience and additionally a long-term perspective on the Exchange's business. Given his length of service, Gary Allen will stand for re-election on an annual basis as required by the Combined Code.

The Board considers that it continues to be appropriate for Peter Meinertzhagen to sit on the Remuneration Committee given his knowledge and experience of the specialist nature of the market in which the Company operates. This is considered to be helpful to the Committee in developing its remuneration strategy for the London Stock Exchange and to the Board as a whole. Given his length of service, Peter Meinertzhagen will also stand for re-election on an annual basis.

The Board had previously commenced a process to recruit additional non-executive directors. However, the process ceased when the Company entered an Offer Period in December 2004. The Board currently considers that the size of Board and mix of skills is appropriate for the Company but will keep this under review.

BOARD OF DIRECTORS

The Board is responsible to shareholders for achieving the Exchange's strategic objectives and is accountable to shareholders for financial and operational performance. There is a written list of matters which may be approved only by the Board including:

- the Exchange's corporate strategy;
- the annual budget;
- policies in relation to risk management, health and safety and environmental matters;
- increases or variations to borrowing facilities;
- committing to major capital expenditure or acquisitions; and
- dividend policy.

The Board also views the Exchange's brand and reputation as a Recognised Investment Exchange as important assets of the Company and protection of brand and reputation are key parts of the Board's role.

MEETINGS

Total number of Meetings	Board	Audit	Remuneration	Nomination	Board Committee[1]
Number of Meetings attended in the year ended 31 March 2006	20	6	3	0	13
Dr Chris Gibson-Smith	20				11
Mrs Clara Furse	20				13
Mr Jonathan Howell	20				12
Mr Gary Allen	17	6			8
Baroness Janet Cohen	17	6	2		
Mr Oscar Fanjul	16	6			
Mr Peter Meinertzhagen	19		3		12
Mr Nigel Stapleton	17	3	3		10
Mr Robert Webb	14		3		

[1] Established when the Company entered an Offer Period

At each of its meetings the Board receives a full written report from the Chief Executive on financial performance and key activities in each of the divisions. The executive management team present to the Board on their business responsibilities on a regular basis and also present at the Board's periodic strategy sessions.

The roles of Chairman and Chief Executive are distinct and separate with a clear division of responsibilities. The Chairman leads the Board and is responsible for ensuring its effectiveness. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Company's business.

The Board has six scheduled meetings in addition to two offsite strategy meetings a year. In the year ended 31 March 2006 the Board held 20 meetings. The Chairman meets non-executive directors without the presence of executive directors on a number of occasions throughout the year.

Directors have the benefit of indemnity arrangements from the Company in respect of liabilities incurred as a result of their office and execution of their powers, duties and responsibilities. In respect of those liabilities for which directors may not be indemnified, the Company purchased and obtained a directors' and officers' liability insurance policy throughout 2005. This insurance cover was renewed at the beginning of 2006. Neither the Company's indemnity nor insurance provides cover in the event that the director is proved to have acted fraudulently or dishonestly.

BOARD BALANCE AND INDEPENDENCE

The Board comprises nine directors, the Chairman (who was independent on appointment), two executive directors and six non-executive directors. The Board considers that the Board is of the appropriate size and with the right mix of skills and experience given the size of the Company. The Board considers all non-executive directors to be independent in character and there are no relationships or circumstances which are likely to affect their character or independent judgement. However the Board believes that neither Gary Allen nor Peter Meinertzhagen can be determined to be independent under the revised Combined Code. In the case of Gary Allen this is because of his length of service on the Board, having been appointed in 1994 and, in the case of Peter Meinertzhagen, because he is engaged by one of the Company's major customers, ABN Amro.

Directors serving on the Board's committees together with biographical details are identified on the Board of Directors pages 24 and 25.

PERFORMANCE EVALUATION

The annual performance evaluation of the Board and its Committees was undertaken in the year ended 31 March 2006 and was conducted by the Company Secretary using a detailed questionnaire and included consideration of the composition of the Board, appropriateness of Board agendas and the balance of Board time spent on consideration of strategic matters. The results were then discussed by the Board with actions agreed. The Senior Director has met separately with non-executive directors without the Chairman present to discuss the Chairman's performance.

BOARD COMMITTEES

OFFER PERIOD – BOARD COMMITTEE

The Company has a Board Committee to consider all matters relating to potential offers for the Company on behalf of the Board. The Committee was appointed in December 2004. The Committee comprises Chris Gibson-Smith, Clara Furse, Jonathan Howell, Gary Allen, Nigel Stapleton and Peter Meinertzhagen. It has met 13 times between 1 April 2005 and 31 March 2006.

REMUNERATION COMMITTEE

The Committee members as at 31 March 2006 were: Nigel Stapleton (Chairman), Janet Cohen, Peter Meinertzhagen and Robert Webb. The Committee normally invites the Chief Executive, Head of Human Resources and Director of Finance to attend part of the meeting and the Chairman to attend throughout. The Committee has written terms of reference and meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes. A separate Remuneration report is set out on pages 29 to 35.

AUDIT COMMITTEE

The Committee members as at 31 March 2006 were: Gary Allen (Chairman), Janet Cohen, Oscar Fanjul and Nigel Stapleton. There have been no changes in the membership of the Committee during the financial year. As explained above, with the exception of Gary Allen, all members of the Committee are considered to be independent non-executive directors as defined by the Combined Code. The Board is satisfied that various members of the Committee have recent and relevant financial experience.

ROLE OF THE AUDIT COMMITTEE

The Committee has written terms of reference, which are available from the Company Secretary or on the corporate website at www.londonstockexchange-ir.com.

MEETINGS

The Committee meets at least three times a year and has an agenda linked to events in the Company's financial calendar. The Committee normally invites the Chairman, Director of Finance, Head of Finance, Head of Internal Audit and senior representatives from the external auditors to attend its meetings. Other senior managers are invited to present such reports as are required by the Committee. The Committee meets privately with the PricewaterhouseCoopers partner on an annual basis. It has the opportunity at each meeting to review any issues with the external auditors and with the Head of Internal Audit without any other members of executive management being present.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE IN THE YEAR TO 31 MARCH 2006

During the year, the Committee reviewed the following:

- annual report and interim results;
- reports from the Company's internal audit department on the effectiveness of the Company's risk management procedures, details of key audit findings and actions taken by management;
- effectiveness of the Company's system of internal control;
- internal audit plan;
- performance of the Company's internal audit department;
- reports from external auditors on their audit, proposed audit scope, fees and auditor independence;
- arrangements for the company's capital return;
- the Company's insurance programme;
- the Company's 'whistleblowing' procedures;
- the Company's information security procedures; and
- management of company's taxation arrangements.

INDEPENDENCE OF EXTERNAL AUDITORS

The Committee has adopted a policy on non-audit services designed to ensure that the provision of such services by the external auditor does not impair the auditor's objectivity and independence. The policy, based upon APB Ethical Standard 5, "Non-Audit Services Provided to Audit Clients" and ICAEW Guidance for Audit Committees, defines both the type and value of services that require prior authorisation of the Committee and the services that the external auditor is prohibited from providing. The Committee annually reviews all non-audit services provided by the external auditor to ensure compliance with the policy. The Committee remains satisfied with the objectivity and independence of the Company's external auditors.

NOMINATION COMMITTEE

The Nomination Committee members as at 31 March 2006 were: Chris Gibson-Smith (Chairman), Janet Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb. The Committee normally invites the Chief Executive to attend. The Committee meets as necessary to make recommendations to the Board on all new Board appointments and to consider executive and Board succession planning. The Committee has written terms of reference which are available from the Company Secretary or on the corporate website at www.londonstockexchange-ir.com.

INTERNAL CONTROL

The Board confirms that procedures have been in place throughout the year and up to the date of this report which comply fully with the guidance 'Internal Control: Guidance for Directors on the Combined Code' (published by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales in September 1999).

The Company's systems of internal control over business, operational, financial and compliance risks are designed to help the Company meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss. The Board has ultimate responsibility for the systems of internal control and, through the Audit Committee, has reviewed the effectiveness of the systems. The Board is committed to their continual enhancement.

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

- Delegation of authority – matters reserved for Board approval only are clearly defined. Executive directors have general responsibility for making and implementing operational decisions and for overseeing the Company's business. All directors have access to the advice and services of the Company Secretary. In addition all directors are able, if necessary, to obtain independent professional advice at the Company's expense.
- Planning and reporting – the Board approves strategic decisions and the budget for the forthcoming year and receives a report on key business matters from the Chief Executive at each meeting. Monthly reports to management contain key performance indicators and compare actual financial performance with the annual budget or forecast. Management action is taken where variances arise and revised forecasts are prepared on a regular basis.
- Audit Committee – the Company's internal audit department reports to the Audit Committee on the effectiveness of key risk management and internal control procedures and appropriate action is taken where necessary. The Audit Committee also receives reports from the Company's external auditors.
- Risk management – effective risk management is the responsibility of all line managers and each business area updates and evaluates its documented key risks and controls as necessary. Periodic reports confirming the effectiveness of all significant control policies and procedures are produced by management and reviewed by the most senior executive in each business area. The Company's internal audit department reviews these reports and independently summarises any significant matters arising for the Audit Committee.
- Detailed procedures – procedures and controls for key business areas (including the Company's finance function) are set out in detailed departmental manuals. These are reviewed and kept up-to-date to meet changing business needs.

RELATIONS WITH SHAREHOLDERS

The Company, including the Chairman, conducts regular dialogue with a large number of institutional investors. Despite restrictions on normal investor contact imposed on the Company by virtue of it being in an Offer Period, senior management held over 100 meetings in the UK and on overseas visits. Communication with shareholders also takes place by way of annual and interim reports, quarterly trading updates and through the presentation of preliminary and interim results, which are made accessible to all investors by webcasts available on the Investor Relations section of our website at www.londonstockexchange-ir.com.

During the year the Board received a report from the Executive at each of its scheduled meetings, including an analysis of share price movements, market expectations of financial performance, share register composition, feedback from key institutional shareholders and views from brokers on major issues. Feedback from institutional shareholders was also regularly reported to the Board Committee established to consider all matters relating to potential offers for the Company on behalf of the Board.

The Annual General Meeting (AGM) which, as a result of the Scheme of Arrangement will going forward be an AGM of London Stock Exchange Group plc, provides the opportunity for private shareholders to question the Board and meet directors informally after the event. The Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions. The procedures for the AGM are compliant with the Combined Code and the event is normally attended by all directors. A shareholder helpline is provided throughout the year.

HEALTH, SAFETY AND ENVIRONMENT

The Company's approach to health, safety and the environment is set out in our Corporate & Social Responsibility statement on pages 20 and 21.

REMUNERATION REPORT

SCOPE OF THE REPORT

The Remuneration Report summarises the Company's remuneration policy and particularly, its application in connection with the directors. The report also describes how the Company applies the principles of good corporate governance in relation to directors' remuneration in accordance with the Combined Code 2003 and the Directors Remuneration Report Regulations 2002.

Following the introduction of London Stock Exchange Group plc as the new holding company of London Stock Exchange plc with effect from 15 May 2006, statements below looking forward to 2006/07 relate to London Stock Exchange Group plc.

Shareholders will be provided with an opportunity to vote on the remuneration report as set out in this Annual Report at the forthcoming Annual General Meeting of London Stock Exchange Group plc. Further details will be contained in the notice of Annual General Meeting.

Details of directors' remuneration and benefits are set out in the tables within this report. The tables on pages 33 to 35 have been subject to audit.

REMUNERATION COMMITTEE

The Remuneration Committee is appointed by the Board and comprises only non-executive directors. The Committee meets regularly to determine, on behalf of the Board, the framework of executive remuneration. During 2005/06, the Committee met on three separate occasions. Its remit includes the remuneration of the Chairman, executive directors and the next level of senior management including the awards made under the performance related incentive schemes. The four members of the Committee remain:

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

The Committee's terms of reference, which are reviewed regularly and approved by the Board, are available on the Company's website and are summarised in the Corporate Governance Report (pages 26 to 28).

The members of this Committee do not have any personal financial interests or any conflicts from cross-directorships that relate to the business of the Committee. The members do not have any day to day involvement in the running of the Company. For the purposes of the Combined Code 2003, Peter Meinertzhagen is the sole member not regarded as being independent for the reasons explained on pages 26 to 28.

During 2005/06, the Committee continued to utilise the services of New Bridge Street Consultants LLP. They have been appointed by the Committee to provide professional advice on all matters relating to remuneration and have not supplied other services to the Company.

To assist the Committee, the results of market surveys are also made available and, where appropriate, the Committee also invites the views of the Chief Executive, Chairman, Director of Finance and Head of Human Resources. These individuals did not participate in any decision relating to their own remuneration.

REMUNERATION POLICY

The Exchange is committed to the primary objective of maximising shareholder value over time. Each year the remuneration framework and the packages of the executive directors and the most senior executives are reviewed by the Remuneration Committee to ensure that they continue to achieve this objective.

The Exchange must attract and retain a high calibre senior management team and ensure it is in a position to deliver its business plans and maximise returns for shareholders. The Exchange is committed to paying for performance, rewarding the senior management team only when those goals are achieved.

When establishing its remuneration policy, the Remuneration Committee takes into account the following:

- The Exchange has a higher profile than many other quoted companies with a similar market capitalisation.
- It has historically recruited its senior management from the City and therefore has to have a remuneration structure that is attractive to these individuals.
- The Remuneration Committee looks to comply with best practice as expressed by institutional shareholders and their representative bodies.

These factors when taken together have moulded the Exchange's remuneration policy.

At on-target performance the desired remuneration mix of base salary:benefits:bonus:equity incentives for the executive directors is 35:5:35:25. The Committee recognises that this is a more geared remuneration structure than a typical FTSE company, in that it provides for a higher annual bonus potential, although this is significantly less than a City financial institution and has to be balanced against the comparatively lower base salary.

The policy for the individual components of executive directors' remuneration is set out in more detail below:

BASE SALARY

Base salaries will be set at below the median of FTSE 51 to 200 companies. Salaries are reviewed with effect from 1 April. Adjustments may be made to reflect changes in responsibilities and to ensure that total remuneration levels are consistent with the Exchange's policy. With effect from 1 April 2006, Clara Furse's base salary was increased to £410,000 per annum and Jonathan Howell's to £310,000 per annum.

FLEXIBLE BENEFITS

All of the Exchange's staff participate in a flexible benefit plan which provides an allowance to enable them to purchase additional benefits or receive as a cash supplement. This allowance is not used to calculate bonus payments or pension contributions. Clara Furse receives a flexible benefit allowance of £20,000 per annum and Jonathan Howell receives a flexible benefit allowance of £19,520 per annum. These values have not been increased since last year and the executive directors participate in the same arrangements as all other employees.

PENSIONS

The Company's final salary pension scheme was closed to new entrants in 1999. Neither of the current executive directors participates in this final salary pension scheme. Pension arrangements are intended to be competitive with arrangements in other FTSE 51 to 200 companies operating defined contribution pension schemes for main board directors.

Pension provision takes the form of a non-consolidated salary supplement which is invested in the defined contribution pension scheme up to HM Revenue and Customs limits. Executives may request that any amount in excess of HM Revenue and Customs limits is received as non-consolidated salary. In the year ending 31 March 2006, Clara Furse received a pension supplement of 25 per cent of base salary and Jonathan Howell received a pension supplement of 22.5 per cent of base salary. Only base salary is used to calculate pension entitlement and no other pension supplements apply.

A review of the Exchange's executive pension arrangements concluded that no change in policy was required to meet the requirements of the new pensions legislation.

ANNUAL BONUS

Executive directors are eligible to receive an annual cash bonus based on meeting bonus targets that are set at the beginning of the year.

The Remuneration Committee continues to believe that it is appropriate to use a balance between annual financial targets (that for 2006/07 have a combined weighting of 75 per cent) and individual performance objectives (which for 2006/07 have a 25 per cent weighting). The annual financial targets are adjusted earnings per share and adjusted operating profit, both of which have an equal weighting.

For 2006/07 the Chief Executive's and Finance Director's maximum bonus is 200 per cent of salary. Before confirming bonus awards the Remuneration Committee reviews the quality of earnings achieved in order to be satisfied that the bonus relating to the financial objectives has been achieved through appropriate actions of the executive management. For 2006/07 one of the key factors for the Remuneration Committee when assessing the quality of earnings will be assessment of the cost savings to be made in the year.

For 2005/06 adjusted earnings per share and adjusted operating profit performance was exemplary (55 per cent growth for adjusted earnings per share and 42 per cent growth for adjusted operating profit). The Remuneration Committee in consultation with the Chairman, concluded that personal performance was also excellent, and accordingly, maximum bonuses of 200 per cent of salary were awarded to the Chief Executive and Finance Director.

It should be noted that both the Chief Executive and the Finance Director voluntarily decided to re-invest 50 per cent of net-of-tax salary (the maximum possible) and £70,000 respectively from their net-of-tax bonus awards in the purchase of Exchange shares and qualified for a grant of a matching award under the Long-Term Incentive Plan (LTIP).

LONG TERM INCENTIVE PLAN

The Long-Term Incentive Plan (LTIP) July 2004 was approved by shareholders in July 2004. The LTIP has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of all or some of his or her annual bonus in the Company's shares. The Matching Shares element of the LTIP only applies to the executive directors and selected other senior management. This senior management group will also be eligible for the Performance Shares element of the LTIP along with a wider group of executives. Future equity incentives will only be granted under the LTIP. The Remuneration Committee has reviewed the operation of the LTIP and has concluded that it remains appropriate for Exchange Group in 2006/07.

PERFORMANCE SHARES
Each year, an individual is eligible to receive an award of Performance Shares worth up to 100 per cent of their annual base salary. Within this limit, actual award levels will be determined by the Committee having regard to the policy decision of providing long term equity incentives that are competitive with FTSE 51 to 200 companies. The present policy is that grants to executive directors and other senior executives will normally be made in the week following the announcement of final results. Award levels for executive directors are set to meet the 35:5:35:25 remuneration mix for target performance.

MATCHING SHARES
Each year, executives may invest all or part of their bonus up to 50 per cent of salary (or such lower amount as set by the Committee) to purchase investment shares in the Company. The purchase of investment shares will be matched by the grant of a performance-related Matching Share award, with a maximum match of 2:1 on the pre-tax salary used to buy the investment shares.

VESTING OF PERFORMANCE SHARES AND MATCHING SHARES
The proportion of Performance and Matching Shares which vest will be determined by the Company's Total Shareholder Return (TSR) performance over a single three year period beginning on the first day of the financial year in which the award is made. TSR is the chosen performance measure as the Committee considers that it provides a clear link to the creation of shareholder value. For median performance, in comparison to companies constituting the FTSE 51 to 200 (excluding investment trusts), 30 per cent of the award will vest. For upper quartile performance against this group, 100 per cent of the award will vest. The award will vest on a sliding scale between 100 per cent and 30 per cent if the TSR performance falls between the upper quartile and median levels. For performance below median, none of the award will vest.

The FTSE 51 to 200 comparator group has been chosen as it is a large enough group to give meaning to a quartile analysis, comprises a fair balance of companies with a greater and smaller market capitalisation to that of the Company and is the pan-sectoral group of companies that the Committee considers when setting base salaries.

TSR performance is independently verified on behalf of the Committee by New Bridge Street Consultants LLP.

SHARE OWNERSHIP GUIDELINES
To be considered for future awards under the Long-Term Incentive Plan, executive directors and other senior executives are expected to build up over three years from the vesting of their first award and then continue to hold shares with a value at the time of acquisition at least equal to their base annual salary.

ALL EMPLOYEE SHARE AND SHARE OPTION PLANS
All UK employees, including executive directors, are eligible to participate in the Inland Revenue approved SAYE Share Option Scheme ("SAYE"). Under the scheme rules, participants can save up to £250 each month for a period of five years. Savings plus interest may be used to acquire shares by exercising the related option.

The options may be granted at an exercise price, which represents a 20 per cent discount to the market value of shares at the date of grant. No performance conditions are attached to SAYE options.

SERVICE CONTRACTS
The Company has adopted the following policy on directors' service contracts:

NOTICE PERIODS
The executive directors have one-year rolling service contracts with the Company. The Remuneration Committee considers that this is consistent with current best practice.

Clara Furse entered into a service agreement with the Company on 24 January 2001. Jonathan Howell entered into his service agreement with the company on 25 January 2000. Both service agreements may be terminated by the Company giving not less than 12 months notice.

TERMINATION ARRANGEMENTS
The Company's current policy is that directors' service agreements should not contain a pay in lieu of notice provision or a liquidated damages clause which would apply in the event of the Company terminating the service agreement.

However, for the Chief Executive, consistent with best practice at the time of her recruitment, a liquidated damages clause is included in her service agreement which entitles the Chief Executive to be paid an amount that is agreed and defined within the service agreement to represent a pre-estimate of her loss upon an unlawful termination of her employment by the Company. The Chief Executive is entitled to be paid an amount equal to one year's basic salary, benefits in kind and the amount of the last annual bonus awarded to the Chief Executive in the 12 month period prior to termination.

For Jonathan Howell, no provisions for pay in lieu of notice of liquidated damages have been agreed in his service agreement (beyond his 12 month contractual notice period). Instead the parties will rely on common law.

OUTSIDE APPOINTMENTS
Executive directors are allowed to accept appointments as non-executive directors of other companies with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Company's activities and the wider exposure gained will be beneficial to the development of the individual.

Where fees are payable in respect of each appointment these are retained by the Company.

NON-EXECUTIVE DIRECTORS' REMUNERATION
The fees for non-executive directors are set at a level to recognise the significant responsibilities of directors and to attract individuals with the necessary experience and ability to make an important contribution to the Company's affairs. Comparisons are made with fees paid at other FTSE 51 to 200 companies, in particular other financial companies. The profile of the Chairman of the Exchange is recognised by setting his fee at the upper quartile of this market information.

During the year the independent remuneration consultants have reviewed the Chairman's and non-executive director's fees in accordance with this policy. With effect from 1 May 2006 the Chairman's fee will be £325,000 per annum and with effect from 1 April 2006 the non-executive director base fee will be £45,000. In addition to the base fee, additional fees are payable to the Chairman of the Audit Committee of £15,000; Chairman of the Remuneration Committee of £10,000; and to the senior independent director of £5,000.

Since 2003/04, non-executive directors in direct receipt of their fees have been required to invest at least 20 per cent of their fees in the Company's shares to strengthen the linkage to shareholder value. However, see page 32, Remuneration policy during an Offer Period.

The fees, which are neither performance related nor pensionable are agreed by the Board. The total fees paid to non-executive directors is significantly less than the £750,000 limit provided for in the London Stock Exchange Group plc articles of association.

The original date of appointment as a director of the Company is as follows:

Chris Gibson-Smith	01/05/2003
Gary Allen	14/07/1994
Baroness Janet Cohen	01/02/2001
Oscar Fanjul	01/02/2001
Peter Meinertzhagen	22/05/1997
Nigel Stapleton	01/02/2001
Robert Webb QC	01/02/2001

Each of the non-executive directors except the Chairman has a letter of appointment with no notice period which sets out their responsibilities and commitments dated 1 February 2001. Each of the appointments was for an initial period of three years which have been renewed and will expire on 31 January 2007 unless the non-executive director is not re-elected by shareholders at the next Annual General Meeting at which he is to stand for re-election. The Chairman has a letter of appointment dated 24 May 2006. His appointment is for an initial period of three years until the end of the AGM in 2009 and is terminable on six months notice.

Non-executive directors receive no benefits or entitlements other than fees, do not participate in any of the Company's incentive schemes and are not entitled to any termination payments. The Board as a whole determines the fees of the non-executive directors. The Company does not make any contribution to the pension arrangements of non-executive directors.

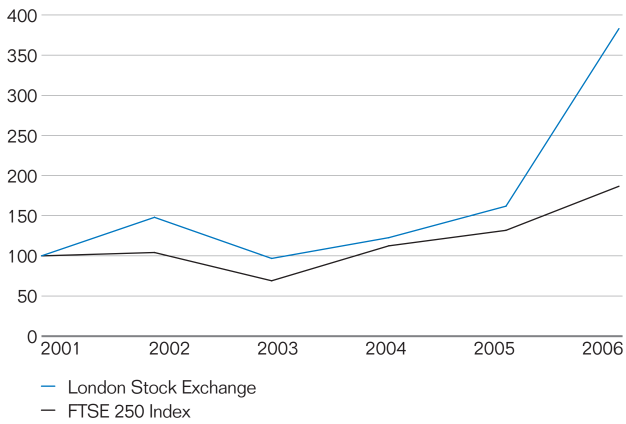
REMUNERATION POLICY DURING AN OFFER PERIOD
Following continued restrictions placed on the Company from being in an Offer Period, adjustments made in the prior year to the remuneration policy have been maintained. Specifically, whilst the Company and its directors and employees have been subject to restrictions on dealings in the Company's shares due to the Takeover Code and the UKLA's Listing Rules it has not been considered appropriate for non-executive directors to receive a proportion of their fee in shares. Throughout 2005/06, non-executive directors' fees have been paid entirely in cash.

Awards under the LTIP for 2005/06 were made in February and March 2006 when the Company became free from sharedealing restrictions for a period of time. This was in line with our declared intention to make awards at the earliest opportunity. It is intended that awards for 2006, and for subsequent years, will be made as soon as possible after the announcement of final results in that year starting with an award this year.

The Share Incentive Plan ('SIP') approved by shareholders in 2004 was not launched and no awards were made under the SAYE scheme during 2005/06.

TOTAL SHAREHOLDER RETURN ("TSR") PERFORMANCE
The following line graph shows, for the financial year ended 31 March 2006 and for each of the previous four financial years, the total shareholder return on a holding of the Company's ordinary shares of the same kind and number as those by reference to which the FTSE 250 is calculated.

TOTAL SHAREHOLDER RETURN
Years ended 31 March



The above graph looks at the value, at 31 March 2006, of £100 invested in London Stock Exchange plc on 31 March 2001 compared with the value of £100 invested in the FTSE 250 Index over the same period. The other points plotted are the values at the intermediate financial year-ends.

Source: Datastream

The FTSE 250 index has been chosen as the appropriate benchmark because the Company has been a constituent of the FTSE 250 throughout this period.

TABLE A – DIRECTORS' REMUNERATION – AUDITABLE

	2006				2005				**2006**	2005
	Salary[1] £000	**Performance bonus £000**	**Benefits[2] £000**	**Total £000**	Salary[1] £000	Performance bonus £000	Benefits[2] £000	Total £000	**Pensions[3] £000**	Pensions[3] £000
Chairman										
C Gibson-Smith	250	–	–	**250**	250	–	–	250	**–**	–
Chief Executive										
C H F Furse	402	763	1	**1,166**	374	460	2	836	**95**	29
Executive director										
J A G Howell	285	492	1	**778**	279	315	1	595	**35**	22
	937	1,255	2	**2,194**	903	775	3	1,681	**130**	51
Non-executive directors' fees										
Directors in office throughout both years										
G J Allen				**43**				43		
Baroness Cohen				**33**				33		
O Fanjul				**33**				33		
P R Meinertzhagen[4]				**33**				33		
N J Stapleton				**38**				38		
R S Webb QC				**33**				33		
Directors who did not hold office for the whole of the two financial years										
I G Salter (until 14 July 2004)				**–**				14		
M J P Marks (until 14 July 2004[4])				**–**				9		
Total non-executive directors' fees[4]				**213**				236		
Total directors' emoluments				**2,407**				1,917	**130**	51

1 **Salary**
Salary includes base salary, on which bonus and benefits allowance are based, benefit allowances paid in cash and any amount of pension supplement not invested in the defined contribution pension scheme. Base salary for C H F Furse was £381,500 (2005: £350,000) and for J A G Howell was £246,000 (2005: £230,000).

2 **Benefits**
Benefits represent the cash value of health and life insurance cover.

3 **Pensions**
The Company contributed to the senior executive defined contribution pension plan for C H F Furse of £95,000 (2005: £29,000) and for J A G Howell of £35,000 (2005: £22,000) as shown in the table above.

4 **Non-executive directors' fees**
Fees paid directly to the employer company of one (2005: one) non-executive director were £32,500 (2005: £32,500). £nil (2005: £9,400) was paid to charity.

5 **Waiver of emoluments**
None of the directors waived emoluments during 2005 and 2006.

TABLE B – DIRECTORS' SHARE INTERESTS – AUDITABLE

CURRENT SHARE SCHEMES

LONG-TERM INCENTIVE PLAN

At the AGM in 2004, shareholders approved a new Long-Term Incentive Plan ('LTIP') The LTIP has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of annual bonus in the Company's shares. Performance conditions are based on the Company's total shareholder return over a three-year period beginning on the first day of the financial year in which the award is made.

	Number of shares								
Share awards	At start of year	Awarded during year	Vested during year	At end of year	Price at award date (£)	Price at vesting date (£)	Value at vesting date (£)	Date of award	Final vesting date
C H F Furse	27,687	–	–	27,687	3.63			15/07/04	15/07/07
	–	44,620[1]	–	44,620	8.55			28/02/06	28/02/09
	–	44,444[2]	–	44,444	8.60			03/03/06	03/03/09
	27,687	89,064	–	116,751					
J A G Howell	18,194	–	–	18,194	3.63			15/07/04	15/07/07
	–	28,772[1]	–	28,772	8.55			28/02/06	28/02/09
	–	27,480[2]	–	27,480	8.64			06/03/06	06/03/09
	18,194	56,252	–	74,446					

1 Performance share award
2 Matching share award

Executive directors are entitled to participate in the all employee SAYE Share Option Scheme. Options granted under this scheme are:

	Number of options						
Share option grants	At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
C H F Furse	6,048	–	–	6,048	2.79	16/08/01	01/04/07

The options granted become exercisable from 1 October 2006.

PREVIOUS SHARE SCHEMES – ALL NOW CLOSED AND NO AWARDS GRANTED AFTER AUGUST 2004

EXECUTIVE SHARE OPTION PLAN

The following grants were made under the Executive Share Option Plan approved by shareholders in July 2002.

The performance condition attaching to options granted is average earnings per share growth of RPI plus four per cent per annum over the initial three year period.

	Number of options						
Share option grants	At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
C H F Furse	76,924	–	–	76,924	3.90	15/07/02	15/07/12
	102,168	–	–	102,168	3.23	16/05/03	16/05/13
	87,072	–	–	87,072	3.79	20/05/04	20/05/14
	266,164	–	–	266,164			
J A G Howell	47,436	–	–	47,436	3.90	15/07/02	15/07/12
	61,920	–	–	61,920	3.23	16/05/03	16/05/13
	52,771	–	–	52,771	3.79	20/05/04	20/05/14
	162,127	–	–	162,127			

The options granted become exercisable after three years from the date of grant.

ANNUAL BONUS PLAN

As part of the short term incentive scheme, a proportion of the annual bonus could be deferred as shares, delivered after 12 and 24 months, subject to continued service. Awards of shares under this scheme are set out below:

	Number of shares								
Share awards	At start of year	Awarded during year	Vested during year	At end of year	Price at award date (£)	Price at vesting date (£)	Value at vesting date (£)	Date of award	Final vesting date
C H F Furse	31,356	–	31,356	–	3.23	4.62	144,865	16/05/03	01/04/05
J A G Howell	18,644	–	18,644	–	3.23	4.62	86,135	16/05/03	01/04/05

Shares awarded under the Annual Bonus Plan vest in two equal tranches 12 months prior to final vesting date and on final vesting date. The aggregate value of shares vesting during the year to directors was £231,000 (2005: £307,831).

SHARE OPTION GRANTS AND SHARE AWARDS IN 2001 AND PRIOR

The following grants and awards were made under the Initial and Annual Share Plans approved by shareholders in March 2000. No performance conditions apply to the exercise of these options, although options priced at £2.97 and £3.15 were premium priced.

	Number of options						
Share option grants	At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
C H F Furse	285,450	–	–	285,450	2.52	25/01/01	25/01/11
	211,450	–	–	211,450	3.15	25/01/01	25/01/11
	3,430	–	–	3,430	3.65	25/06/01	25/06/11
	500,330	–	–	500,330			
J A G Howell	242,600	–	–	242,600	2.37	16/11/00	16/11/10
	179,700	–	–	179,700	2.97	16/11/00	16/11/10
	12,350	–	–	12,350	3.65	25/06/01	25/06/11
	434,650	–	–	434,650			

The options granted above become exercisable between one and five years from the date of grant, at 20 per cent in each year. The gain on share options exercised during the year to directors was £nil (2005: £nil).

The market price of the shares on 31 March 2006 was £10.56 and the range during the year was £4.49 to £11.90.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 March 2006 had the following other beneficial interests in the shares of the Company. With effect from 15 May 2006 interests are in the shares of London Stock Exchange Group plc:

	Ordinary shares 25 May 2006[1]	**Ordinary shares 31 March 2006**	Ordinary shares 31 March 2005
C Gibson-Smith	**50,768**	**60,214**	10,214
C H F Furse	**299,385**	**355,085**	287,477
J A G Howell	**93,995**	**111,483**	92,357
G Allen	**1,572**	**1,865**	1,865
J Cohen	**1,216**	**1,443**	1,443
O Fanjul	**21,901**	**25,976**	25,976
N Stapleton	**1,386**	**1,645**	1,645
R Webb	**1,200**	**1,424**	1,424

[1] Shareholdings reduced following the 43 for 51 share consolidation on 15 May 2006.

C H F Furse and J A G Howell as potential beneficiaries, are also deemed to be interested in the London Stock Exchange Employee Benefit Trust, the trustees of which held 428,529 shares in London Stock Exchange plc on 31 March 2006 and 225,135 on 25 May 2006. There have been no changes to the interests of the directors since 31 March 2006 save as a consequence of the share consolidation arising from the Scheme of Arrangement.

Signed by and approved on behalf of the Board

NIGEL STAPLETON
Chairman of the Remuneration Committee

DIRECTORS' REPORT

The directors of the London Stock Exchange plc ('the Company') are pleased to present their annual report to shareholders, together with the financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES AND RESULTS

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

The profit of the Group before taxation for the year ended 31 March 2006 was £93.5 million (2005: £92.2 million) and profit after taxation was £66.8 million (2005: £64.5 million).

BUSINESS REVIEW

The information that fulfils the requirements of the Business Review can be found on pages 4 to 23 which are incorporated in this Directors' report by reference.

DIVIDEND

A second interim dividend in respect of the year ended 31 March 2006 of 8.0p per share has been proposed by the Board in lieu of a final dividend for the year (2005: 5.0 pence) and is expected to be paid on 26 May 2006, to shareholders on the register on 12 May 2006. Together with the interim dividend of 4.0 pence (2005: 2.0 pence) per share paid in January 2006, this produces a total dividend of 12.0 pence (2005: 7.0 pence) per share amounting to £30.7 million (2005: £17.7 million).

SHARE CAPITAL

1.7 million ordinary shares were issued in January – March 2006, to satisfy exercise of options and vesting of share awards under the Company's employee share schemes. Details of the Company's share capital are set out in note 23 to the accounts on page 55.

AUTHORITY TO PURCHASE SHARES

The authority for the Company to purchase in the market up to 25,000,000 of its ordinary shares, representing approximately 10 per cent of the issued ordinary share capital of the Company, granted at the annual general meeting of the Company held on 13 July 2005 expires at the end of the next annual general meeting of the Company. Shareholders will be asked to give a similar authority at the forthcoming annual general meeting of Exchange Group.

SUBSTANTIAL SHAREHOLDINGS

As at 25 May 2006 London Stock Exchange Group plc had been notified of the following interests amounting to more than three per cent in the issued share capital of the London Stock Exchange Group plc in accordance with Sections 198 to 208 of the Companies Act 1985:

Nightingale Acquisition Limited (a wholly-owned subsidiary of The NASDAQ Stock Market, Inc.)	25.1%
Credit Suisse Group	8.83%
Deutsche Bank AG	5.36%
Legal & General Group plc	3.29%
Barclays plc	3.19%
Goldman Sachs Group, Inc.	3.07%

POST BALANCE SHEET EVENT

In May 2006 London Stock Exchange Group plc (Exchange Group) became the holding company of the Company pursuant to a scheme of arrangement. Under the scheme Exchange Group issued new ordinary shares and B shares to the Company's shareholders. Shortly after the scheme, the nominal value of Exchange Group's new ordinary shares was reduced and the merger reserve created by the scheme was capitalised and subsequently cancelled, creating sufficient distributable reserves of London Stock Exchange Group plc sufficient to enable the return of approximately £510 million to shareholders. The B shares were issued as the mechanism to facilitate the capital return. Payments to holders of B shares who had not elected to defer payment of their entitlements will be made on 26 May 2006. The capital return has been funded by a combination of existing cash reserves and new loan facilities to Exchange Group of £450 million, of which £350 million has been drawn down.

DIRECTORS

All directors set out on pages 24 and 25 served throughout the year.

Following the implementation of the Scheme of Arrangement discussed above, the directors of the Company have been appointed as directors of London Stock Exchange Group plc, and also remain directors of the Company. As a result of the implementation of the Scheme of Arrangement, the forthcoming Annual General Meeting will be the Annual General Meeting of Exchange Group and, in accordance with Exchange Group's articles of association, the directors of Exchange Group, being the same persons as the directors of the Company, have agreed to continue with the arrangements for retirement and reappointment as were in place for the Company. Accordingly, the directors who will retire at the AGM and, being eligible offer themselves for reappointment are: Chris Gibson-Smith, Clara Furse, Nigel Stapleton, Oscar Fanjul, Gary Allen and Peter Meinertzhagen.

Each of the other directors seeking reappointment will retire by rotation in accordance with Exchange Group's articles of association. The unexpired term of the service contract for Clara Furse is 12 months. The other directors seeking reappointment do not have a service contract with the Company or Exchange Group.

DIRECTORS' INTERESTS

Directors' interests in the shares of the Company as at 31 March 2006 according to the register maintained under the Companies Act 1985 are set out in the Directors' Remuneration Report on pages 29 to 35. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

CORPORATE GOVERNANCE

The Company's corporate governance statement is set out on pages 26 to 28.

LAND AND BUILDINGS

Under the transitional arrangements set out under International Financial Reporting Standards (as set out in IFRS 1), the Group elected to restate freehold properties other than the Stock Exchange Tower to their fair value at the date of transition, 1 April 2004, resulting in a reduction in the balance sheet carrying amount. Following the implementation of IFRS, no further revaluations of freehold properties will be made in the financial statements. In the opinion of the directors, the market value of freehold properties at 31 March 2006 was approximately £16 million higher than book value.

EMPLOYEES

Information on the Company's employment policies is given on page 21. The Company also provides an induction programme for new employees, including training on health and safety, and a range of development programmes for all staff to develop their skills and knowledge. The Company encourages and assists the employment, training and retention of disabled people. Where changes to working practices or structure affect staff, they are consulted and given the appropriate support.

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

DONATIONS

During the year the Company gave £140,000 (2005: £124,000) to charitable organisations. No donations were made to political parties.

SUPPLIER PAYMENT POLICY

It is the Company's policy to agree payment terms with suppliers when business transactions are negotiated and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2006 trade creditors represented 6 days (2005: 15 days) of annual purchases by the Company.

AUDIT INFORMATION

As required under Companies Act 1985 section 234ZA, the directors confirm that to their knowledge, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all the steps that ought to have been taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

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

Following the implementation of the Scheme of Arrangement discussed above, a resolution to reappoint PricewaterhouseCoopers LLP as the auditors of London Stock Exchange Group plc will be proposed at the AGM of London Stock Exchange Group plc.

By Order of the Board

LISA CONDRON
Secretary
25 May 2006

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

ANNUAL REPORT AND ACCOUNTS

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

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

The directors have responsibility for ensuring that the Company and the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985 and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

SAFEGUARDING ASSETS

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONDON STOCK EXCHANGE PLC

We have audited the group and parent company financial statements (the "financial statements") of London Stock Exchange plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income & Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Business Review, the Financial Review, Corporate and Social Responsibility, Principal Risks and Uncertainties and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2006 and cash flows for the year then ended;
- the information given in the Directors' Report is consistent with the financial statements; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London
25 May 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2006

Continuing operations	Notes	2006 £m	2005 £m
Revenue	3		
Ongoing revenue		**291.1**	244.4
Exceptional revenue	6	**6.4**	–
Total		**297.5**	244.4
Expenses	4		
Operating expenses before exceptional items		**(171.0)**	(159.8)
Exceptional expenses	6	**(41.1)**	(6.8)
Total		**(212.1)**	(166.6)
Profit on disposal of Stock Exchange Tower	6	**–**	6.7
Operating profit		**85.4**	84.5
Analysed as:			
Operating profit before exceptional items		**120.1**	84.6
Exceptional items	6	**(34.7)**	(0.1)
Operating profit		**85.4**	84.5
Finance income		**20.2**	19.2
Finance costs		**(13.6)**	(12.7)
Net finance income	7	**6.6**	6.5
Share of profit after tax of joint venture		**1.2**	1.1
Investment income		**0.3**	0.1
Profit before taxation		**93.5**	92.2
Taxation	8	**(26.7)**	(27.7)
Profit for the financial year		**66.8**	64.5
Loss attributable to minority interest		**(3.9)**	(0.5)
Profit attributable to equity holders		**70.7**	65.0
		66.8	64.5
Basic earnings per share	9	**27.8p**	24.2p
Diluted earnings per share	9	**27.4p**	23.9p
Dividend per share in respect of financial year (excluding special dividend)	10		
Dividend per share paid during the year		**9.0p**	5.4p
Dividend per share declared for the year		**12.0p**	7.0p

STATEMENT OF RECOGNISED INCOME AND EXPENSE

Year ended 31 March 2006

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Profit for the financial year	**66.8**	64.5	**63.2**	57.7
Defined benefit pension scheme actuarial loss, net of tax	**(2.8)**	(1.8)	**(2.8)**	(1.8)
Tax allowance on share options/awards in excess of expense recognised	**2.6**	–	**2.6**	–
Total recognised income and expense for the financial year	**66.6**	62.7	**63.0**	55.9
Attributable to minority interest	**(3.9)**	(0.5)	**–**	–
Attributable to equity holders	**70.5**	63.2	**63.0**	55.9
	66.6	62.7	**63.0**	55.9

BALANCE SHEETS

31 March 2006	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Assets					
Non-current assets					
Property, plant and equipment	11	**64.1**	71.7	**63.6**	70.9
Intangible assets	12	**51.6**	65.0	**39.9**	34.8
Available for sale investments	13	**0.4**	0.4	**0.4**	0.4
Investment in joint venture	14	**1.7**	2.2	**1.5**	1.5
Investments in subsidiary undertakings	15	**–**	–	**89.3**	91.5
Deferred tax assets	16	**19.8**	14.8	**13.3**	13.9
		137.6	154.1	**208.0**	213.0
Current assets					
Trade and other receivables	17	**49.3**	81.9	**50.0**	62.0
Cash and cash equivalents	18	**226.8**	124.4	**219.8**	118.8
		276.1	206.3	**269.8**	180.8
Total assets		**413.7**	360.4	**477.8**	393.8
Liabilities					
Current liabilities					
Trade and other payables	19	**51.1**	49.1	**116.3**	80.8
Current tax		**11.9**	13.0	**15.2**	15.3
Borrowings	20	**0.6**	2.8	**–**	–
Provisions	21	**15.1**	11.9	**11.9**	6.7
		78.7	76.8	**143.4**	102.8
Non-current liabilities					
Borrowings	20	**0.5**	0.5	**–**	–
Retirement benefit obligations	22	**20.3**	18.7	**20.3**	18.7
Provisions	21	**25.4**	28.1	**25.4**	28.1
		46.2	47.3	**45.7**	46.8
Total liabilities		**124.9**	124.1	**189.1**	149.6
Net assets		**288.8**	236.3	**288.7**	244.2
Equity					
Capital and reserves attributable to the Company's equity holders					
Ordinary share capital	23,24	**14.9**	14.9	**14.9**	14.9
Share premium	24	**4.3**	–	**4.3**	–
Retained earnings	24	**268.0**	220.3	**269.5**	229.3
		287.2	235.2	**288.7**	244.2
Minority interest in equity		**1.6**	1.1	**–**	–
Total equity		**288.8**	236.3	**288.7**	244.2

The financial statements on pages 40 to 65 were approved by the Board on 25 May 2006 and signed on its behalf by:

CLARA FURSE
Chief Executive

JONATHAN HOWELL
Director of Finance

CASH FLOW STATEMENTS

Year ended 31 March 2006

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash flow from operating activities					
Cash generated from operations	25	**140.6**	95.4	**179.8**	127.9
Interest received		**7.4**	8.1	**7.8**	8.4
Interest paid		**(1.5)**	(0.2)	**(1.2)**	–
Corporation tax paid		**(29.0)**	(24.3)	**(29.9)**	(24.3)
Net cash inflow from operating activities		**117.5**	79.0	**156.5**	112.0
Cash flow from investing activities					
Purchase of property, plant and equipment		**(5.3)**	(22.3)	**(5.1)**	(21.6)
Purchase of intangible assets		**(20.5)**	(18.5)	**(19.9)**	(17.6)
Receipts from disposal of Stock Exchange Tower		**33.2**	32.3	**–**	–
Additional investment in subsidiary undertaking		**–**	–	**(12.0)**	(1.4)
Further consideration for acquisition of subsidiary undertaking		**(6.2)**	–	**–**	–
Dividends received from joint venture		**1.7**	1.3	**1.7**	1.3
Dividends received from financial assets		**0.3**	0.1	**0.3**	0.1
Net cash inflow/(outflow) from investing activities		**3.2**	(7.1)	**(35.0)**	(39.2)
Cash flow from financing activities					
Dividends paid		**(22.8)**	(177.6)	**(22.8)**	(177.6)
Issue of ordinary share capital		**4.3**	–	**4.3**	–
Issue of ordinary share capital to minority interest		**1.6**	0.2	**–**	–
Loans received from minority shareholder		**0.6**	0.3	**–**	–
Redemption of loan notes		**–**	(1.5)	**–**	(1.5)
Purchase of own shares by ESOP trust		**(4.7)**	(2.5)	**–**	–
Loan to ESOP trust		**–**	–	**(4.7)**	(2.5)
Proceeds from own shares on exercise of employee share options		**2.7**	5.7	**2.7**	5.7
Net cash outflow from financing activities		**(18.3)**	(175.4)	**(20.5)**	(175.9)
Increase/(decrease) in cash and cash equivalents		**102.4**	(103.5)	**101.0**	(103.1)
Cash and cash equivalents at beginning of year		**124.4**	227.9	**118.8**	221.9
Cash and cash equivalents at end of year	18	**226.8**	124.4	**219.8**	118.8

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Up until 31 March 2005, London Stock Exchange plc ("the Group") prepared its financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). From 1 April 2005 the Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The impact of the transition from UK GAAP to IFRS on the Group's total equity at 1 April 2004 (date of transition to IFRS) and 31 March 2005 is set out in note 33. In addition, a reconciliation is provided between profit for the financial year ended 31 March 2005 under UK GAAP and IFRS. The comparative data disclosed in these financial statements has been restated on an IFRS basis.

The financial statements are prepared under the historical cost convention and on the basis of the principal accounting policies set out below. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, all having co-terminous accounting periods, with all inter-company balances and transactions eliminated. As permitted by Section 230 of the Companies Act 1985, the holding company's income statement has not been included in these financial statements.

ACCOUNTING POLICIES

REVENUE

Revenue represents the total amount receivable for the provision of goods and services, excluding value added tax. Revenue is recognised in the period when the service or supply is provided:

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

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

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

EXCEPTIONAL ITEMS

Items of income and expense that are material by size and/or nature and are non-recurring are classified as exceptional items on the face of the income statement within their relevant category. The separate reporting of these items helps give an indication of the Group's underlying performance.

FOREIGN CURRENCIES

The consolidated financial statements are presented in sterling, which is the Group's presentation and functional currency.

Transactions in foreign currencies and currency balances at the year end are converted at the rate ruling at the transaction date or year end date respectively, with any gains or losses recognised in the income statement.

INTANGIBLE ASSETS

a) Goodwill arising on the acquisition of subsidiaries represents the excess of consideration paid over the identifiable fair value of net assets acquired. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

b) Third party software costs for the development and implementation of systems which enhance the services provided by the Group are capitalised and amortised over their estimated useful lives, which is an average of three years.

PROPERTY, PLANT AND EQUIPMENT

a) Freehold properties, including related fixed plant, are included in the financial statements at cost less accumulated depreciation and any provision for impairment. Freehold buildings and related fixed plant are depreciated to residual value, based on cost at the beginning of the year plus subsequent additions, over their estimated economic lives. The estimated useful lives of properties are approximately 50 years, the estimated useful lives of fixed plant range from five to 20 years.

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

c) Plant and equipment is stated at cost and is depreciated to residual value on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from three to five years.

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

JOINT VENTURES

Investments in joint ventures are accounted for under the equity method and are initially recognised at cost. The Group's share of profits or losses after tax from joint ventures is included in the consolidated income statement. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the Group's balance sheet. Investments in joint ventures are accounted for in the Company's financial statements at cost.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are accounted for in the Company's financial statements at cost less accumulated impairment losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash at bank and term deposits that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

a) Investments (other than fixed deposits and interests in joint ventures and subsidiaries) are designated as available for sale and are recorded on trade date at fair value with changes in fair value recognised in equity. Where the fair value is not reliably measurable, the investment is held at cost.

b) Foreign currency derivatives are recorded at fair value. The method of recording gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Where they meet the relevant criteria in IAS 39, Financial instruments: recognition and measurement, the Group designates foreign currency derivatives as cash flow hedges with the movement in fair value recognised in equity. Amounts recognised in equity are transferred to the income statement when the hedged item is recognised in the income statement.

c) The Company's own shares held by the ESOP trust are deducted from equity until they vest unconditionally in employees.

d) Consideration paid in respect of Treasury shares is deducted from equity until the shares are cancelled, reissued or disposed of.

PROVISIONS

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

OPERATING LEASES

Rental costs for operating leases are charged to the income statement on a straight line basis. Lease incentives are spread over the term of the lease. Provision is made in the accounts for lease commitments, less income from sub-letting, for property space which is surplus to business requirements. Such provisions are discounted where the time value of money is considered material.

PENSION COSTS

The Group operates defined benefit and defined contribution pension schemes. For the defined benefit scheme the service cost, representing benefits accruing to employees, is included as an operating expense and the expected return on scheme assets and interest cost from unwinding of the discount on scheme obligations are included as finance income and finance costs respectively. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions or differences between actual and expected returns on assets are recognised at each period end net of tax in the statement of recognised income and expense. The net asset or liability recognised on the balance sheet comprises the difference between the present value of pension obligations and the fair value of scheme assets. For defined contribution schemes, the expense is charged to the income statement as incurred.

DEFERRED TAXATION

Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is determined using tax rates that are substantially enacted at the balance sheet date and are expected to apply when the asset is realised or liability settled.

Deferred tax assets are recognised to the extent it is probable that they will be recoverable against future taxable profits.

SHARE BASED COMPENSATION

The Group operates a number of equity settled share based compensation plans for employees. The charge to the income statement is determined by the fair value of the options granted or shares awarded at the date of grant and recognised over the relevant vesting period.

IFRS 1 TRANSITIONAL ARRANGEMENTS

The following exemptions have been applied to the financial statements:

a) Business combinations
The Group has chosen not to restate business combinations prior to the transition date, 1 April 2004;

b) Fair value or revaluation at deemed cost
The Group has chosen to restate freehold properties, other than the Stock Exchange Tower which has since been sold, to fair value as deemed cost at the transition date;

c) Employee benefits
The Group has chosen to recognise all cumulative pension scheme actuarial gains and losses in equity at the transition date; and

d) Share based payments
The Group has chosen to apply IFRS 2 Share-based payments to awards granted after 7 November 2002.

2. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

The critical judgements and estimates made in the preparation of the financial statements set out below are made in accordance with the appropriate IFRS and the Group's accounting policy. The resulting accounting estimate may not equal the related actual result.

a) The determination of the defined benefit pension liability is based on the present value of future pension obligations using assumptions determined by the Group with advice from an independent qualified actuary;

b) The property provision is determined taking into consideration future expected receipts from sub-letting and future property costs based on advice from independent property advisers;

c) Goodwill is tested for impairment annually. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future business performance; and

d) Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for the estimated tax charge at the period end and where the final tax liability is different from that estimate, such differences are reflected in the period in which such determination is made.

3. SEGMENT INFORMATION

Segmental disclosures for the year ended 31 March 2006 are as follows:

	Issuer Services £m	Broker Services £m	Information Services £m	Derivatives Services £m	Other £m	Corporate £m	Group £m
Revenue							
Ongoing revenue	56.9	125.5	94.1	7.7	6.9	–	291.1
Exceptional revenue (see note 6)	–	–	6.4	–	–	–	6.4
Total revenue	56.9	125.5	100.5	7.7	6.9	–	297.5
Expenses							
Depreciation and amortisation	(2.6)	(13.0)	(9.2)	(0.9)	(0.2)	(0.6)	(26.5)
Exceptional costs (see note 6)	–	–	–	(23.2)	–	(17.9)	(41.1)
Other expenses	(30.4)	(43.0)	(45.8)	(10.4)	(6.5)	(8.4)	(144.5)
Total expenses	(33.0)	(56.0)	(55.0)	(34.5)	(6.7)	(26.9)	(212.1)
Operating profit	23.9	69.5	45.5	(26.8)	0.2	(26.9)	85.4
Share of profit after tax of joint venture	–	–	1.2	–	–	–	1.2
Assets	19.0	75.2	59.4	1.3	4.5	252.6	412.0
Investment in joint venture	–	–	1.7	–	–	–	1.7
Total assets	19.0	75.2	61.1	1.3	4.5	252.6	413.7
Liabilities	(11.2)	(13.9)	(14.7)	(5.8)	(33.9)	(45.4)	(124.9)
Capital expenditure	1.1	20.0	3.5	0.1	0.8	0.1	25.6

3. SEGMENT INFORMATION (CONTINUED)

Comparative segmental disclosures for the year ended 31 March 2005 are as follows:

	Issuer Services £m	Broker Services £m	Information Services £m	Derivatives Services £m	Other £m	Corporate £m	Group £m
Revenue	43.3	100.6	86.7	6.8	7.0	–	244.4
Expenses							
Depreciation and amortisation	(2.8)	(13.6)	(10.7)	(0.7)	(0.4)	(0.5)	(28.7)
Exceptional costs (see note 6)	–	–	–	–	–	(6.8)	(6.8)
Other expenses	(26.9)	(36.6)	(43.5)	(10.8)	(5.5)	(7.8)	(131.1)
Total expenses	(29.7)	(50.2)	(54.2)	(11.5)	(5.9)	(15.1)	(166.6)
Profit on disposal of Stock Exchange Tower	–	–	–	–	–	6.7	6.7
Operating profit	13.6	50.4	32.5	(4.7)	1.1	(8.4)	84.5
Share of profit after tax of joint venture	–	–	1.1	–	–	–	1.1
Assets	21.5	57.8	71.0	21.3	6.3	180.3	358.2
Investment in joint venture	–	–	2.2	–	–	–	2.2
Total assets	21.5	57.8	73.2	21.3	6.3	180.3	360.4
Liabilities	(9.2)	(12.5)	(15.0)	(8.9)	(37.4)	(41.1)	(124.1)
Capital expenditure	3.2	15.6	12.3	0.8	0.5	0.6	33.0

The Other segment represents property letting and activities not directly related to the main four business segments. Corporate expenses are for corporate services which cannot reasonably be allocated to business segments.

Principal operations and customers of the Group are in the United Kingdom.

4. EXPENSES

Expenses comprise the following:

	2006 £m	2005 £m
Employee costs (see note 5)	**57.2**	47.9
Depreciation and amortisation	**26.5**	28.7
Other costs, including exceptional costs of £41.1m (2005: £6.8m) (see note 6)	**128.4**	90.0
Total	**212.1**	166.6

5. EMPLOYEE COSTS

Employee costs comprise the following:

	2006 £m	2005 £m
Salaries and other short term benefits	**42.4**	37.1
Social security costs	**8.7**	5.2
Pension costs (see note 22)	**4.1**	3.8
Share based compensation (see note 29)	**2.0**	1.8
Total	**57.2**	47.9

The number of employees was:

	2006	2005
At the year end	**501**	519
Average for the year	**514**	513

6. EXCEPTIONAL ITEMS

	2006 £m	2005 £m
Exceptional Information Services revenue[1]	**6.4**	–
Fees in respect of potential offers for the Company	**(12.1)**	(6.8)
Impairment of goodwill and provision in respect of EDX London Ltd (see notes 12 and 21)	**(23.1)**	–
Restructuring costs[2]	**(5.9)**	–
Profit on disposal of Stock Exchange Tower[3]	**–**	6.7
Total exceptional items	**(34.7)**	(0.1)

1 Terminals permissioned to access Exchange real-time data are reported by users and data charge invoices are based on these reports. The Exchange reviews these returns and, following one such review, an under-declaration by one user of data accesses has been identified. A one-off revenue settlement in respect of prior periods of £6.4m has been agreed and paid by the user concerned. There is no material adjustment to the level of ongoing data charges.

2 Restructuring costs of £5.9m are the one-off implementation costs arising from the cost saving programme announced in February 2006.

3 The profit on disposal of Stock Exchange Tower of £6.7m in 2005 was based on proceeds of £64.2m less book value and disposal costs of £57.5m. No taxation was payable on the disposal as indexed base cost for tax purposes exceeded disposal proceeds; accordingly, a nil effect on the Company's tax provision has been assumed.

7. NET FINANCE INCOME

	2006 £m	2005 £m
Finance income		
Bank deposit and other interest	**9.4**	9.0
Expected return on defined benefit pension scheme assets (see note 22)	**10.8**	10.2
	20.2	19.2
Finance cost		
Interest on discounted provision for leasehold properties	**(1.6)**	(1.7)
Defined benefit pension scheme interest cost (see note 22)	**(11.2)**	(10.7)
Interest payable on other loans	**(0.8)**	(0.3)
	(13.6)	(12.7)
Net finance income	**6.6**	6.5

8. TAXATION

Taxation charged to the income statement	2006 £m	2005 £m
Current tax:		
Corporation tax for the year at 30% (2005: 30%)	**30.4**	25.1
Adjustments in respect of previous years	**(2.5)**	–
	27.9	25.1
Deferred tax (see note 16)		
Deferred tax for the current year	**(2.0)**	2.6
Adjustments in respect of previous years	**0.8**	–
Taxation charge	**26.7**	27.7

The adjustments in respect of previous years' corporation tax are mainly in respect of tax returns agreed with HM Revenue & Customs.

Taxation on items included in equity	2006 £m	2005 £m
Deferred tax credit:		
Defined benefit pension scheme actuarial loss	**(1.2)**	(0.8)
Tax allowance on share options/awards in excess of expense recognised	**(2.6)**	–

8. TAXATION (CONTINUED)

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 30% (2005: 30%) and the income statement tax charge for the year are explained below:

	2006 £m	2005 £m
Profit before taxation	**93.5**	92.2
Profits multiplied by standard rate of corporation tax in the UK of 30%	**28.1**	27.7
Expenses not deductible/income not taxable	**0.7**	0.3
Share of joint venture consolidated at profit after tax	**(0.4)**	(0.3)
Adjustments in respect of previous years	**(1.7)**	–
Taxation charge	**26.7**	27.7

Factors that may affect future tax charges

The disposal of properties at their deemed cost amount (see note 11) would not give rise to a tax liability.

9. EARNINGS PER SHARE

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

	2006	2005
Basic earnings per share	**27.8p**	24.2p
Diluted earnings per share	**27.4p**	23.9p
Adjusted basic earnings per share	**37.4p**	24.2p
	£m	£m
Profit for the financial year attributable to equity holders	**70.7**	65.0
Adjustments:		
Exceptional items	**34.7**	0.1
Tax effect of exceptional items	**(6.5)**	–
Exceptional items and taxation attributable to minority interests	**(3.7)**	–
Adjusted profit for the financial year attributable to equity holders	**95.2**	65.1
Weighted average number of shares – million	**254.3**	269.0
Effect of dilutive share options and awards – million	**4.1**	2.9
Diluted weighted average number of shares – million	**258.4**	271.9

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 254.3 million (2005: 269.0 million).

10. DIVIDENDS

	2006 £m	2005 £m
Final dividend paid August 2005: 5.0p (2004: 3.4p) per Ordinary share	**12.6**	10.0
Interim dividend paid January 2006: 4.0p (2005: 2.0p) per Ordinary share	**10.2**	5.1
Special interim dividend paid August 2004: 55p per Ordinary share	**–**	162.5
	22.8	177.6

The Board has declared a second interim dividend in respect of the year ended 31 March 2006 of 8.0p per share, amounting to £20.5m, in lieu of a final dividend for the year, to be paid on 26 May 2006.

11. PROPERTY, PLANT & EQUIPMENT

Group	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or deemed cost:				
1 April 2004	160.8	35.7	45.4	241.9
Additions	–	6.9	9.1	16.0
Disposals	(103.6)	–	(3.2)	(106.8)
31 March 2005	57.2	42.6	51.3	151.1
Additions	1.5	0.9	3.4	5.8
Disposals	(14.3)	(1.4)	(28.6)	(44.3)
31 March 2006	**44.4**	**42.1**	**26.1**	**112.6**
Depreciation:				
1 April 2004	87.3	1.5	28.9	117.7
Charge for the year	–	3.8	8.7	12.5
Disposals	(47.6)	–	(3.2)	(50.8)
31 March 2005	39.7	5.3	34.4	79.4
Charge for the year	0.1	4.9	7.0	12.0
Impairment loss	–	–	0.3	0.3
Disposals	(14.3)	(0.3)	(28.6)	(43.2)
31 March 2006	**25.5**	**9.9**	**13.1**	**48.5**
Net book values:				
31 March 2006	**18.9**	**32.2**	**13.0**	**64.1**
31 March 2005	17.5	37.3	16.9	71.7

Company	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or deemed cost:				
1 April 2004	63.7	35.7	44.9	144.3
Additions	–	6.9	8.3	15.2
Disposals	(6.5)	–	(3.2)	(9.7)
31 March 2005	57.2	42.6	50.0	149.8
Additions	1.5	0.9	3.1	5.5
Disposals	(14.3)	(1.4)	(28.6)	(44.3)
31 March 2006	**44.4**	**42.1**	**24.5**	**111.0**
Depreciation:				
1 April 2004	46.3	1.5	28.7	76.5
Charge for the year	–	3.8	8.4	12.2
Disposals	(6.6)	–	(3.2)	(9.8)
31 March 2005	39.7	5.3	33.9	78.9
Charge for the year	0.1	4.9	6.7	11.7
Disposals	(14.3)	(0.3)	(28.6)	(43.2)
31 March 2006	**25.5**	**9.9**	**12.0**	**47.4**
Net book values:				
31 March 2006	**18.9**	**32.2**	**12.5**	**63.6**
31 March 2005	17.5	37.3	16.1	70.9

The impairment loss of £0.3m in respect of plant and equipment in the Group numbers above was identified as part of the impairment review of EDX London Ltd discussed in note 12 below.

Freehold land and buildings were accounted for at 1 April 2004 (IFRS transition date) at deemed cost. For the Stock Exchange Tower, which was disposed of in July 2004, deemed cost was based on fair value at 31 March 1997 plus subsequent additions less subsequent depreciation; other freehold properties were based on fair value at 1 April 2004. Total deemed cost for all Group freehold properties at 1 April 2004 was £73.5m. Fair value was determined based on open market value for each building assessed by independent property advisers.

Use of fair values as deemed cost in respect of freehold land and buildings resulted in a reduction of £9.4m from carrying values under UK GAAP as at 31 March 2004. Based on historical cost for the Group at 31 March 2006, the aggregate cost of property, plant and equipment was £119.1m (2005: £162.1m), the aggregate depreciation was £53.1m (2005: £84.9m) and the aggregate net book value was £66.0m (2005: £77.2m).

12. INTANGIBLE ASSETS

Group	Goodwill £m	Software £m	Total £m
Cost:			
1 April 2004	26.0	69.3	95.3
Additions	–	17.0	17.0
Recognition of contingent consideration (see note 21)	5.2	–	5.2
Disposals	–	(6.1)	(6.1)
31 March 2005	31.2	80.2	111.4
Additions	–	19.8	19.8
Revised estimate of contingent consideration (see note 21)	1.0	–	1.0
Disposals	–	(4.9)	(4.9)
31 March 2006	**32.2**	**95.1**	**127.3**
Amortisation and accumulated impairment:			
1 April 2004	1.7	34.6	36.3
Charge for the year	–	16.2	16.2
Disposals	–	(6.1)	(6.1)
31 March 2005	1.7	44.7	46.4
Charge for the year	–	14.5	14.5
Impairment loss	19.4	0.3	19.7
Disposals	–	(4.9)	(4.9)
31 March 2006	**21.1**	**54.6**	**75.7**
Net book values:			
31 March 2006	**11.1**	**40.5**	**51.6**
31 March 2005	29.5	35.5	65.0

Goodwill is allocated by segment as follows:

	2006 £m	2005 £m
Information Services	**11.1**	11.1
Derivatives Services	**–**	18.4
	11.1	29.5

An impairment review of goodwill and other assets has been carried out in accordance with IAS 36 Impairment of assets.

As part of that review, the future business plan for EDX London Ltd was considered, taking account of (i) developments to date in EDX London Ltd's business; (ii) management's assessment of current market requirements and future developments; and (iii) management's view that the new over-the-counter clearing service does not justify further investment. The business plan covered the next five years with a growth rate of 2.25 per cent beyond that and cash flows discounted using a pre-tax discount rate of 13 per cent.

The carrying value of goodwill and intangible assets in respect of EDX London Ltd was not supported by the estimated net present value of future cash flows and, accordingly, an exceptional impairment loss of £19.7m has been recognised. An exceptional impairment loss of £0.3m was also identified in respect of plant and equipment (see note 11).

The carrying value of goodwill and other assets in respect of Proquote was supported by the estimated net present value of future cash flows in the business plan over the next five years, with a growth rate of 2.25 per cent beyond that and cash flows discounted using a pre-tax discount rate of 13 per cent.

Company	Software £m
Cost:	
1 April 2004	69.3
Additions	16.2
Disposals	(6.1)
31 March 2005	79.4
Additions	19.3
Disposals	(4.9)
31 March 2006	**93.8**
Amortisation:	
1 April 2004	34.6
Charge for the year	16.1
Disposals	(6.1)
31 March 2005	44.6
Charge for the year	14.2
Disposals	(4.9)
31 March 2006	**53.9**
Net book values:	
31 March 2006	**39.9**
31 March 2005	34.8

13. AVAILABLE FOR SALE INVESTMENTS

Available for sale financial investments of £0.4m (2005: £0.4m) represent the cost of the Company's 0.6 per cent interest in the unlisted ordinary shares of Euroclear plc.

14. INVESTMENT IN JOINT VENTURE

The Group owns 50 per cent of the 1,000 £1 issued equity shares in FTSE International Ltd a company incorporated in Great Britain which distributes financial information. FTSE International Ltd is a joint venture owned together with The Financial Times Ltd, a subsidiary of Pearson plc. The Group investment of £1.7m represents the Group's share of the joint venture's net assets as at 31 December 2005, its accounting reference date.

The following amounts represent the revenue and expenses and assets and liabilities of FTSE International Ltd for the years ended 31 December 2004 and 2005.

	2005 £m	2004 £m
Revenue	**36.7**	30.7
Expenses	**(34.3)**	(28.6)
Profit after tax	**2.4**	2.1
Non-current assets	**6.7**	5.2
Current assets	**27.4**	20.1
Total assets	**34.1**	25.3
Current liabilities	**(30.4)**	(20.4)
Non-current liabilities	**(0.3)**	(0.4)
Total liabilities	**(30.7)**	(20.8)
Net assets	**3.4**	4.5

The Group is entitled, under a shareholders' agreement, to receive royalties from FTSE International Ltd. The amount receivable by the Group from FTSE International Ltd for the year ended 31 March 2006 was £4.8m (2005: £4.1m).

During the year the Group received dividends of £1.7m (2005: £1.3m) from FTSE International Ltd. Dividends declared after the balance sheet date, not reflected in this financial information, amounted to £nil (2005: £0.6m).

15. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Company	Shares £m	Loans £m	Total £m
1 April 2005	90.1	1.4	91.5
Investments during the year	14.0	5.2	19.2
Impairment loss for EDX London Ltd	(21.4)	–	(21.4)
31 March 2006	**82.7**	**6.6**	**89.3**

Principal subsidiaries (all held directly by the Company)	Principal activity	Country of incorporation	Country of principal operations	% Equity and votes held
EDX London Ltd	Derivatives exchange	UK	UK	76
Proquote Ltd	Market data provider	UK	UK	100
The Stock Exchange (Properties) Ltd	Property company	UK	UK	100

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

16. DEFERRED TAXATION

The movements in deferred tax assets during the year are shown below:

	Group			Company		
	Accelerated tax depreciation £m	Provisions and other timing differences £m	Total £m	Accelerated tax depreciation £m	Provisions and other timing differences £m	Total £m
1 April 2004	4.8	11.8	16.6	4.8	10.6	15.4
Transfer to the income statement during the year (see note 8)	(2.0)	(0.6)	(2.6)	(1.7)	(0.6)	(2.3)
Tax credited to equity – defined benefit pension scheme actuarial loss	–	0.8	0.8	–	0.8	0.8
31 March 2005	2.8	12.0	14.8	3.1	10.8	13.9
Transfer to the income statement during the year (see note 8)	4.6	(3.4)	1.2	(1.0)	(3.4)	(4.4)
Tax credited to equity						
– defined benefit pension scheme actuarial loss	–	1.2	1.2	–	1.2	1.2
– allowance on share options/awards	–	2.6	2.6	–	2.6	2.6
31 March 2006	**7.4**	**12.4**	**19.8**	**2.1**	**11.2**	**13.3**

The deferred tax assets are recoverable against future taxable profits and are due after more than one year.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade receivables	**20.2**	17.6	**20.1**	17.2
Less: provision for impairment of receivables	**(0.2)**	(0.4)	**(0.2)**	(0.4)
Trade receivables – net	**20.0**	17.2	**19.9**	16.8
Amounts owed by group undertakings	**–**	–	**1.9**	13.1
Deferred consideration on disposal of Stock Exchange Tower	**–**	31.8	**–**	–
Other receivables	**0.2**	5.5	**0.1**	5.5
Prepayments and accrued income	**29.1**	27.4	**28.1**	26.6
	49.3	81.9	**50.0**	62.0

During the year the Group recognised a gain of £0.1m (2005: £0.8m) for the reversal of impairment provisions against trade receivables.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Cash at bank	5.3	4.9	3.8	3.8
Short term deposits	221.5	119.5	216.0	115.0
	226.8	124.4	219.8	118.8
Average maturity of short term deposits	31 days	77 days	31 days	79 days
Weighted average interest rate	4.5%	4.9%	4.4%	4.9%

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Trade payables	2.0	4.3	1.6	4.2
Amounts owed to group undertakings	–	–	68.1	34.4
Social security and other taxes	1.9	1.3	1.7	1.0
Other payables	2.1	2.8	2.1	2.8
Accruals and deferred income	45.1	40.7	42.8	38.4
	51.1	49.1	116.3	80.8

20. BORROWINGS

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Current				
Loan from minority shareholder – repayable on demand, following approval of subsidiary borrowing Board	0.6	2.8	–	–
Non-current				
Loan from minority shareholder – wholly repayable after June 2013	0.5	0.5	–	–

The interest rate payable on borrowings is determined with reference to LIBOR. The effective interest rate on the loan from minority shareholder at year end was 6.4% pa (2005: 7.0% pa).

BORROWING FACILITIES

At 31 March 2006, the Company had in place a multicurrency revolving loan facility for £200m, available up to February 2011 (2005: £300m). In addition, the Company had a loan facility of £250m, available up to April 2008, to fund a return of capital to shareholders. Neither facility was drawn down at 31 March 2006. £350m of debt was drawn down on these facilities in May 2006, to fund the return of capital to shareholders (see note 32).

21. PROVISIONS

	Group				Company		
	Property £m	Contingent consideration £m	Other £m	Total £m	Property £m	Other £m	Total £m
1 April 2005	34.8	5.2	–	40.0	34.8	–	34.8
Revised estimate of contingent consideration	–	1.0	–	1.0	–	–	–
Exceptional charges during the year	–	–	9.0	9.0	–	5.8	5.8
Utilised during the year	(4.8)	(6.2)	(0.1)	(11.1)	(4.8)	(0.1)	(4.9)
Interest on discounted provision	1.6	–	–	1.6	1.6	–	1.6
31 March 2006	31.6	–	8.9	40.5	31.6	5.7	37.3
Non-current	25.4	–	–	25.4	25.4	–	25.4
Current	6.2	–	8.9	15.1	6.2	5.7	11.9
	31.6	–	8.9	40.5	31.6	5.7	37.3

PROPERTY

The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting space which is surplus to business requirements. The leases have between eight and 22 years to expiry.

CONTINGENT CONSIDERATION

Contingent consideration relates to the equity derivatives business acquired from OM London Exchange and the final consideration of £6.2m was paid in February 2006.

21. PROVISIONS (CONTINUED)

OTHER

Other provisions relate to the one-off implementation costs arising from the cost saving programme announced in February 2006, and onerous operating contracts in respect of EDX London Ltd (see note 6).

22. RETIREMENT BENEFIT OBLIGATIONS

The Group operates separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes are held separately from those of the Group and the funds are primarily managed by Schroder Investment Management Limited and Legal & General Investment Management Limited respectively.

DEFINED BENEFIT SCHEME

The defined benefit scheme is non-contributory and provides benefits based on final pensionable pay. Pension scheme obligations and costs are determined by an independent qualified actuary on a regular basis using the projected unit credit method. The last full actuarial valuation of the scheme was carried out at 31 March 2003 by an independent qualified actuary.

DEFINED CONTRIBUTION SCHEMES

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

AMOUNTS RECOGNISED IN PROFIT OR LOSS

	2006 £m	2005 £m
Defined contribution schemes	**(2.7)**	(2.3)
Defined benefit scheme – current service cost	**(1.4)**	(1.5)
Total pension charge included in employee benefit expense (see note 5)	**(4.1)**	(3.8)
Finance income and costs		
Interest cost, being the expected increase in the present value of scheme obligations	**(11.2)**	(10.7)
Expected return on assets in the scheme	**10.8**	10.2
Net finance cost	**(0.4)**	(0.5)
Total recognised in profit or loss	**(4.5)**	(4.3)

DEFINED BENEFIT ASSETS AND OBLIGATIONS

Funded obligations and assets are set out below:

	2006 £m	2005 £m	2004 £m
Fair value of assets:			
Equities	**69.4**	52.2	46.9
Bonds	**153.3**	139.1	130.7
Total fair value of assets	**222.7**	191.3	177.6
Present value of funded obligations	**(243.0)**	(210.0)	(196.0)
Balance sheet liability	**(20.3)**	(18.7)	(18.4)

The main actuarial assumptions are set out below:

	2006	2005
Inflation assumption	**2.8%**	2.8%
Rate of increase in salaries	**4.8%**	4.8%
Rate of increase in pensions in payment	**3.6%**	3.6%
Discount rate	**4.9%**	5.4%
Expected return on assets at beginning of year		
– equities	**7.9%**	8.2%
– bonds	**4.8%**	4.9%

Expected return on equities is determined by applying an equity risk premium applicable to the investments held to the risk free rate measured with reference to the return on government bonds. Expected returns on bonds are derived from returns on government and corporate bonds of an equivalent term to the investments held.

MORTALITY

The mortality assumptions are based on the standard tables PA92 published by the Institute and Faculty of Actuaries, adjusted to take account of projected increased life expectancy. For existing pensioners from age 60, life expectancy assumed at 31 March 2006 for men is 25.0 years (2005: 23.1 years) and for women 27.9 years (2005: 25.7 years). For non retired members from age 60, life expectancy assumed at 31 March 2006 for men is 25.9 years (2005: 23.1 years) and for women 28.7 years (2005: 25.7 years).

Movement in defined benefit obligation during the year	2006 £m	2005 £m
1 April 2005	**210.0**	196.0
Current service cost	**1.4**	1.5
Interest cost	**11.2**	10.7
Benefits paid	**(5.4)**	(4.9)
Actuarial loss	**25.8**	6.7
31 March 2006	**243.0**	210.0

Movement in fair value of plan assets during the year	2006 £m	2005 £m
1 April 2005	**191.3**	177.6
Expected return on assets	**10.8**	10.2
Contributions paid	**4.2**	4.3
Benefits paid	**(5.4)**	(4.9)
Actuarial gain	**21.8**	4.1
31 March 2006	**222.7**	191.3

The Group expects to contribute approximately £4.1m to the defined benefit scheme during the year ending 31 March 2007. The actual return on plan assets was £32.6m (2005: £14.3m).

DEFINED BENEFIT ACTUARIAL GAINS AND LOSSES RECOGNISED

The following items reflect experience adjustments and the effects of changes in actuarial assumptions of the pension scheme during the year and are recognised in the statement of recognised income and expense.

	2006 £m	2005 £m
Recognised up to 1 April 2005	**(2.6)**	–
Net actuarial loss recognised in the year	**(4.0)**	(2.6)
Cumulative amount recognised at 31 March 2006 in the statement of recognised income and expense	**(6.6)**	(2.6)

History of experience gains and losses	2006	2005
Experience adjustments arising on scheme assets:		
Amount (£m)	**21.8**	4.1
Percentage of scheme assets	**9.8%**	2.1%
Experience adjustments arising on scheme liabilities:		
Amount (£m)	**(25.8)**	(6.7)
Percentage of scheme liabilities	**(10.6%)**	(3.2%)

23. ORDINARY SHARE CAPITAL

		2006	2005
Authorised			
Ordinary shares of 5 5/6p each	– number	**428,571,428**	428,571,428
	– £	**25,000,000**	25,000,000
Issued, called up and fully paid			
Ordinary shares of 5 5/6p each	– number	**256,230,499**	254,571,428
	– £	**14,946,779**	14,850,000

The increase of 1,659,071 in issued, called up and fully paid ordinary shares during the year was due to the issue of shares in January-March 2006, to satisfy the exercise of options and vesting of share awards under the Company's employee share schemes, creating share premium of £4.3m.

24. STATEMENT OF CHANGES IN EQUITY

Group	Notes	Attributable to equity holders of the Group: Ordinary share capital £m	Share premium £m	Retained earnings £m	Minority interest £m	Total equity £m
1 April 2004		14.9	–	329.7	1.0	345.6
Total recognised income and expense for the financial year		–	–	63.2	(0.5)	62.7
Final dividend relating to the year ended 31 March 2004	10	–	–	(10.0)	–	(10.0)
Special interim dividend paid August 2004	10	–	–	(162.5)	–	(162.5)
Interim dividend relating to the year ended 31 March 2005	10	–	–	(5.1)	–	(5.1)
Employee share schemes and own shares		–	–	5.0	–	5.0
Issue of share capital in subsidiary undertaking		–	–	–	0.6	0.6
31 March 2005		14.9	–	220.3	1.1	236.3
Total recognised income and expense for the financial year		–	–	70.5	(3.9)	66.6
Final dividend relating to the year ended 31 March 2005	10	–	–	(12.6)	–	(12.6)
Interim dividend relating to the year ended 31 March 2006	10	–	–	(10.2)	–	(10.2)
Issue of new shares		–	4.3	–	–	4.3
Issue of share capital in subsidiary undertaking[1]		–	–	–	4.4	4.4
31 March 2006		**14.9**	**4.3**	**268.0**	**1.6**	**288.8**

Company	Notes	Attributable to equity holders of the Company: Ordinary share capital £m	Share premium £m	Retained earnings £m	Total equity £m
1 April 2004		14.9	–	346.0	360.9
Total recognised income and expense for the financial year		–	–	55.9	55.9
Final dividend relating to the year ended 31 March 2004	10	–	–	(10.0)	(10.0)
Special interim dividend paid August 2004	10	–	–	(162.5)	(162.5)
Interim dividend relating to the year ended 31 March 2005	10	–	–	(5.1)	(5.1)
Employee share schemes and own shares	–	–	5.0	5.0	
31 March 2005		14.9	–	229.3	244.2
Total recognised income and expense for the financial year		–	–	63.0	63.0
Final dividend relating to the year ended 31 March 2005	10	–	–	(12.6)	(12.6)
Interim dividend relating to the year ended 31 March 2006	10	–	–	(10.2)	(10.2)
Issue of new shares		–	4.3	–	4.3
31 March 2006		**14.9**	**4.3**	**269.5**	**288.7**

[1] Issue of share capital in subsidiary undertaking to minority interest includes £2.8m of converted loans, giving net cash impact of £1.6m.

25. CASH GENERATED FROM OPERATIONS

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Profit before taxation	**93.5**	92.2	**97.4**	86.5
Depreciation and amortisation	**26.5**	28.7	**25.9**	28.2
Impairment loss and provision for EDX London Ltd	**23.1**	–	**21.4**	–
Provision for restructuring costs	**5.9**	–	**5.8**	–
Profit on disposal of Stock Exchange Tower	**–**	(6.7)	**–**	–
Net finance income	**(6.6)**	(6.5)	**(5.7)**	(5.9)
Investment income	**(0.3)**	(0.1)	**(0.3)**	(0.1)
Share of profit after tax of joint venture	**(1.2)**	(1.1)	**(1.7)**	(1.3)
Decrease/(increase) in trade and other receivables	**2.0**	(8.2)	**5.9**	(11.8)
Increase in trade and other payables	**3.4**	3.4	**36.8**	38.6
Defined benefit pension obligation – contributions in excess of expenses charged	**(2.8)**	(2.8)	**(2.8)**	(2.8)
Provisions utilised during the year	**(4.9)**	(5.3)	**(4.9)**	(5.3)
Share scheme expense	**2.0**	1.8	**2.0**	1.8
Cash generated from operations	**140.6**	95.4	**179.8**	127.9
Comprising:				
Ongoing operating activities	**145.9**	100.9	**185.1**	133.4
Exceptional items (see note 6)	**(5.3)**	(5.5)	**(5.3)**	(5.5)
	140.6	95.4	**179.8**	127.9

26. COMMITMENTS

Contracted capital commitments not provided for in the financial statements of the Group and the Company comprise £0.1m in respect of software (2005: £nil).

27. LEASES

The Group leases various properties under non-cancellable operating leases.

The total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Less than one year	**15.4**	15.4	**15.3**	15.4
More than one year and less than five years	**60.8**	61.0	**60.7**	61.0
More than five years	**174.9**	189.9	**174.9**	189.9
	251.1	266.3	**250.9**	266.3

Operating lease payments, representing minimum lease payments of £14.9m (2005: £13.5m) were charged to the income statement.

The total future minimum lease payments expected to be received under non cancellable operating leases are as follows:

Less than one year	**2.0**	1.5	**2.0**	1.5
More than one year and less than five years	**11.0**	11.2	**11.0**	11.2
More than five years	**7.3**	9.6	**7.3**	9.6
	20.3	22.3	**20.3**	22.3

28. FINANCIAL RISK MANAGEMENT

The majority of the Group's financial assets and liabilities are based in sterling with some exposure to Scandinavian currencies in Derivatives Services which are mainly hedged by forward exchange contracts. The main risks arising from the Group's financial instruments are in respect of interest rate, credit, liquidity and exchange rate.

INTEREST RATE RISK

There are no floating rate financial assets. Term deposits with banks are for fixed rates for the period of the deposit. Interest on the loan from the minority shareholder is determined with reference to LIBOR. No hedging of interest rates on floating rate financial liabilities took place during the year.

LIQUIDITY AND CREDIT RISK

The Group manages liquidity risk by depositing funds available for investment in approved instruments for periods up to one year. Counterparty risk with respect to cash and cash equivalents is managed by establishing minimum credit worthiness limits and limiting the maximum exposure to each counterparty. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

EXCHANGE RATE RISK

The only derivative contracts used during the year were forward exchange contracts to hedge forecast cash inflows in Scandinavian currencies and were designated as fair value or cash flow hedges as appropriate. All contracts were closed out on or before the final contract dates and fully matched with equivalent currency cash holdings. At the year end, forward contracts were held for forecast currency cash flows in the coming year. The fair value of these contracts at 31 March 2006 amounted to £nil (2005: £nil).

The fair and carrying values of financial assets and liabilities are as follows:

	Group			
	Carrying value 31 March 2006 £m	**Fair value 31 March 2006 £m**	Carrying value 31 March 2005 £m	Fair value 31 March 2005 £m
Short term investments – term deposits and cash	**226.8**	**226.8**	124.4	124.4
Loan from minority shareholder – within one year	**(0.6)**	**(0.6)**	(2.8)	(2.8)
– after more than one year	**(0.5)**	**(0.5)**	(0.5)	(0.5)
	225.7	**225.7**	121.1	121.1

	Company			
	Carrying value 31 March 2006 £m	**Fair value 31 March 2006 £m**	Carrying value 31 March 2005 £m	Fair value 31 March 2005 £m
Investments – term deposits and cash	**219.8**	**219.8**	118.8	118.8

Available for sale financial assets, representing the Group's 0.6 per cent interest in the ordinary shares of Euroclear plc, are measured at cost of £0.4m. The fair value of these shares cannot be measured reliably because they are unquoted.

The fair value of forward exchange contracts is determined using a valuation technique with reference to observable market interest rates. The carrying amount of trade receivables and payables are reasonable approximations of fair value. The fair value of borrowings are based on discounted cash flows using a rate based on borrowing cost.

29. SHARE SCHEMES

A new Long Term Incentive Plan (LTIP) was approved at the 2004 AGM and introduced in 2004. This scheme has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of annual bonus in the Exchange's shares. Vesting of these awards is dependent upon the Company's total shareholder return performance. Further details are provided in the Remuneration Report on pages 29 to 35.

Under the Company's previous share option plan approved by shareholders in 2002, the maximum value of shares placed under option to an individual was equivalent to 100 per cent of their annual salary. No further awards will be made under this scheme.

Prior to 2002, under the previous long term incentive scheme (comprising the Initial and Annual Share Plans) option grants and share awards were made based on approvals prior to the Company's listing in July 2001. No further option grants or share awards will be made under this scheme apart from the SAYE scheme available to all staff. Under both the Initial and Annual Share Plan, share awards have a vesting period of three years and share options become exercisable at 20 per cent per annum over five years with a contractual life of 10 years.

The SAYE scheme provides for grants of options to employees who enter into a SAYE savings contract and options were granted at 20 per cent below fair market value. Share awards were granted at nil cost to employees and share options were granted at fair market value or above.

The Company established an ESOP discretionary trust to administer the share plans and to acquire the Company's shares to meet commitments to employees. At the year end 428,529 (2005: 878,694) shares were held by the trust, funded by an interest free loan from the Company. In accordance with SIC-12 the assets, liabilities, income and costs of the ESOP trust have been included in the Group's financial statements and the cost of the Company's shares held by the trust are deducted from retained earnings.

Movements in the number of share options and awards outstanding and their weighted average exercise prices are as follows:

	Share awards		Share options		SAYE Scheme		LTIP	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
At 1 April 2004	625,648	–	7,821,436	3.12	1,519,949	2.29	–	–
Granted	–	–	1,765,628	3.76	211,900	2.93	746,888	–
Exercised	(499,256)	–	(1,863,237)	2.95	(141,461)	2.04	–	–
Forfeited	(2,570)	–	(741,512)	3.71	(174,609)	2.55	–	–
At 31 March 2005	123,822	–	6,982,315	3.26	1,415,779	2.38	746,888	–
Granted	–	–	–	–	–	–	963,612	–
Exercised	(89,066)	–	(1,875,100)	3.00	(681,680)	1.95	(5,027)	–
Forfeited	–	–	(134,964)	3.51	(121,450)	2.58	(38,331)	–
At 31 March 2006	**34,756**	**–**	**4,972,251**	**3.36**	**612,649**	**2.83**	**1,667,142**	**–**
Exercisable at:								
31 March 2006	**700**	**–**	**2,079,090**	**3.14**	**22,610**	**1.90**	**–**	**–**
31 March 2005	700	–	2,297,237	2.84	–	–	–	–

The weighted average share price during the year was £6.12 (2005: £4.19).

29. SHARE SCHEMES (CONTINUED)

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding at 31 March 2006 and 2005 are as follows:

	Awards/options outstanding at 31 March 2006		Awards/options outstanding at 31 March 2005	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
Share awards				
Nil	34,756	0.1	123,822	0.3
Share options				
Up to £3	1,066,960	4.7	2,320,880	5.7
Between £3 and £4	3,841,881	7.2	4,598,025	8.1
Above £4	63,410	5.2	63,410	6.2
SAYE				
Up to £2	22,610	0.1	706,870	1.1
Between £2 and £3	491,510	2.3	588,748	3.2
Above £3	98,529	1.9	120,161	2.9
LTIP				
Nil	1,667,142	2.2	746,888	2.3
Total	**7,286,798**	**5.2**	9,268,804	6.0

The fair value of share awards and share options granted during the year was determined using a stochastic valuation model. The key assumptions used in the valuation were as follows:

	Matching Shares 9 March 2006	**Matching Shares 6 March 2006**	**Matching Shares 3 March 2006**	**Performance Shares 28 February 2006**
Grant date share price	£8.635	£8.635	£8.595	£8.550
Exercise price	n.a	n.a	n.a	n.a
Volatility	28.0%	28.0%	27.9%	27.9%
Expected life	3 years	3 years	3 years	3 years
Dividend yield	1.4%	1.0%	1.1%	1.1%
Risk free rate of return	n.a	n.a	n.a	n.a
Fair value	£6.67	£6.65	£6.63	£6.57

The volatility assumption is based on a statistical analysis of weekly share prices since the Exchange's flotation in July 2001. The fair value for the Performance and Matching Shares granted during the year takes account of the TSR vesting condition. Holders of share awards and share options are not entitled to receive dividends declared during the vesting period.

30. TRANSACTIONS WITH RELATED PARTIES

DIRECTORS

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 LTD

Details of transactions with FTSE International Ltd are included in note 14.

KEY MANAGEMENT COMPENSATION

Compensation for directors of the Company and key personnel who have authority for planning, directing and controlling the Group:

	2006 £000	2005 £000
Salaries and other short term benefits	**4,992**	3,876
Pensions	**272**	164
Share based payments	**673**	763
	5,937	4,803

INTER-COMPANY TRANSACTIONS WITH SUBSIDIARY UNDERTAKINGS

PROQUOTE LTD

The Company provides data feeds and loan financing to Proquote Ltd. Loan interest is charged at market rate. Proquote Ltd also provides data terminals to the Company. The following transactions took place during the year:

	2006 £m	2005 £m
Sale of data to Proquote Ltd	**1.5**	1.3
Interest receivable from Proquote Ltd	**0.2**	–
Purchase of data terminals from Proquote Ltd	**(0.2)**	(0.1)

The Company also provided staff services without recharge to Proquote Ltd to the value of £0.5m (2005: £0.3m).

EDX LONDON LTD

The Company charges insurance and rent costs and provides loan financing to EDX London Ltd. Loan interest is charged at LIBOR +2%. The following amounts were charged during the year:

	2006 £m	2005 £m
Rent	**0.6**	0.4
Insurance	**0.2**	0.2
Loan interest	**0.5**	0.8
	1.3	1.4

The Company also provided staff services without recharge to EDX London Ltd to the value of £0.5m (2005: £0.5m).

31. OTHER STATUTORY INFORMATION

Auditors' remuneration for audit services for Company and Group was £0.2m (2005: £0.2m). Other fees paid to PricewaterhouseCoopers LLP during the year were £0.8m (2005: £0.8m) primarily in respect of taxation advice £0.2m (2005: £0.3m), corporate finance transactions £0.6m (2005: £0.4m) and other services £nil (2005: £0.1m). Fees payable to PricewaterhouseCoopers LLP by the Company's pension scheme amounted to £nil (2005: £0.1m).

Directors' emoluments comprise the following:

	2006 £000	2005 £000
Salary and fees	**1,150**	1,139
Performance bonus	**1,255**	775
Gains on exercise of share options	**231**	337
Benefits	**2**	3
	2,638	2,254
Contributions to defined contribution pension schemes	**131**	51
	2,769	2,305

During the year two directors (2005: two) had retirement benefits accruing under defined contribution schemes and no director (2005: none) had retirement benefits accruing under a defined benefit scheme.

Further details of directors' emoluments are included in the Remuneration report on pages 29 to 35.

32. POST BALANCE SHEET EVENT

In May 2006 London Stock Exchange Group plc (Exchange Group) became the holding company of the Company pursuant to a scheme of arrangement. Under the scheme Exchange Group issued new ordinary shares and B shares to the Company's shareholders. Shortly after the scheme, the nominal value of Exchange Group's new ordinary shares was reduced and the merger reserve created by the scheme was capitalised and subsequently cancelled, creating sufficient distributable reserves of London Stock Exchange Group plc sufficient to enable the return of approximately £510 million to shareholders. The B shares were issued as the mechanism to facilitate the capital return. Payments to holders of B shares who had not elected to defer payment of their entitlements will be made on 26 May 2006. The capital return has been funded by a combination of existing cash reserves and new loan facilities to Exchange Group of £450 million, of which £350 million has been drawn down.

33. TRANSITION DISCLOSURES

Set out below are reconciliations between UK GAAP and IFRS for total equity at 1 April 2004 (date of transition to IFRS) and 31 March 2005. In addition, a reconciliation is provided between Group profit for the financial year ended 31 March 2005 under UK GAAP and IFRS. Profit for the Company for the financial year ended 31 March 2005 increased by £1.6m to £57.7m (£56.1m under UK GAAP).

RECONCILIATION OF EQUITY AT DATE OF TRANSITION TO IFRS – 1 APRIL 2004

		Group			Company		
	Notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	(b),(i)	168.3	(44.1)	124.2	111.9	(44.1)	67.8
Intangible assets	(i)	24.3	34.7	59.0	–	34.7	34.7
Investment in subsidiary undertakings		–	–	–	89.7	–	89.7
Available for sale investments		0.4	–	0.4	0.4	–	0.4
Investment in joint venture	(g)	1.5	0.9	2.4	1.5	–	1.5
Deferred tax assets	(a),(b),(c),(e)	3.4	13.2	16.6	2.2	13.2	15.4
		197.9	4.7	202.6	205.7	3.8	209.5
Current assets							
Trade and other receivables	(a),(g)	57.7	(15.3)	42.4	66.2	(15.3)	50.9
Cash and cash equivalents		227.9	–	227.9	221.9	–	221.9
		285.6	(15.3)	270.3	288.1	(15.3)	272.8
Total assets		**483.5**	**(10.6)**	**472.9**	**493.8**	**(11.5)**	**482.3**
Liabilities							
Current liabilities							
Trade and other payables	(c),(h)	62.3	(8.9)	53.4	58.9	(8.9)	50.0
Current tax		12.2	–	12.2	13.1	–	13.1
Borrowings		4.4	–	4.4	1.5	–	1.5
Provisions	(j)	–	6.6	6.6	–	6.6	6.6
		78.9	(2.3)	76.6	73.5	(2.3)	71.2
Non-current liabilities							
Borrowings		0.5	–	0.5	–	–	–
Retirement benefit obligations	(a)	–	18.4	18.4	–	18.4	18.4
Provisions	(j)	38.4	(6.6)	31.8	38.4	(6.6)	31.8
		38.9	11.8	50.7	38.4	11.8	50.2
Total liabilities		**117.8**	**9.5**	**127.3**	**111.9**	**9.5**	**121.4**
Net assets		**365.7**	**(20.1)**	**345.6**	**381.9**	**(21.0)**	**360.9**
Equity							
Capital and reserves attributable to the Company's equity holders							
Share capital		14.9	–	14.9	14.9	–	14.9
Other reserves	(b)	42.1	(42.1)	–	2.3	(2.3)	–
Retained earnings	(a),(b),(c),(e),(h)	307.7	22.0	329.7	364.7	(18.7)	346.0
		364.7	(20.1)	344.6	381.9	(21.0)	360.9
Equity minority interest		1.0	–	1.0	–	–	–
Total equity		**365.7**	**(20.1)**	**345.6**	**381.9**	**(21.0)**	**360.9**

RECONCILIATION OF EQUITY AT DATE OF MOST RECENT FINANCIAL STATEMENTS – 31 MARCH 2005

		Group			Company		
	Notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets							
Non-current assets							
Property, plant and equipment	(b),(i)	114.9	(43.2)	71.7	113.4	(42.5)	70.9
Intangible assets	(d),(i)	27.5	37.5	65.0	–	34.8	34.8
Investment in subsidiary undertakings		–	–	–	91.5	–	91.5
Available for sale investments		0.4	–	0.4	0.4	–	0.4
Investment in joint venture	(g)	1.6	0.6	2.2	1.5	–	1.5
Deferred tax assets	(a),(b),(c),(d),(e)	1.4	13.4	14.8	0.2	13.7	13.9
		145.8	8.3	154.1	207.0	6.0	213.0
Current assets							
Trade and other receivables	(a),(g)	97.0	(15.1)	81.9	77.1	(15.1)	62.0
Cash and cash equivalents		124.4	–	124.4	118.8	–	118.8
		221.4	(15.1)	206.3	195.9	(15.1)	180.8
Total assets		**367.2**	**(6.8)**	**360.4**	**402.9**	**(9.1)**	**393.8**
Liabilities							
Current liabilities							
Trade and other payables	(c),(h)	59.3	(10.2)	49.1	91.0	(10.2)	80.8
Current tax		13.0	–	13.0	15.3	–	15.3
Borrowings		2.8	–	2.8	–	–	–
Provisions	(j)	–	11.9	11.9	–	6.7	6.7
		75.1	1.7	76.8	106.3	(3.5)	102.8
Non-current liabilities							
Borrowings		0.5	–	0.5	–	–	–
Retirement benefit obligations	(a)	–	18.7	18.7	–	18.7	18.7
Provisions	(j)	40.0	(11.9)	28.1	34.8	(6.7)	28.1
		40.5	6.8	47.3	34.8	12.0	46.8
Total liabilities		**115.6**	**8.5**	**124.1**	**141.1**	**8.5**	**149.6**
Net assets		**251.6**	**(15.3)**	**236.3**	**261.8**	**(17.6)**	**244.2**
Equity							
Capital and reserves attributable to the Company's equity holders							
Share capital		14.9	–	14.9	14.9	–	14.9
Other reserves	(b)	2.2	(2.2)	–	2.2	(2.2)	–
Retained earnings	(a),(b),(c),(d),(e),(h)	233.6	(13.3)	220.3	244.7	(15.4)	229.3
		250.7	(15.5)	235.2	261.8	(17.6)	244.2
Equity minority interest	(d)	0.9	0.2	1.1	–	–	–
Total equity		**251.6**	**(15.3)**	**236.3**	**261.8**	**(17.6)**	**244.2**

33. TRANSITION DISCLOSURES (CONTINUED)

RECONCILIATION OF GROUP PROFIT FOR THE YEAR ENDED 31 MARCH 2005

	Notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue		244.4	–	244.4
Expenses	(a),(b),(c),(d),(e)	(171.2)	4.6	(166.6)
Profit on disposal of Stock Exchange Tower	(b)	7.2	(0.5)	6.7
Operating profit		**80.4**	**4.1**	**84.5**
Analysed as:				
Operating profit before exceptional items		80.0	4.6	84.6
Exceptional items		0.4	(0.5)	(0.1)
Operating profit		80.4	4.1	84.5
Finance income		9.0	10.2	19.2
Finance costs		(2.0)	(10.7)	(12.7)
Net finance income	(a)	7.0	(0.5)	6.5
Share of profit after tax of joint venture	(g)	1.7	(0.6)	1.1
Investment income	(f)	–	0.1	0.1
Profit before taxation		**89.1**	**3.1**	**92.2**
Taxation	(a),(b),(c),(d),(e),(g)	(27.6)	(0.1)	(27.7)
Profit for the financial year		**61.5**	**3.0**	**64.5**
Loss attributable to minority interest	(d)	(0.7)	0.2	(0.5)
Profit attributable to equity holders		62.2	2.8	65.0
		61.5	**3.0**	**64.5**

EXPLANATION OF RECONCILING DIFFERENCES BETWEEN UK GAAP AND IFRS

(a) IAS 19 Employee benefits
The Group has elected to recognise the defined benefit pension scheme deficit in full in the Group balance sheet at transition date (1 April 2004). The charge to the income statement is the current period's service charge and a financing charge for unwinding the discount applied to obligations and the expected return on pension scheme assets.

The impact on the income statement for the year ended 31 March 2005 is to increase operating profit by £2.7m and reduce net finance income by £0.5m. After the associated tax there is an increase in profit attributable to equity holders for the year of £1.5m.

The impact on the balance sheet is to reduce total equity for the Group and Company at 31 March 2005 by £23.2m (1 April 2004: £22.9m).

(b) IAS 16 Freehold properties
Under the transitional arrangements set out in IFRS 1 the Group has elected to restate freehold properties other than the Stock Exchange Tower to their fair value at the date of transition, resulting in a reduction in the balance sheet carrying amount. This lower carrying amount, together with the requirement to update residual values to reflect current prices, has the effect of reducing depreciation compared with UK GAAP.

The impact on the income statement is to reduce the depreciation charge in respect of remaining freehold properties for the year ended 31 March 2005 by £1.7m. In relation to the Stock Exchange Tower, there is a reduction in depreciation charge and corresponding reduction to the profit on sale of the Tower of £0.5m. After the associated tax there is an increase in profit attributable to equity holders for the year of £1.4m.

For the Group and Company, total equity is £5.2m lower at 31 March 2005 (1 April 2004: £6.6m) as a result of the restated values of freehold properties as at 1 April 2004, partly offset by the lower depreciation charge in the year ended 31 March 2005.

(c) IAS 17 Leases
All leases have been reviewed and remain as operating leases. Lease incentives under IFRS are spread over the term of the lease, whereas, under UK GAAP they were spread over the period to the first rent review. This results in an increased charge to the income statement and consequent higher balance sheet accrual.

The impact on the income statement is to reduce operating profit for the year ended 31 March 2005 by £1.3m. After the associated tax there is a reduction in profit attributable to equity holders for the year of £0.9m.

For the Group and Company, total equity at 31 March 2005 is £1.7m lower (1 April 2004: £0.8m).

(d) IFRS 3 Goodwill
Under IFRS 3, goodwill is not amortised but is tested annually for impairment. On the balance sheet, under IFRS, goodwill is held at the UK GAAP carrying amount at transition date less any subsequent impairments.

The effect is to increase operating profit for the year ended 31 March 2005 by £2.0m. After the associated tax and minority interest, the increase in profit attributable to equity holders for the year is £1.5m.

The impact on the Group balance sheet is to increase total equity at 31 March 2005 by £1.7m (1 April 2004: £nil); there is no effect on the Company balance sheet.

EXPLANATION OF RECONCILING DIFFERENCES BETWEEN UK GAAP AND IFRS (CONTINUED)

(e) IFRS 2 Share based payments
Under IFRS 2, charges to the income statement are based on the fair value of the instrument granted determined using an option pricing model. Under UK GAAP, the charge was based on the difference between the market price on the date of grant and the exercise price. The balance sheet is adjusted to reflect the additional deferred tax arising from the increased charge to the income statement.

This reduces operating profit for the year ended 31 March 2005 by £1.0m. After the associated tax there is a reduction in profit attributable to equity holders for the year of £0.7m.

Recognition of deferred tax on the additional charge to the income statement results in an increase in total equity at 31 March 2005 of £0.5m (1 April 2004: £0.2m) for the Group and Company.

(f) Investment income
Under UK GAAP income from fixed asset investments was reported within Share of operating profit of joint venture and income from other fixed asset investments. Under IFRS, it is reported separately.

This results in a reclassification to the Investment income heading for the year ended 31 March 2005 of £0.1m but has no impact on profit.

(g) IAS 31 Joint Ventures
There are three presentational changes in respect of joint ventures:

1. The share of joint venture revenue is not reported within Group revenue although details of joint venture turnover are reported within the notes to the accounts.

2. Under UK GAAP the Group's share of joint venture income is reported pre-tax with the Group's share of joint venture's tax reported within the Group tax charge. Under IFRS, the Group's share of joint venture's income is reported net of tax within profit before taxation.

3. As dividends receivable from joint ventures are recognised when declared rather than in the period to which they relate under UK GAAP, there is a reduction to trade and other receivables in respect of dividends declared and for the Group a corresponding increase in investment in joint venture and for the Company a reduction in retained earnings.

The impact on the income statement is to reduce profit before tax for the year ended 31 March 2005 by £0.5m but with a corresponding reduction to the taxation charge such that there is no overall impact on net profit.

In the Group balance sheet there is an increase in investment in joint venture, in the Company balance sheet a reduction in retained earnings and a corresponding reduction for Group and Company in trade and other receivables at 31 March 2005 of £0.6m (1 April 2004: £0.9m).

(h) IAS 10 Dividends
Under IAS 10, dividends are recognised in the financial statements when declared rather than in the period to which they relate.

The impact on the Group and Company balance sheet is to increase total equity by the amount of dividends declared after 31 March 2005 of £12.6m (1 April 2004: £10.0m).

(i) IAS 38 Intangible assets
Under UK GAAP software development costs were capitalised within plant and equipment but under IFRS are required to be disclosed as intangible assets.

There is no impact on the income statement, but in the balance sheet these assets are reclassified from property, plant and equipment to intangible assets. The amount transferred at 31 March 2005 for the Group is £35.5m (1 April 2004: £34.7m) and for the Company is £34.8m (1 April 2004: £34.7m).

(j) Provisions
Under UK GAAP, provisions are shown as a single amount but under IFRS are analysed between those amounts due in less than one year and those due in more than one year.

There is no impact on the income statement. In the balance sheet there is a reclassification to report separately the amount due within one year which at 31 March 2005 for the Group is £11.9m (1 April 2004: £6.6m) and for the Company is £6.7m (1 April 2004: £6.6m).

EXPLANATION OF ADJUSTMENTS TO THE CASH FLOW STATEMENT

Under UK GAAP the cash flow statement presented the movement in cash balances, analysed between nine categories of cash flow. Under IFRS, the cash flow statement presents the movement in cash and cash equivalents, analysed between operating, investing and financing activities. The principal consequences of these differences are that cash and cash equivalents under IFRS includes term deposits which were included in management of liquid resources under UK GAAP, and corporation tax paid, interest received and interest paid are classified within operating activities for IFRS purposes.

As software developments are reported as intangible assets under IFRS, expenditure on these is separately reported in the cash flow statement as purchase of intangible assets.

FINANCIAL RECORD

	IFRS		UK GAAP[1]			
Income Statement	**Year ended 31 March 2006 £m**	Year ended 31 March 2005 £m	Year ended 31 March 2005 £m	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m
Revenue						
– Issuer Services	**56.9**	43.3	43.3	45.7	42.8	29.0
– Broker Services	**125.5**	100.6	100.6	94.7	87.5	81.2
– Information Services – ongoing	**94.1**	86.7	86.7	79.9	83.8	83.8
– Information Services – exceptional	**6.4**	–	–	–	–	–
– Derivatives Services	**7.7**	6.8	6.8	6.1	–	–
– Other income	**6.9**	7.0	7.0	10.7	11.8	12.6
Total revenue[2]	**297.5**	244.4	244.4	237.1	225.9	206.6
Operating expenses						
– before exceptional items and goodwill amortisation[3]	**(171.0)**	(159.8)	(162.4)	(154.2)	(144.5)	(136.1)
– exceptional items	**(41.1)**	(6.8)	(6.8)	–	(11.6)	(3.6)
Operating profit before exceptional items and goodwill amortisation[3]	**120.1**	84.6	82.0	82.9	81.4	70.5
Profit before taxation	**93.5**	92.2	89.1	88.8	79.2	75.2
Profit for the financial year	**66.8**	64.5	61.5	63.1	52.4	49.9
Basic earnings per share	**27.8p**	24.2p	23.1p	21.6p	18.0p	17.1p
Diluted earnings per share	**27.4p**	23.9p	22.9p	21.4p	17.8p	17.0p
Adjusted basic earnings per share	**37.4p**	24.2p	23.5p	21.2p	20.8p	18.3p
Balance sheet						
Non-current assets	**137.6**	154.1	145.8	197.9	148.9	125.2
Current assets	**276.1**	206.3	221.4	285.6	268.7	228.8
Current liabilities	**(78.7)**	(76.8)	(87.0)	(85.5)	(67.7)	(64.2)
Non-current liabilities	**(46.2)**	(47.3)	(28.6)	(32.3)	(37.9)	(20.2)
Net assets	**288.8**	236.3	251.6	365.7	312.0	269.6
Cash flow						
Cash generated from ongoing operating activities	**145.9**	100.9	100.9	105.4	74.8	82.4
Other information						
Operating margin before exceptional items and goodwill amortisation[2,3]	**41.3%**	34.6%	33.6%	35.0%	36.0%	34.1%
Share price – high	**£11.90**	£5.90	£5.90	£3.83	£5.03	£4.35
Share price – low	**£4.49**	£3.37	£3.37	£2.80	£2.70	£2.81
Total dividend per share declared in respect of financial year	**12.0p**	7.0p	7.0p	4.8p	4.3p	3.6p

Basis of preparation of Financial Record

1 Financial information for years ended 31 March 2002-2004 is presented under UK GAAP and for the year-ended 31 March 2005 under both UK GAAP and IFRS. In line with IFRS 1 paragraph 37, the Company has not restated financial information for periods prior to the date of transition to IFRS (1 April 2004). The main changes arising from the introduction of IFRS are in respect of goodwill amortisation, pensions, share-based payments, lease rentals, property depreciation and dividends.

2 Analysis of revenue numbers for UK GAAP for years ended 31 March 2002-2005 exclude turnover from joint ventures, and reflect reclassifications between segments as reflected in the IFRS numbers.

3 Operating expenses, operating profit and operating margin before exceptional items all exclude goodwill amortisation in the UK GAAP numbers for years ended 31 March 2002-2005.

INVESTOR RELATIONS

SHAREHOLDER SERVICES

LLOYDS TSB REGISTRARS SHAREVIEW SERVICE

Shareview is a free service provided by Lloyds TSB Registrars. It may be accessed through the internet at www.shareview.co.uk. By creating a Shareview portfolio, you will gain online access to information about your Exchange shares and other investments including:

- direct access to information held for you on the share register including share movements;
- a daily valuation of all investments held in your portfolio; and
- a range of information and practical help for shareholders.

To register at Shareview you will need your shareholder reference (which can be found on your share certificate) and you will be asked to select your own personal identification number. A user ID will then be posted to you. If you have any problems in registering your portfolio for the Shareview services, please contact Lloyds TSB Registrars on 0870 600 3989.

EXCHANGE'S SHARE PRICE SERVICE

To obtain share price information for Exchange Group (and for the Exchange prior to the Scheme of Arrangement becoming effective on 15 May 2006), please see our website at: www.londonstockexchange-ir.com/lse/services/sharetools/

This link will provide you with Exchange Group's share price, historical closing prices and volumes and an interactive share price graph.

ALERTING SERVICE

To receive email alerts when financial reports, news releases and webcasts are posted on our Investor Relations website, register on: www.londonstockexchange-ir.com/lse/tools/alertingservice/

SUBSTANTIAL SHAREHOLDERS

(notified of 3 per cent holding or more)

As at 25 May 2006 London Stock Exchange Group plc had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Nightingale Acquisition Limited (a wholly-owned subsidiary of The NASDAQ Stock Market, Inc.)	25.1%
Credit Suisse Group	8.83%
Deutsche Bank AG	5.36%
Legal & General Group plc	3.29%
Barclays plc	3.19%
Goldman Sachs Group, Inc.	3.07%

FINANCIAL CALENDAR (PROVISIONAL)

AGM	12 July 2006
Q1 Trading Statement (revenues only)	12 July 2006
Half year end	30 September 2006
Interim Results	November 2006
Q3 Trading Statement (revenues only)	January 2007
Financial year end	31 March 2007
Preliminary Results	May 2007

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

Second Interim Dividend
In addition to the return of approximately £510 million to shareholders, on or shortly after 26 May 2006, the directors of London Stock Exchange plc resolved to pay at the same time a second interim dividend, in lieu of a final dividend for the year ended 31 March 2006, of 8.0 pence per share. This enabled shareholders to receive entitlement to the second interim dividend prior to the share consolidation accompanying the £510 million capital return. Accordingly, no final dividend will be paid at the usual time in August.

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