London Stock Exchange

Information Memorandum

London STOCK EXCHANGE

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

Schroders, which is regulated in the UK by The Securities and Futures Authority Limited, is acting exclusively for the Exchange in relation to the Proposals and has approved this Information Memorandum for the purposes of section 57 of the Financial Services Act. Schroders is not advising any other person or treating any other person as its customer in relation to the Proposals. Schroders will not be responsible to any such person for providing the protections afforded to its customers or for advising any such person on the Proposals.

No person has been authorised to give any information or make any representation in connection with the Proposals or any other matters referred to in this Information Memorandum, other than as contained in this Information Memorandum, and if given or made, such information or representation must not be relied upon as having been authorised by the Exchange, Schroders or any of their respective subsidiaries or associates. Neither the delivery of this Information Memorandum nor any decision in relation to the Proposals nor any sale or purchase made following the implementation of the Proposals shall constitute a representation or create any implication that the information contained herein is correct at any time subsequent to the date of this Information Memorandum.

London Stock Exchange Limited

(Incorporated and registered in England and Wales under the Companies Act 1985.
Registered No. 2075721)

Information Memorandum

Proposals to allow the transfer of Ordinary Shares conditional upon the proposed cancellation of A Shares, reorganisation of share capital and re-registration as a public company

This is not a prospectus and no application for listing or offering of shares has been or will be made as part of the Proposals. Neither the issue of this Information Memorandum nor any of its contents constitutes an offer to sell or purchase or the solicitation of an offer for sale or purchase of any shares in the Exchange by the Exchange, Schroders or any other person.

This Information Memorandum has been prepared by the Exchange to give information to B Shareholders in connection with the Proposals. Recipients of this Information Memorandum should not copy or disclose this Information Memorandum to any other person. B Shares are not and will not be freely transferable or transferable for value until the implementation of the Proposals.

Recipients of this Information Memorandum should inform themselves about and observe any applicable legal requirements in their jurisdictions. In particular, the receipt and distribution of this Information Memorandum in certain jurisdictions may be restricted by law and, accordingly, recipients represent that they are able to receive this Information Memorandum without contravention of any unfulfilled registration requirements or other legal restrictions in the jurisdiction in which they reside or conduct business.

The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under applicable securities laws of Canada, Australia or Japan and may not be offered or sold directly into the United States, Canada, Australia or Japan or to any national, citizen or resident of the United States, Canada, Australia or Japan.

Share capital following implementation of the Proposals

Authorised			Expected issued and fully paid	
Number	Amount		Number	Amount
40,000,000	£2,000,000	In Ordinary Shares of 5p each	29,800,000	£1,490,000

The Ordinary Shares will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Share capital of the Exchange following the implementation of the Proposals. Further details of the share capital are set out in Part IV of this Information Memorandum.

Contents

Directors, Secretary and advisers

Directors

Sir John Kemp-Welch	*Chairman*
Gavin Casey	*Chief Executive*
Ian Salter	*Deputy Chairman, non-executive*
Jonathan Howell	*Director of Finance and Operations*
Martin Wheatley	*Director of Business Development*
Gary Allen	*Non-executive*
Graham Allen	*Non-executive*
Michael Marks	*Non-executive*
Peter Meinertzhagen	*Non-executive*
Ian Plenderleith	*Non-executive*
Simon Robertson	*Non-executive*
Hector Sants	*Non-executive*
Nigel Sherlock	*Non-executive*

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Secretary

Keith Robinson	*Company Secretary*

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Registrars

Lloyds TSB Registrars
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Worthing
West Sussex BN99 6DA

Key information

The information below should be read in conjunction with the full text of this Information Memorandum, from which it is derived. The definitions used are set out at the end of this Information Memorandum.

Business description

The Exchange is the UK's leading stock exchange and the most international of all stock exchanges world-wide. It provides the markets and means of raising capital for UK and international companies through equity, debt and depository receipt issues. The Exchange operates the fourth largest equities exchange in the world by market capitalisation and the third largest by value of trading.

Of UK domiciled listed companies, 98 per cent. by number are quoted on the Exchange. Some 500 non-UK domiciled companies from over 60 countries are traded on the Exchange. More than 99 per cent. by value of UK trading in UK companies' shares takes place on the Exchange.

The Exchange's activities can be broadly categorised as set out below.

- **Company Services** The Exchange provides a number of markets which facilitate the raising of capital and the trading of corporate securities. These markets are supported by a range of services to raise the profile of Exchange-traded companies and encourage the flow of market and corporate information through the Regulatory News Service ("RNS") and other value added services;
- **Trading Services** The Exchange provides access to a well-developed trading environment with services encompassing an advanced electronic order book for the most liquid stocks, quote display and a mix of quote display and order execution for less liquid stocks. The Exchange is a Recognised Investment Exchange under the Financial Services Act with responsibility for the orderly operation and regulation of its markets; and
- **Information Services** The Exchange provides high quality real time price information to over 85,000 installed terminals world-wide as well as historic and reference data services.

The Exchange's business environment

The Exchange is operating in a rapidly changing environment that affects many aspects of its business. The board believes that the Exchange is well positioned to meet these changes as a result of its scale of operation; critical mass in the UK market; high quality, easily accessible and cost competitive services and the technological advantage achieved by early automation.

The board believes that the major external factors affecting the Exchange's operating environment are as follows:

- deregulation and liberalisation of economies globally;
- demographic pressure to fund long-term pension liabilities;
- technological developments in communications and business systems;
- market consolidation amongst securities market participants; and
- increasing competition.

The Exchange has invested to reinforce its position as the most liquid market for UK stocks by providing low-cost trade execution, high levels of performance and efficiency and improved accessibility. Plans have been and continue to be implemented to develop trading functionality and accessibility further and to improve services to continue to attract international companies from developed, developing and emerging economies. The directors believe the Exchange is well positioned to provide services to complement the growing demands for capital from these companies.

Key information

The Exchange remains committed to the creation of a pan-European stock market and has played a leading role in developments to date. The development of such a market may result from the initial co-operation between European stock exchanges, from corporate activity or from unilateral action by one or more exchanges. The Exchange intends to play a leading role in the creation of a pan-European market in whatever way and however quickly it develops.

Objective and strategy

Under the Exchange's current quasi-mutual constitution, it has been prevented from operating on a fully commercial basis with a view to earning profits for distribution and has been prohibited from paying dividends to shareholders.

Following implementation of the Proposals, the Exchange's primary objective, as a fully commercial entity, will be to maximise shareholder value through the provision to its customers (including issuers, investors and intermediaries) of high quality, competitively priced services. In order to achieve this objective, the Exchange will follow a strategy based on:

- building on the strengths of its existing businesses, including the quality and reliability of its trading and information services and its innovative and flexible approach to the development of market structures and services, in order to enhance its strong competitive position in the UK and internationally;
- continuing to invest in the development of new products and services, in order to enhance its position and grow its revenues;
- continuing to manage costs effectively; and
- playing a leading role in the development of the European and other international equity trading markets, on the basis of the Exchange's strong financial position.

Group financial highlights

Summarised profit and loss account

The Group's trading performance for continuing activities, excluding settlement and Competent Authority, for the five year period ended 31 March 1999 and the six month period ended 30 September 1999, which has been extracted from the Accountants' report set out in Part II of this Information Memorandum, is summarised below. This summary information should be read in conjunction with the full text of this Information Memorandum.

	Notes	Years ended 31 March 1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	Six months to 30 September 1999 £m
Turnover							
Company Services		18.2	17.6	19.3	21.0	23.1	12.1
Trading Services		33.5	36.7	38.9	39.1	40.5	22.5
Information Services		69.0	60.8	62.5	64.7	71.8	35.3
Other		4.7	5.6	7.0	8.9	11.3	5.4
Total turnover		**125.4**	**120.7**	**127.7**	**133.7**	**146.7**	**75.3**
Less: rebate	1	—	—	(10.0)	(16.6)	—	—
share of joint venture turnover	2	—	—	(2.2)	(3.0)	(3.4)	(2.1)
Net turnover		**125.4**	**120.7**	**115.5**	**114.1**	**143.3**	**73.2**
Operating costs		(97.3)	(94.8)	(92.8)	(88.7)	(96.0)	(46.2)
Development and other costs		(45.5)	(51.3)	(28.3)	(18.7)	(37.8)	(6.8)
Total costs		**(142.8)**	**(146.1)**	**(121.1)**	**(107.4)**	**(133.8)**	**(53.0)**
Operating profit/(loss)		**(17.4)**	**(25.4)**	**(5.6)**	**6.7**	**9.5**	**20.2**
Net interest receivable and joint venture income	3	1.3	6.2	7.4	7.6	8.0	3.2
Profit/(loss) before taxation		**(16.1)**	**(19.2)**	**1.8**	**14.3**	**17.5**	**23.4**
Illustrative earnings per share (p)	4				37.2	37.9	55.0

Notes:

1. *A rebate was paid to Member Firms in 1997 and 1998.*
2. *Share of joint venture turnover represents the Exchange's 50 per cent. share of FTSE International turnover included above within Information Services.*
3. *Includes share of profits of FTSE International as well as net interest receivable.*
4. *Illustrative earnings per share is determined excluding settlement and Competent Authority and is based on 29,800,000 Ordinary Shares expected to be in issue following implementation of the Proposals; 1998 illustrative earnings per share is shown after rebate.*

Turnover

Total turnover has increased over the period from 31 March 1995 to 31 March 1999 from £125.4 million to £146.7 million. This reflects increases in each of the three divisions and in other income.

Operating costs

Between the years ending 31 March 1995 and 31 March 1998, the Exchange reduced operating costs from £97.3 million to £88.7 million, principally as a result of savings in property and support functions. In the year to 31 March 1999 operating costs increased to £96.0 million as the Exchange progressed the development of its markets both in the UK and internationally and increased spending to improve further the reliability of its services.

Development and other costs

The Exchange incurs significant development and other costs which represent investment in systems and market support. These costs are expensed in the year incurred. In the years ended 31 March 1995 and 31 March 1996, the particularly high level of development expenditure marked the culmination of the investment programme which resulted in the replacement of the Exchange's main trading and information systems. This was followed by the implementation of the Exchange's electronic order book in 1997. The main expenditure in the year to 31 March 1999 was the system changes, upgrades and significant market support for the Year 2000 programme. New information technology projects are expected to require the Exchange to maintain this recent high level of development expenditure.

A full commentary on the trading performance of the Group in the five year period ended 31 March 1999 and the six month period ended 30 September 1999 is set out in paragraph 8 of Part I of this Information Memorandum.

Balance sheet

As at 30 September 1999, the Exchange had net assets of £211.3 million, including cash and investments of £201.2 million. The book value of the Exchange's freehold properties at 30 September 1999 was £85.9 million.

Following the repayment of the A Shares, the only borrowing outstanding will be the £30 million Mortgage Debenture Stock, which is repayable in 2016 and is secured on the Exchange Tower. If the Mortgage Debenture Stock is repaid early, it must be repaid with a gross redemption yield equal to that of 12 per cent. Treasury Stock 2013/17. As at 30 September 1999, this implied a redemption multiple of approximately 1.62 times nominal value, equivalent to a redemption value of £48.6 million.

Summarised balance sheets at each of the five years ended 31 March 1999 and as at 30 September 1999 are set out in paragraph 8 of Part I and details of the Exchange's property interests are set out in paragraph 5 of Part I of this Information Memorandum.

Capital structure

The board believes that it is important for the Exchange to maintain a strong balance sheet with significant cash balances in order to:

- provide financial stability during the transition from quasi-mutual status;

- ensure confidence in the Exchange's ability to take a leading role in market developments;
- finance investment in development expenditure;
- maintain strategic flexibility at a time of unprecedented change in the Exchange's operating environment; and
- ensure the Exchange is able to meet the capital adequacy requirements imposed by the FSA.

Current trading and prospects

As outlined in the interim report in November 1999, development costs will be incurred in the second half of the year to 31 March 2000 to enhance the electronic order book as part of the Exchange's plans to enhance further the quality of services to its customers. Since September 1999, financial performance has continued broadly in line with the directors' expectations. This level of performance, together with development costs and the costs of implementing the Proposals, which will largely fall into the second half, indicates significantly lower profitability for the six month period to 31 March 2000 than for the six month period to 30 September 1999.

The directors believe that the Exchange is well positioned to meet the challenges of the competitive business environment in which it operates and view the prospects for the Exchange with confidence.

Dividend policy

The directors intend to adopt a progressive dividend policy, with dividends initially covered approximately 3 to 5 times by earnings.

The directors intend that the Exchange will pay both an interim and a final dividend each year, payable in January (interim) and August (final). The interim and final dividends will be paid in the approximate proportions of one third and two thirds respectively of the expected total annual dividend. The first dividend payable on Ordinary Shares will be the interim dividend for the year ending 31 March 2001.

Reasons for and benefits of the Proposals

The board has concluded that the Exchange needs to revise its current constitution to become a public company with transferable shares and to operate on a fully commercial basis.

The board believes that in an increasingly competitive environment, ending the link between ownership and access to the Exchange's markets is critical to the Exchange's future success. By separating ownership from membership, the Exchange will be able to focus on providing the right services to customers and creating value for shareholders. Specifically, the board believes the Proposals will enable the Exchange more readily to achieve:

- a clearer focus on customer needs;
- effective decision-making;
- the flexibility to respond to changes in the business environment; and
- a fully commercial basis of operation.

The board believes that the Proposals are in the best interests of the Exchange and that their implementation will provide the most appropriate basis for the next phase of the Exchange's development. Following the implementation of the Proposals the Exchange will be operating on a fully commercial basis. The board believes that an interim period is required whilst the Exchange's business evolves and the consequences and benefits of these changes have time to take full effect. For this reason, the board believes that the maximum shareholding by any Ordinary Shareholder or group of connected Ordinary Shareholders should not be more than 4.9 per cent.

Given these factors, together with the Exchange's ability to finance the next phase in its development through existing financial resources, the board has concluded that the Exchange should not proceed to a full listing at this stage. This decision will, however, be kept under review in the light of progress made on the development of the business.

Timetable to implementation

An EGM has been convened for 15 March 2000, at which meeting the B Shareholders will be asked to vote on the Proposals. Assuming the Proposals are approved at the EGM, there will be a Court hearing of the Petition for the reduction of capital. The Exchange will only be re-registered as a public company following confirmation of the reduction of capital by the Court and completion of the share capital reorganisation.

If the Proposals and the Court hearing for the reduction of capital are approved, off-market, matched bargain dealings in Ordinary Shares are expected to commence in May 2000. The dates following the EGM are indicative dates and the board will make an appropriate announcement when the precise dates are known.

Transferability of shares

Ordinary Shares will be transferable subject to a maximum shareholding of not more than 4.9 per cent. for any Ordinary Shareholder or group of connected Ordinary Shareholders. Cazenove will provide a trading facility to bring together potential buyers and sellers to allow trading of Ordinary Shares on a matched bargain basis. Further details of this facility are set out in Part III of this Information Memorandum.

Part I: Information on the Exchange

1. HISTORY AND DEVELOPMENT

The recent history of the Exchange commenced in 1986, when, following an amalgamation of the stock exchanges in the UK, the Republic of Ireland, the Isle of Man and the Channel Islands with the International Securities Regulatory Organisation, the Exchange was incorporated as a private limited company registered in England and Wales with the name The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. On incorporation, the Exchange had two classes of shares, A Shares which were redeemable for the sum of £10,000 in accordance with the articles of association, and B Shares, which conferred voting rights. Neither A Shares nor B Shares are, under the current articles of association, transferable at the initiative of shareholders.

In 1991, the Exchange adopted a modern memorandum and articles of association, in place of the Deed of Settlement and the Council of the Stock Exchange was replaced with a board of directors.

In 1995, as a result of a European Union directive and economic developments, the Republic of Ireland established a separate stock exchange and the present name, London Stock Exchange Limited, was adopted in December of that year.

Following an amendment to the Exchange's articles of association in July 1999, A Shares can be redeemed by A Shareholders at any time, subject to one month's notice, and are to be redeemed by the Exchange on 31 December 2002. As part of the Proposals, the A Shares will be redeemed when the Court approved reduction of capital becomes effective.

2. THE EXCHANGE'S BUSINESS ENVIRONMENT

The Exchange is operating in a rapidly changing environment that affects many aspects of its business. The board believes that the Exchange is well positioned to meet these changes as a result of its scale of operation; critical mass in the UK market; high quality, easily accessible and cost competitive services and the technological advantage achieved by early automation.

The board believes that the major external factors affecting the Exchange's operating environment are as follows:

- deregulation and liberalisation of economies globally;
- demographic pressure to fund long-term pension liabilities;
- technological developments in communications and business systems;
- market consolidation amongst securities market participants; and
- increasing competition.

Deregulation and liberalisation

The removal of barriers to trade and economic integration is at the heart of the European Union and member states are pursuing policies of deregulation and market liberalisation. The creation of a single currency has brought closer the reality of a European single market in financial services comparable to that of the US. This is being accompanied by the emergence of a stronger equity culture in Europe. Similar goals are being pursued through the World Trade Organisation. Market liberalisation is likely to result, in time, in greater global cross-border trading and increasing demands for capital from developing and emerging market economies.

Demographic pressure

European demand for equity is expected to increase. The main impetus for this will be demographic pressure, causing states increasingly to meet long-term pension liabilities through funded schemes. Even though it is not part of the Euro zone, UK equities are likely to be in demand to match long-term pension liabilities throughout Europe.

Technological development

Technological development will continue to have three principal effects on the Exchange's operating environment:

- share trading processes are increasingly being automated with the declining cost of computer processing power and bandwidth on both public and private networks and increased use of the internet continuing to facilitate this trend;
- access to markets and trading systems has become easier to develop, encouraging new entrants offering alternative trading mechanisms; and
- information about markets is becoming more readily available to meet rapidly growing demand.

The directors believe these developments create opportunities for the Exchange to build on its competitive advantage as a leading provider of high-performance, reliable automated trading, information and communication systems. Although public communications technology is improving, the major barrier to widespread use of public, as opposed to dedicated, networks is low performance standards. As these new networks develop the required security and integrity levels, the Exchange will develop its business model to make increased use of this distribution capability.

Consolidation

Consolidation amongst institutional investors and investment banks has in turn supported cross-border investment and generated greater demand for trans-national access to the Exchange's facilities.

As worldwide securities markets become increasingly homogenous and competitive, the current number of exchanges is not expected to remain viable. In consequence, exchanges worldwide are reviewing their ownership structures and exchanges in Europe have begun the process of consolidation.

In view of the continuing differences in law, regulation and practice, which inhibit the establishment of services for pan-European trading, as an initial step the Exchange is participating in wide ranging co-operation between leading European stock exchanges. The approach is intended to create a harmonised market for trading liquid European securities, which it is hoped will lead to the creation of a virtual pan-European market. In June 1999, agreement was reached on harmonising trading hours, which have now been introduced. In September 1999, the Exchange announced common functionality and harmonised rules for trading liquid securities across the leading European exchanges. This harmonisation should be implemented by November 2000.

The Exchange will continue to pursue this initial approach to ensure improvements can be made to the process of pan-European trading. Whilst this first step is a necessary one, it will require a further stage of consolidation to achieve a genuinely pan-European market.

The Exchange is the largest and most international exchange in Europe. The Exchange remains committed to the creation of a pan-European stock market and has played a leading role in developments to date. The competitive environment in which the Exchange operates is changing rapidly, with many organisations promoting the concept of a pan-European market. The development of such a market may result from the initial co-operation between European stock exchanges, from corporate activity or from unilateral action by one or more exchanges. The Exchange intends to play a leading role in the creation of a pan-European market in whatever way and however quickly it develops.

Competition

Competition in the European market is intensifying on a number of fronts. Exchanges are adopting a more aggressive, expansionist policy in seeking to attract companies to quote on their markets. US and European exchanges are seeking ways to enter the European market and capture trading order flow.

Alternative trading systems are also entering the market to attempt to attract trading order flow by competing on functionality, geographical coverage or serving the economic interests of narrowly defined groups of customers, for example wholesale broking or pan-European trading. These systems are increasingly being positioned to provide access to exchanges through cross border remote connections.

The directors believe that the Exchange is well positioned to meet the competitive threats it faces. The Exchange has invested to reinforce its position as the most liquid market for UK stocks by providing low-cost trade execution, high levels of performance and efficiency and improved accessibility. Plans have been and continue to be implemented to develop trading functionality and accessibility further and to improve services to continue to attract international companies from developed, developing and emerging economies. The directors believe the Exchange is well positioned to provide services to complement the growing demands for capital from these companies.

3. BUSINESS DESCRIPTION

3.1 Overview

The Exchange is the UK's leading stock exchange and the most international of all stock exchanges world-wide. It provides the markets and means of raising capital for UK and international companies through equity, debt and depository receipt issues. The Exchange operates the fourth largest equities exchange in the world by market capitalisation and the third largest by value of trading.

Of UK domiciled listed companies, 98 per cent. by number are quoted on the Exchange. Some 500 non-UK domiciled companies from over 60 countries are traded on the Exchange. More than 99 per cent. by value of UK trading in UK companies' shares takes place on the Exchange.

The Exchange's activities can be broadly categorised as set out below.

- **Company Services** The Exchange provides a number of markets which facilitate the raising of capital and the trading of corporate securities. These markets are supported by a range of services to raise the profile of Exchange-traded companies and encourage the flow of market and corporate information through RNS and other value added services;

- **Trading Services** The Exchange provides access to a well-developed trading environment with services encompassing an advanced electronic order book for the most liquid stocks, quote display and a mix of quote display and order execution for less liquid stocks. The Exchange is an RIE with responsibility for the orderly operation and regulation of its markets; and

- **Information Services** The Exchange provides high quality real time price information to over 85,000 installed terminals world-wide as well as historic and reference data services.

3.2 Objective and strategy

Under the Exchange's current quasi-mutual constitution, it has been prevented from operating on a fully commercial basis with a view to earning profits for distribution and has been prohibited from paying dividends to shareholders.

Following implementation of the Proposals, the Exchange's primary objective, as a fully commercial entity, will be to maximise shareholder value through the provision to its customers (including issuers, investors and intermediaries) of high quality, competitively priced services. In order to achieve this objective, the Exchange will follow a strategy based on:

- building on the strengths of its existing businesses, including the quality and reliability of its trading and information services and its innovative and flexible approach to the development of market structures and services, in order to enhance its strong competitive position in the UK and internationally;
- continuing to invest in the development of new products and services, in order to enhance its position and grow its revenues;
- continuing to manage costs effectively; and
- playing a leading role in the development of the European and other international equity trading markets, on the basis of the Exchange's strong financial position.

3.3 Company Services

Introduction

In the year ended 31 March 1999, Company Services (adjusted to exclude the contribution derived from the Exchange acting as the Competent Authority) contributed turnover of £23.1 million, representing 16 per cent. of the Exchange's 1999 turnover from continuing activities, excluding Competent Authority activities. Of the £23.1 million, £5.8 million was attributable to overseas companies. As at 31 December 1999, approximately 2,800 companies, operating in a wide range of sectors, were listed and admitted to trading on the Exchange's markets. Of these, approximately 325 were non-European companies.

The Exchange currently has responsibilities for admitting companies to the official list and to trading on its markets. As set out in more detail in paragraph 7 of Part I of this Information Memorandum it is intended that the role of Competent Authority with responsibility for admitting companies to listing is transferred to the FSA in the first half of 2000 and accordingly the activities to be transferred are not included in the description below.

The Exchange will continue to operate its own rules for companies whose shares are traded on its markets. The Exchange will retain the Regulatory News Service, an established system by which announcements by listed and Exchange-traded companies are disseminated to the market in a secure and timely manner. In disseminating the full text of company-authorised announcements, the RNS service assists the Exchange in its delivery of an efficient and orderly trading market.

Products and services

Through Company Services, the Exchange provides a range of services to:

- facilitate capital raising and trading in companies' shares and enhance their profile;
- supply information to companies regarding the trading of their shares; and
- offer a secure and robust mechanism for making company news widely available.

Company Services' revenues are derived mainly from UK companies, and comprise fees for initial admission, the admission of subsequent securities issues as well as annual fees. While the number of UK companies has remained largely static, a steady increase in the market capitalisation and further equity issues of those companies has under-pinned

Company Services' turnover. Revenues are also derived from similar fee structures for international companies and from global depository receipt ("GDR") fees. The total number of international admissions is stable with an increasing proportion of GDRs.

Development plans

The Exchange proposes to maximise its advantage as the market of choice in the UK by improving further the profile of companies on its markets. The launch of techMARK is rapidly increasing the focus of investors on companies whose business growth and success depends on technological innovation. Similar initiatives will be launched for other sector groups where appropriate. The Exchange will also continue to work with FTSE International to ensure that index products are provided to help investors track portfolios and spread risk.

The Exchange has recently launched a new service, the company report service, which provides trading information, comparative data and other analyses. Other value added services for companies are being considered and developed.

The Exchange intends to continue to be the main service provider for the secure collection and distribution of company announcements and the provision of information on corporate events. In order to enhance the competitiveness of its offering, the Exchange intends to improve accessibility to the service, both for those contributing material and those seeking to use and read it.

3.4 Trading Services

In the year ended 31 March 1999, Trading Services contributed turnover of £40.5 million, representing 27 per cent. of the Exchange's 1999 turnover from continuing activities, excluding Competent Authority activities.

Products and services

Through Trading Services, the Exchange operates large scale, flexible trading systems with a proven record of reliability and stability. Trading Services turnover is derived from:

- access to the Exchange's trading environment, including membership and trading service admission;
- trades executed on the Exchange's electronic order book;
- regulatory reporting to the Exchange, comprising trade and transaction recording; and
- market maker registration and quote display.

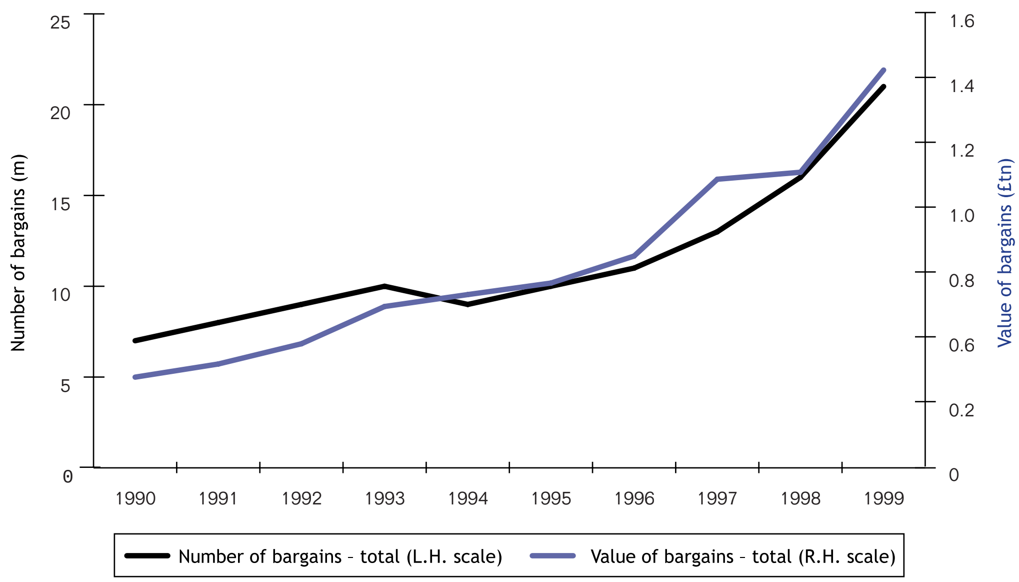
Trading Services' turnover comprises predominantly charges which arise on the execution of trades through the Exchange's order book or when trades are reported to the Exchange for publication to the market.

In October 1997, the Exchange launched its electronic order book. Since its launch, the electronic order book has steadily increased its share of trades in the FTSE 100 and qualifying liquid FTSE 250 securities. In the 12 months to 31 December 1999, it accounted for around 50 per cent. by value of all trading in these securities.

The Exchange provides trading facilities for securities outside the electronic order book in conjunction with market making firms. The Exchange gathers and disseminates quotes from market makers to assist in price formation and market makers compete to win the order execution business. The Exchange also has a leading position in the market for regulatory reporting of trades completed outside the electronic order book. Overall, 99 per cent. of all UK trading in UK equities is conducted on the Exchange.

Trading Services revenue has benefited both from an increasing number of transactions and greater value of trading. The value of turnover in UK equities has increased at a compound annual rate of 18 per cent. since 1990, to reach a total of £1.4 trillion in 1999. The Exchange believes that many of the fundamental factors underlying this growth, such as increased investment in pension fund assets and capital flows from overseas into the UK, are likely to continue. Set out below is a graph illustrating the number of bargains and value of trades in UK equities between 1990 and 1999.

Total number and value of bargains in UK-listed equities 1990 to 1999



Source: The Exchange, December 1999

Development plans

The Exchange has a programme of on-going development and enhancement of its trading services. The Exchange intends to continue to encourage greater use of the electronic order book. It also proposes to enhance its functionality through a programme of regular improvements to the trading system. The Exchange, in line with customer demand, also intends to extend automated trading to a wider range of securities to improve the operation of markets and to reduce costs. The Exchange is at an advanced stage of negotiation to develop a central counterparty for the electronic order book.

In addition, the Exchange intends to further widen geographical access to its markets through the use of an extended communications infrastructure and to develop its services to be compatible with industry and public communication standards, thereby making access to its markets even more readily available.

3.5 Information Services

In the year ended 31 March 1999, Information Services contributed turnover of £71.8 million, representing 49 per cent. of the Exchange's 1999 turnover from continuing activities, excluding Competent Authority activities.

Products and services

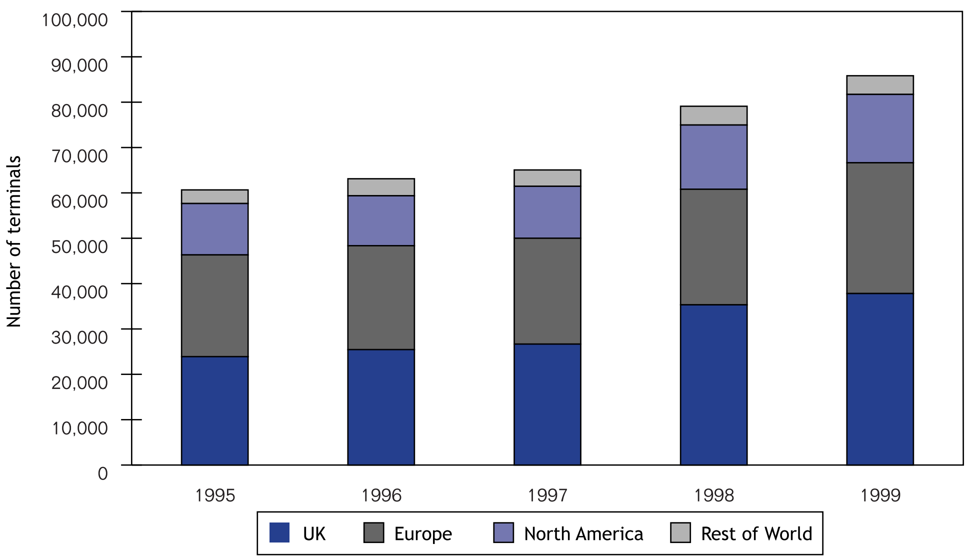
Through Information Services, the Exchange collects prices and orders from market participants, monitors market behaviour to ensure price quality, and aggregates and sells this information. Information Services' turnover is derived from:

- the sale of aggregated real-time price information and related distribution licences comprising data feeds and individual price information;
- installation and maintenance of communications networks enabling market participants to connect to the Exchange's trading and information systems;
- operation of the STX private telephone network, principally to support telephone trading activities;
- royalty income derived from the Exchange's 50 per cent. share of the FTSE International joint venture; and
- the provision of historical and reference data services, including corporate event information, historical price information and statistical and trading reports.

The majority of Information Services' turnover is derived from the sale of real-time data. The major customers are information service providers, which act as onward vendors of Exchange data, and market participants, which purchase data from Information Services directly.

The Exchange has built a successful and growing business delivering high-quality, real-time price data to the professional market. The number of installed terminals offering access to the Exchange's data has grown rapidly at a compound annual rate of 9 per cent. since 1995 to its current level of over 85,000 screens world-wide. The majority of the installed terminals offering access to the Exchange's Information Services are within Europe. Set out below is a graph illustrating the growth in the number of installed terminals between 1995 and 1999.

Growth in terminal population 1995-1999



Source: The Exchange, December 1999

Increasing automation of trading has in general increased demand for communications networks between market participants although the demand for STX, the Exchange's private telephone service supporting market making activities, is declining gradually.

Development plans

European markets currently account for the majority of the installed terminals which show Exchange-supplied data. The Exchange believes that opportunities exist to increase sales of UK price data in Europe but also in the USA and Asia-Pacific. The Exchange will, in addition, seek to develop real-time and derived information service packages for new market sectors such as retail investors. Improvements in trading services for international securities may also create opportunities to increase sales of international data.

The Exchange intends to pursue opportunities to develop the communications networks to existing and new customers and develop new automated services. In the longer term, the Exchange believes improving communications such as the internet will allow it to reach a wider customer base and deliver information more efficiently.

3.6 Other income

In the year ended 31 March 1999, the Exchange generated other income of £11.3 million, representing 8 per cent. of the Exchange's 1999 turnover from continuing activities, excluding Competent Authority activities.

Other income is derived primarily from the letting of property including parts of the Exchange Tower and other properties owned or leased by the Exchange. The Exchange's property interests are described in paragraph 5 of this Part I.

4. INFORMATION TECHNOLOGY SYSTEMS

A key feature of the Exchange's business is the development and delivery of efficient market processes using proven information technology systems. The Exchange manages an information technology infrastructure which provides for the processing and distribution of trading messages and the delivery of information to market participants and information service providers.

Competitive pressures are driving increased automation in market processes in order to reduce costs. The consolidation amongst institutional investors and investment banks has resulted in major changes in the Exchange's customer base, the effect of which has been greater concentration of the major international banks in the UK and consequent demand for large-scale systems to meet their performance requirements.

The board believes the reconstruction of the Exchange's business from 1994 around a robust information technology platform represents a significant competitive advantage. The Exchange's established trading system provides flexibility to meet both the increase in business volumes that has occurred and changes in functionality necessitated by evolving trading practices. The board also believes the Exchange is well positioned to attract more custom by providing its services over an extended communications infrastructure.

In introducing the current information technology platform, the Exchange has established a record of:

- developing a detailed approach to meeting customer requirements in application design and development;
- methodical planning of information technology testing and delivery to a large number of customers on schedule;
- high standards for service management and system availability; and
- rigorous risk assessment and planning.

Further enhancements to the existing information technology infrastructure will be implemented at regular intervals to provide additional throughput capacity, enhanced functionality to extend trading automation and to conform to emerging industry messaging standards.

5. PROPERTY

The Exchange currently owns three freehold properties, all located in London. These properties were revalued as at 30 September 1999 by DTZ Debenham Thorpe, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. The valuation was based on Existing Use Value or Open Market Value and amounted in aggregate to £125 million, which compares with the book value of the Exchange's properties as at 30 September 1999 of £85.9 million.

The largest individual property owned by the Exchange is the Exchange Tower. The Exchange Tower was revalued by DTZ Debenham Thorpe as at 30 September 1999 based on Existing Use Value at £91.5 million, which compares with the book value of £65.6 million.

The Exchange will continue to occupy the Exchange Tower whilst reviewing its property requirements and opportunities. The Exchange has outstanding £30 million nominal of Mortgage Debenture Stock which is secured against the Exchange Tower. If, at any stage, the Exchange sells its freehold interest in the Exchange Tower, the Mortgage Debenture Stock becomes repayable with a gross redemption yield equal to that of 12 per cent. Treasury Stock 2013/17. As at 30 September 1999, this implied a multiple of 1.62 times nominal value, equivalent to a redemption value of £48.6 million.

6. REGULATION

The regulatory function of the Exchange is an important part of its activities. The Exchange is an RIE with responsibility for the orderly operation and regulation of its markets. In order to fulfil this role, the Exchange will continue to make and enforce its own rules for companies quoted on its markets, including the right to admit a security to trading and the requirement to disclose price sensitive information. The Exchange will also continue to apply a level of regulation appropriate for the type and size of its markets, through, in part, ongoing monitoring of its markets and conducting preliminary investigations into cases of insider dealing and market abuse. In disseminating the full text of company-authorised announcements, the RNS service assists the Exchange in its delivery of an efficient and orderly trading market.

7. TRANSFER OF THE ACTIVITIES OF THE COMPETENT AUTHORITY TO THE FSA

The Exchange is currently the Competent Authority for official listing pursuant to Part IV of the Financial Services Act. This is a technical role for admitting companies to the official list which involves the approval of relevant documents.

In light of the new ownership structure that the Exchange intends to create, HM Treasury has agreed with the Exchange that it would be appropriate for this role of Competent Authority to be transferred to the FSA. The transfer is expected to occur in the first half of 2000. During the coming months, the Exchange will work closely with HM Treasury and the FSA with a view to ensuring a smooth transition during which companies will continue to receive a high standard of service.

After the transfer of the role of Competent Authority, the Exchange will continue to work closely with the FSA in its new role as Competent Authority to ensure that the Exchange's markets continue to provide effective and competitive services to meet the needs of domestic and international issuers and investors. The FSA in its role as Competent Authority will continue to impose requirements governing the issue of announcements by listed companies and intends to review the arrangements for their dissemination.

8. FINANCIAL SUMMARY

Summarised profit and loss account

The Group's trading performance for continuing activities, excluding settlement operations, which ceased in April 1997, and Competent Authority activities, which is expected to be transferred to the FSA in the first half of 2000, for the five year period ended 31 March 1999 and the six month period ended 30 September 1999 is summarised below. This information has been extracted from the Accountant's report set out in Part II of this Information Memorandum and should be read in conjunction with the full text of this Information Memorandum.

	Notes	Years ended 31 March 1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	Six months to 30 September 1999 £m
Turnover							
Company Services		18.2	17.6	19.3	21.0	23.1	12.1
Trading Services		33.5	36.7	38.9	39.1	40.5	22.5
Information Services		69.0	60.8	62.5	64.7	71.8	35.3
Other		4.7	5.6	7.0	8.9	11.3	5.4
Total turnover		**125.4**	**120.7**	**127.7**	**133.7**	**146.7**	**75.3**
Less: rebate	1	—	—	(10.0)	(16.6)	—	—
share of joint venture turnover	2	—	—	(2.2)	(3.0)	(3.4)	(2.1)
Net turnover		**125.4**	**120.7**	**115.5**	**114.1**	**143.3**	**73.2**
Operating costs		(97.3)	(94.8)	(92.8)	(88.7)	(96.0)	(46.2)
Development and other costs		(45.5)	(51.3)	(28.3)	(18.7)	(37.8)	(6.8)
Total costs		**(142.8)**	**(146.1)**	**(121.1)**	**(107.4)**	**(133.8)**	**(53.0)**
Operating profit/(loss)		**(17.4)**	**(25.4)**	**(5.6)**	**6.7**	**9.5**	**20.2**
Net interest receivable and joint venture income	3	1.3	6.2	7.4	7.6	8.0	3.2
Profit/(loss) before taxation		**(16.1)**	**(19.2)**	**1.8**	**14.3**	**17.5**	**23.4**
Illustrative earnings per share (p)	4				37.2	37.9	55.0

Notes:

1. *A rebate was paid to Member Firms in 1997 and 1998.*
2. *Share of joint venture turnover represents the Exchange's 50 per cent. share of FTSE International turnover included above within Information Services.*
3. *Includes share of profits of FTSE International as well as net interest receivable.*
4. *Illustrative earnings per share is determined excluding settlement and Competent Authority and is based on 29,800,000 Ordinary Shares expected to be in issue, following implementation of the Proposals; 1998 illustrative earnings per share is shown after rebate.*

Set out below is a brief description of the four main income streams.

Company Services

Turnover from Company Services has grown over the past five years, increasing from £18.2 million in the year to 31 March 1995 to £23.1 million in the year to 31 March 1999. The increase is mainly attributable to the growth in initial fees charged on the amount of money raised by issuers.

Trading Services

Turnover from Trading Services has grown from £33.5 million in the year to 31 March 1995 to £40.5 million in the year to 31 March 1999. The increase in Trading Services' turnover reflects the rise in stock market activity levels, measured by the number and value of bargains in UK-listed equities. It has been achieved in spite of a significant reduction in trading charges in October 1997 when the Exchange's electronic order book was introduced.

Information Services

The activities within Information Services have changed over the last five years. Turnover in 1995 included £9.7 million in respect of the TOPIC services which were subsequently transferred to new providers. Adjusting for this, turnover has grown steadily from £59.3 million in the year to 31 March 1995 to £71.8 million in the last financial year to 31 March 1999. This increase in turnover reflects growth in the number of terminals displaying the Exchange's data which has increased by approximately 9 per cent. per annum over the same period. Information Services turnover includes the 50 per cent. share of turnover from FTSE International, which is shown separately in the summarised profit and loss account above.

Other income

The main source of other income is the sub-letting of surplus space in properties owned or leased by the Exchange. As the Exchange has reduced its number of employees over the past few years, surplus space has been sub-let. From less than £2.0 million in the year to 31 March 1995, property income has now risen to approximately £9.0 million in the year to 31 March 1999.

Rebates

In the past the Exchange has occasionally paid rebates to Member Firms. In 1997 and 1998, there were rebates of £10.0 million and £16.6 million respectively.

Operating costs

Between the years ending 31 March 1995 and 31 March 1998, the Exchange reduced operating costs from £97.3 million to £88.7 million, principally as a result of savings in property and support functions. In the year to 31 March 1999 operating costs increased to £96.0 million as the Exchange progressed the development of its markets both in the UK and internationally and increased spending to improve further the reliability of its services.

Development and other costs

The Exchange incurs significant development costs which represent investment in systems and market support, which are expensed in the year incurred, in order to:

- provide efficient and liquid markets;
- ensure that all communications links with customers are effective and secure; and
- monitor and regulate the market in a cost effective manner.

In the period since 31 March 1995, major improvements have been made in all aspects of the Exchange's market services.

The particularly high level of development expenditure in the years ended 31 March 1995 and 31 March 1996 marked the culmination of the investment programme which resulted in the replacement of the Exchange's main trading and information systems. This was followed by the implementation of the Exchange's electronic order book in 1997. The main expenditure in the year to 31 March 1999 was the system changes, upgrades and significant market support for the Year 2000 programme. New information technology projects are expected to require the Exchange to maintain this recent high level of development expenditure.

Summarised balance sheet

During the period when settlement operations were managed by the Exchange, related assets exactly matched liabilities. On transfer of settlement operations out of the Exchange in April 1997, there was, therefore, no impact on the total net assets of the Exchange. For the purpose of this commentary, these assets and liabilities have not been taken into account. Similarly, the transfer of the Competent Authority activities to the FSA, which is expected to occur in the first half of 2000, is not expected to have any significant impact on the net assets of the Exchange.

The Group's balance sheets at each of the five years ended 31 March 1999 and as at 30 September 1999 are summarised below. This information has been extracted from the Accountants' report set out in Part II and should be read in conjunction with the full text of this Information Memorandum.

	As at 31 March					As at 30 September
	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	1999 £m
Fixed assets	**124.0**	**102.7**	**111.7**	**105.6**	**104.9**	**99.8**
Current assets and liabilities						
Debtors and deferred tax	40.6	36.7	33.2	30.6	32.3	33.0
Cash and investments	98.9	108.9	174.4	184.8	200.5	201.2
Creditors	(72.9)	(49.3)	(59.6)	(54.6)	(58.5)	(59.2)
	66.6	**96.3**	**148.0**	**160.8**	**174.3**	**175.0**
Debentures and borrowings	(34.2)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Provisions	(28.3)	(29.2)	(45.7)	(38.5)	(36.6)	(33.5)
Net assets	**128.1**	**139.8**	**184.0**	**197.9**	**212.6**	**211.3**

Fixed assets

Fixed assets, which comprise property, plant and equipment and investments, have reduced from £124.0 million as at 31 March 1995 to £99.8 million as at 30 September 1999. Property assets were revalued upwards by £21.1 million in March 1997, but generally depreciation charges have exceeded the cost of new capital expenditure.

Debtors and creditors

The main components within working capital have changed slightly over the period. Debtors, which represent the major element of debtors and deferred tax, have remained fairly constant at approximately £28 million.

The level of creditors has varied slightly depending on levels of business activity. The taxation charge depends on profitability and trade creditors and accruals fluctuate depending on the particular level of business and development at each period end. There has been no fundamental change to the level of creditors over the period since 31 March 1995.

Cash and investments

The cash and investments of the Exchange represent funds which are held at bank or placed on deposit for a fixed period. The total amount of cash and investments increased over the five and a half year period from £98.9 million as at 31 March 1995 to £201.2 million as at

30 September 1999. This reflects the continued improvement in profitability and careful management of cash resources whilst also reflecting the need to retain liquid funds to meet the significant investment needs of the Exchange. As at 30 September 1999, the redemption of the outstanding A Shares would have required £14.7 million of the available cash funds.

Debenture and Borrowings

The 7¼ per cent. debenture of £7.7 million and bank loan of £5.1 million, which were both outstanding as at 31 March 1995, were repaid during the year to 31 March 1996. As at 31 March 1996 and subsequently, the only borrowing outstanding is the Mortgage Debenture Stock, repayable in 2016, which is secured on the Exchange Tower. If the Mortgage Debenture Stock is repaid early, it must be repaid with a gross redemption yield equal to that of 12 per cent. Treasury Stock 2013/17. As at 30 September 1999, this implied a redemption multiple of approximately 1.62 times nominal value, equivalent to a redemption value of £48.6 million.

Provisions

Provisions as at 31 March 1995 stood at £28.3 million and increased to a maximum of £45.7 million as at 31 March 1997 reducing by 30 September 1999 to £33.5 million. Provisions are mainly in respect of leasehold properties and represent the estimated net present value of future costs for lease rentals less the expected receipts from sub-letting for those properties which are surplus to the Exchange's business requirements.

Shareholders' funds

Total shareholders' funds at 30 September 1999 stood at £211.3 million, of which £14.7 million was in respect of the A Shares outstanding at that date, which are now in the process of being redeemed. The balance of £196.6 million was all equity share capital attributable to the B Shares.

Capital structure

The board believes that it is important for the Exchange to maintain a strong balance sheet with significant cash balances in order to:

- provide financial stability during the transition from quasi-mutual status;
- ensure confidence in the Exchange's ability to take a leading role in market developments;
- finance investment in development expenditure;
- maintain strategic flexibility at a time of unprecedented change in the Exchange's operating environment; and
- ensure the Exchange is able to meet the capital adequacy requirements imposed by the FSA.

9. CURRENT TRADING AND PROSPECTS

As outlined in the interim report in November 1999, development costs will be incurred in the second half of the year to 31 March 2000 to enhance the electronic order book as part of the Exchange's plans to enhance further the quality of services to its customers. Since September 1999, financial performance has continued broadly in line with the directors' expectations. This level of performance, together with development costs and the costs of implementing the Proposals, which will largely fall into the second half, indicates significantly lower profitability for the six month period to 31 March 2000 than for the six months to 30 September 1999.

The directors believe that the Exchange is well positioned to meet the challenges of the competitive business environment in which it operates and view the prospects for the Exchange with confidence.

10. DIVIDEND POLICY

The directors intend to adopt a progressive dividend policy, with dividends initially covered approximately 3 to 5 times by earnings.

The directors intend that the Exchange will pay both an interim and a final dividend each year, payable in January (interim) and August (final). The interim and final dividend will be paid in the approximate proportions of one third and two thirds respectively of the expected total annual dividend. The first dividend payable on Ordinary Shares will be the interim dividend for the year ending 31 March 2001.

11. REASONS FOR AND BENEFITS OF THE PROPOSALS

The board has concluded that the Exchange needs to revise its current constitution to become a public company with transferable shares and to operate on a fully commercial basis.

The board believes that in an increasingly competitive environment, ending the link between ownership and access to the Exchange's markets is critical to the Exchange's future success. By separating ownership from membership, the Exchange will be able to focus on providing the right services to customers and creating value for shareholders. Specifically, the board believes the Proposals will enable the Exchange more readily to achieve:

- a clearer focus on customer needs;
- effective decision-making;
- the flexibility to respond to changes in the business environment; and
- a fully commercial basis of operation.

The board believes that the Proposals are in the best interests of the Exchange and that their implementation will provide the most appropriate basis for the next phase of the Exchange's development. Following the implementation of the Proposals the Exchange will be operating on a fully commercial basis. The board believes that an interim period is required whilst the Exchange's business evolves and the consequences and benefits of these changes have time to take full effect. For this reason, the board believes that the maximum shareholding by any Ordinary Shareholder or group of connected Ordinary Shareholders should not be more than 4.9 per cent.

Given these factors, together with the Exchange's ability to finance the next phase in its development through existing financial resources, the board has concluded that the Exchange should not proceed to a full listing at this stage. This decision will, however, be kept under review in the light of progress made on the development of the business.

12. BOARD OF DIRECTORS

The board of directors, which normally meets six times a year, comprises the Chairman, Deputy Chairman, Chief Executive, two executive and eight non-executive directors. Set out below are details of the directors, descriptions of their roles and their ages as at 2 February

2000, the date of publication of this Information Memorandum.

Sir John Kemp-Welch, Chairman (63)	has been Chairman since July 1994. He was formerly Joint Senior Partner, Cazenove & Co. He is Deputy Chairman of the Financial Reporting Council, a director of Martin Currie Portfolio Investment Trust plc and a member of the Panel on Takeovers and Mergers.
Gavin Casey, Chief Executive (53)	has been Chief Executive since August 1996. He is a chartered accountant and was previously Chief Operating Officer of Smith New Court.
Ian Salter, Deputy Chairman, non-executive (56)	has been non-executive Deputy Chairman since 1990. He is a director of SG Investment Management Limited.
Jonathan Howell, Director of Finance and Operations (37)	was Director of Regulation from March 1999 to December 1999 and has been Director of Finance and Operations since December 1999. He is a director of CRESTCo Limited and FTSE International Limited. He joined the Exchange in 1996 from Price Waterhouse where he was a director of Forensic Services.
Martin Wheatley, Director of Business Development (41)	was Director of Marketing and Development from July 1998 to December 1999 and has been Director of Business Development since December 1999. His particular responsibilities include European strategy and further development of trading systems. He joined the Exchange in 1985.
Gary Allen, non-executive (55)	was appointed a non-executive director of the Exchange in July 1994. He has been Chief Executive of IMI plc since 1986. He is also a non-executive director of NV Bekaert of Belgium.
Graham Allen, non-executive (49)	was appointed a non-executive director of the Exchange in July 1995. He is managing director, ICI Investment Management Limited. He is vice president of the NAPF and also an alternate member of the Panel on Takeovers and Mergers.
Michael Marks, non-executive (58)	was appointed a non-executive director of the Exchange in July 1994. He is executive Chairman, Merrill Lynch Europe, Middle East and Africa, and a member of the Executive Management Committee of Merrill Lynch & Co. Inc. He is a member of NASD's International Markets Advisory board.
Peter Meinertzhagen, non-executive (53)	was appointed a non-executive director of the Exchange in May 1997. He was appointed Chairman, Hoare Govett Limited in October 1999. Prior to that date he was Chairman, Hoare Govett Corporate Finance Limited. Until July 1988, he was Chairman of The Hoare Govett Smaller Companies Index Investment Trust plc. He joined Hoare Govett in 1965.

Ian Plenderleith, non-executive (56)	was appointed a non-executive director of the Exchange in September 1989. He was appointed Government Broker in 1989. He is an executive director of the Bank of England responsible for financial market operations and a member of the Monetary Policy Committee. At the Bank of England since 1965, he has worked at the IMF in Washington DC and served on the board of the European Investment Bank.
Simon Robertson, non-executive (58)	was appointed a non-executive director of the Exchange in July 1998. He is President, Goldman Sachs Europe Limited and a managing director of Goldman Sachs International. He is a non-executive Director of Invensys plc and of Inchcape plc. Formerly, he was Chairman of the Kleinwort Benson Group.
Hector Sants, non-executive (44)	was appointed a non-executive director of the Exchange in December 1996. He has been Global Head of International Equities, Donaldson Lufkin Jenrette and Chairman of DLJ International Securities since August 1998. Until 1998, he was Vice Chairman of UBS Limited, responsible for UBS's equity operations.
Nigel Sherlock, non-executive (60)	was appointed a non-executive director of the Exchange in July 1995. He is a director of Brewin Dolphin Holdings Limited and Chairman, Wise Speke division. Previously, he was Chief Executive, Wise Speke Ltd, having been a partner from 1969 to 1987. He is also a director of Skipton Building Society, a Deputy Chairman of APCIMS, a Member of the Securities Institute and an Associate Member of the Institute of Investment Management and Research.

On 30 September 1999, Sir John Kemp-Welch announced his intention to retire as Chairman of the Exchange during 2000. A process has been initiated by the board to appoint a new Chairman. An announcement about this will be made in due course.

The board intends to move to a structure which conforms with the Combined Code on Corporate Governance, with a majority of the non-executive directors being independent, as defined in the Combined Code.

13. BOARD COMMITTEES

The committees of the board which are connected with the governance of the Exchange are set out below.

13.1 Senior Appointments and Remuneration Committee

The Senior Appointments and Remuneration Committee is chaired by Michael Marks and comprises two other non-executive directors, Peter Meinertzhagen and Ian Salter. The committee meets as required (i) to review and present recommendations to the board regarding the appointment, remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of options and entitlements under the Share Scheme, (ii) to perform the function of a Nomination Committee for the appointment of directors, (iii) to review the remuneration of the non-executive directors and (iv) to monitor the remuneration and conditions of service of members of the Management Committee who are not directors.

The Committee has access to professional advice both from internal sources and external consultants. This advice includes relevant market data to assess levels of remuneration. The Committee's terms of reference are approved by the board.

13.2 Audit Committee

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

14. MANAGEMENT COMMITTEE

The Exchange's day to day management is conducted by the Management Committee. This committee comprises board members Gavin Casey, Jonathan Howell and Martin Wheatley, together with seven other members: Chris Broad (Head of New Products and Services), Allan Cameron (Head of Legal), Maria Clohessy (Head of Finance), Andrew McStravick (Head of Market Regulation), Keith Robinson (Company Secretary), Tim Ward (Head of Marketing and Company Services) and Tim Wright (Head of Personnel). Gavin Casey chairs the Committee. Keith Robinson will leave the Exchange on 31 March 2000 to take up a new position.

15. OPERATIONAL CONTROLS

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

Delegation of authority

There are clearly defined matters which are reserved for board approval only. The board has delegated specific authorities to the Chief Executive and to the Management Committee.

Financial reporting process

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

Finance manual

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

16. CONTINUING OBLIGATIONS

Following the implementation of the Proposals, the Exchange will comply with the continuing obligation requirements set out in the Listing Rules, as if its Ordinary Shares were listed.

17. EMPLOYEES, PENSIONS AND SHARE SCHEME

17.1 Employees

The average number of employees was 872 in the year ended 31 March 1997, which included 220 employees involved in settlement activities which are now undertaken by CRESTCo Limited, 573 in the year ended 31 March 1998 and 536 in the year ended 31 March 1999. On the transfer of the activities of the Competent Authority function approximately 75 staff will be transferred to the FSA.

17.2 Pension schemes

The Exchange operates a non-contributory pension plan providing benefits based on final pensionable pay. The assets of the plan are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Schroder Investment Management Limited.

The most recent actuarial valuation was carried out at 31 March 1997 and showed that the market value of the plan's main assets was £115 million, excluding investments valued at £6.4 million bought with members' additional voluntary contributions and with matching contributions from the Exchange. The actuarial value of the main assets represented 135 per cent. of the value of benefits that had accrued to the members, after allowing for expected future increases in earnings. Following the valuation, and in accordance with advice from the plan's actuary, the Exchange ceased contributions to the plan. The Exchange and the plan trustee are keeping the funding position of the plan under review.

Since July 1999, the Exchange has provided a new defined contribution scheme for all employees and this is now the only scheme open to new employees. The assets of this scheme are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Legal & General Investment Management Limited.

17.3 Share Scheme

The board is seeking B Shareholder approval for a proposed Share Scheme which has been designed to develop quickly a stronger commercial culture within the Exchange and to align closely senior management's interests and actions with the interests of the Ordinary Shareholders.

The Share Scheme comprises an Initial Share Plan and an Annual Share Plan.

Initial Share Plan

The Initial Share Plan is intended for senior executives who, following the implementation of the Proposals, will receive a mixture of Ordinary Shares and options over Ordinary Shares. The Senior Appointments and Remuneration Committee ("SARC") will determine these initial awards.

The Ordinary Share element of the Initial Share Plan, which is designed to retain and incentivise key executives in a competitive market, involves the issue of Ordinary Shares for nil consideration which will normally only be released after three years. The options over Ordinary Shares will become exercisable in equal tranches over five years at progressive exercise prices of between the initial market value and twice the market value of the Ordinary Shares at the original date of grant. The board considers that the increasing exercise prices will be simple to understand and will strongly encourage the delivery of value to Ordinary Shareholders.

SARC has determined that the total value attributable to the Initial Share Plan will be the lower of 2.5 per cent. of the value of the Exchange or £8 million. The value for this purpose will be calculated from the average price of Ordinary Shares during the first 28 days of trading in the period following the preliminary announcement of the Exchange's results for the year ending 31 March 2000. The split in value terms between Ordinary Shares and options over Ordinary Shares will be approximately 25 per cent. as to Ordinary Shares and 75 per cent. as to the value of options over Ordinary Shares. The maximum percentage of the issued Ordinary Shares which could be awarded under the Initial Share Plan will be 5.2 per cent. if all the options were to be exercised. However the number of options which will in due course be exercised will depend on a number of factors including whether the share price during the exercise period reaches the premium exercise prices referred to above.

It is intended that the awards of Ordinary Shares and the acquisition of Ordinary Shares pursuant to the exercise of options will be satisfied by the purchase by a trustee of existing shares and not by the issue of new shares. The cost of the Initial Share Plan will be charged to the Exchange's profit and loss account over the three years ending 31 March 2003.

Annual Share Plan

The Annual Share Plan is designed for all staff (including senior executives) and will include Ordinary Shares and options over Ordinary Shares funded out of the annual bonus pool. SARC will determine the size of the pool available for the annual bonus each year in the light of annual performance targets based on profitability, return on capital employed and any other factors considered appropriate by SARC.

Ordinary Shares and options over Ordinary Shares will be allocated to staff on the basis of individual performance and potential. The Ordinary Shares will be allocated subject to a similar three year restriction as under the Initial Share Plan and options over Ordinary Shares will become exercisable over a five year period.

The equity element (Ordinary Shares and options over Ordinary Shares) of the bonus pool each year will not exceed 1.25 per cent. of the issued Ordinary Share capital of the Exchange at the relevant time.

It is intended that awards of Ordinary Shares and options over Ordinary Shares under the Annual Share Plan will be satisfied by the acquisition of existing shares.

In addition, the Exchange intends to operate, under the Annual Share Plan, an SAYE scheme in which all staff would be eligible to participate.

Further details of the Share Scheme are set out in paragraph 8 of Part IV of this Information Memorandum.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

The Directors
London Stock Exchange Limited
London EC2N 1HP

The Directors
J. Henry Schroder & Co. Limited
120 Cheapside
London EC2V 6DS

2 February 2000

Dear Sirs

London Stock Exchange Limited

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the information memorandum dated 2 February 2000 (the "Information Memorandum") of London Stock Exchange Limited (the "Exchange") relating to the proposals to allow the transfer of Ordinary Shares conditional upon the proposed cancellation and repayment of A Shares, reorganisation of share capital and re-registration as a public company. The Exchange and its subsidiaries are referred to as the "Group".

Basis of preparation

The financial information set out below is based on the audited statutory consolidated financial statements of the Exchange for the five years ended 31 March 1999 and the audited non statutory consolidated financial statements of the Exchange for the six months ended 30 September 1999 and has been prepared after making such adjustments as we considered necessary.

Responsibility

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

The directors are responsible for the contents of the Information Memorandum.

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

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

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

Consolidated profit and loss accounts

	Note	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Gross turnover: Group and share of joint venture							
Continuing operations							
Company, trading and information services	2	**125.4**	**120.7**	**127.7**	**133.7**	**146.7**	**75.3**
Competent authority	2	10.0	10.3	11.2	12.0	12.0	5.9
	2	135.4	131.0	138.9	145.7	158.7	81.2
Discontinued operations							
Settlement	2	55.5	65.2	54.8	0.4	—	—
Less: share of joint venture's turnover:							
Company, trading and information services	2	—	—	(2.2)	(3.0)	(3.4)	(2.1)
Gross turnover	2	**190.9**	**196.2**	**191.5**	**143.1**	**155.3**	**79.1**
Rebates – Company, trading and information services	2	—	—	(10.0)	(16.6)	—	—
Net turnover	2	**190.9**	**196.2**	**181.5**	**126.5**	**155.3**	**79.1**
Administrative expenses	3	(175.5)	(174.8)	(152.6)	(113.6)	(138.4)	(55.8)
Operating profit							
Continuing operations							
Company, trading and information services		**(17.4)**	**(25.4)**	**(5.6)**	**6.7**	**9.5**	**20.2**
Competent authority		6.6	6.9	6.6	6.4	7.4	3.1
		(10.8)	(18.5)	1.0	13.1	16.9	23.3
Discontinued operations							
Settlement		26.2	39.9	27.9	(0.2)	—	—
	4	15.4	21.4	28.9	12.9	16.9	23.3
Share of operating profit of joint venture and income from other fixed asset investments		—	—	0.3	0.3	0.4	0.2
Net interest receivable	8	1.3	6.2	7.1	7.3	7.6	3.0
Profit on ordinary activities before taxation		**16.7**	**27.6**	**36.3**	**20.5**	**24.9**	**26.5**
Taxation on profit on ordinary activities	9	(11.1)	(13.4)	(11.9)	(5.1)	(8.5)	(7.9)
Profit for the financial period		**5.6**	**14.2**	**24.4**	**15.4**	**16.4**	**18.6**

Statement of total recognised gains and losses

	Note	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Profit for the financial period		5.6	14.2	24.4	15.4	16.4	18.6
Other recognised gains and losses for the period							
Unrealised surplus on the revaluation of tangible fixed assets	11	—	—	21.1	—	—	—
Total recognised gains relating to the period		**5.6**	**14.2**	**45.5**	**15.4**	**16.4**	**18.6**

Note of historical cost profits and losses

	Note	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Profit on ordinary activities before taxation		**16.7**	**27.6**	**36.3**	**20.5**	**24.9**	**26.5**
Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	19	1.5	6.0	1.2	1.9	1.9	1.0
Revaluation reserve realised on property disposal	19	—	0.5	—	—	—	1.0
Historical cost profit on ordinary activities before taxation		**18.2**	**34.1**	**37.5**	**22.4**	**26.8**	**28.5**
Historical cost profit retained after taxation		**7.1**	**20.7**	**25.6**	**17.3**	**18.3**	**20.6**

Consolidated balance sheets

	Note	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
Fixed assets							
Tangible assets	11	123.6	102.3	111.1	105.0	104.1	98.8
Investments							
Investments in joint ventures:							
Share of gross assets		—	—	0.9	1.6	2.2	2.4
Share of gross liabilities		—	—	(0.7)	(1.4)	(1.8)	(1.8)
	12	—	—	0.2	0.2	0.4	0.6
Other investments	12	0.4	0.4	0.4	0.4	0.4	0.4
		124.0	**102.7**	**111.7**	**105.6**	**104.9**	**99.8**
Current assets							
Debtors							
General		28.0	29.0	26.3	25.6	27.7	28.3
Settlement balances		51.7	66.6	4.0	—	—	—
	13	79.7	95.6	30.3	25.6	27.7	28.3
Deferred tax – amounts falling due after more than one year	14	12.6	7.7	6.9	5.0	4.6	4.7
Investments – term deposits		7.8	65.0	167.0	177.4	194.0	196.0
Cash at bank							
General		91.1	43.9	7.4	7.4	6.5	5.2
Settlement balances		193.3	67.5	3.4	—	—	—
		284.4	111.4	10.8	7.4	6.5	5.2
		384.5	**279.7**	**215.0**	**215.4**	**232.8**	**234.2**
Creditors: amounts falling due within one year							
General		(72.9)	(49.3)	(59.6)	(54.6)	(58.5)	(59.2)
Settlement balances		(245.0)	(134.1)	(7.4)	—	—	—
	15	(317.9)	(183.4)	(67.0)	(54.6)	(58.5)	(59.2)
Net current assets		**66.6**	**96.3**	**148.0**	**160.8**	**174.3**	**175.0**
Total assets less current liabilities		**190.6**	**199.0**	**259.7**	**266.4**	**279.2**	**274.8**
Creditors: amounts falling due after more than one year	16	**(34.2)**	**(30.0)**	**(30.0)**	**(30.0)**	**(30.0)**	**(30.0)**
Provisions for liabilities and charges	17	**(28.3)**	**(29.2)**	**(45.7)**	**(38.5)**	**(36.6)**	**(33.5)**
Net assets		**128.1**	**139.8**	**184.0**	**197.9**	**212.6**	**211.3**
Capital and reserves							
Called up share capital	18	—	—	—	—	—	—
Reserves							
Revaluation reserve	19	43.0	36.5	56.4	54.5	52.6	50.6
Capital redemption reserve	19	40.4	39.1	37.8	36.3	34.6	14.7
Trade compensation reserve	19	—	—	—	—	15.0	15.0
Profit and loss account	19	44.7	64.2	89.8	107.1	110.4	131.0
Total shareholders' funds		**128.1**	**139.8**	**184.0**	**197.9**	**212.6**	**211.3**
Analysed between:							
Equity shareholders' funds		87.7	100.7	146.2	161.6	178.0	196.6
Non-equity shareholders' funds		40.4	39.1	37.8	36.3	34.6	14.7
		128.1	**139.8**	**184.0**	**197.9**	**212.6**	**211.3**

Consolidated cash flow statements

	Note	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Net cash inflow from operating activities	21(i)	38.7	43.1	72.4	28.2	27.9	17.5
Returns on investments and servicing of finance							
Interest received		7.2	11.8	11.9	11.8	13.0	4.5
Interest paid		(4.2)	(4.2)	(3.1)	(3.1)	(3.1)	(1.5)
Dividends received		—	—	—	—	0.1	—
Appropriation to the Irish Stock Exchange		—	(0.5)	—	—	—	—
Net cash inflow from returns on investments and servicing of finance		**3.0**	**7.1**	**8.8**	**8.7**	**10.0**	**3.0**
Taxation							
Corporation tax (paid)/ recovered		**(18.4)**	**(13.0)**	**(10.3)**	**(14.7)**	**(3.1)**	**0.4**
Capital expenditure and financial investments							
Payments to acquire tangible fixed assets		(13.3)	(13.4)	(6.2)	(9.6)	(17.5)	(1.4)
Receipts from sale of tangible fixed assets		0.5	0.3	0.2	1.1	0.1	1.1
Payments to acquire fixed asset investments		(0.4)	—	—	—	—	
Net cash outflow from capital expenditure		**(13.2)**	**(13.1)**	**(6.0)**	**(8.5)**	**(17.4)**	**(0.3)**
Net cash inflow before use of liquid resources and financing		**10.1**	**24.1**	**64.9**	**13.7**	**17.4**	**20.6**
Management of liquid resources							
Increases in term deposits	21(ii)	—	**(57.2)**	**(102.0)**	**(10.3)**	**(16.6)**	**(2.0)**
Financing							
Repayment of bank loan		(0.9)	(5.1)	—	—	—	—
Repayment of debenture		—	(7.7)	—	—	—	—
Redemption of A Shares		(1.6)	(1.3)	(1.3)	(1.5)	(1.7)	(19.9)
Net cash outflow from financing		**(2.5)**	**(14.1)**	**(1.3)**	**(1.5)**	**(1.7)**	**(19.9)**
(Decrease)/increase in cash in the period	21(ii)	**7.6**	**(47.2)**	**(38.4)**	**1.9**	**(0.9)**	**(1.3)**

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

Basis of preparation

The settlement operations of the Exchange, which ceased in April 1997, are presented as a discontinued activity. The competent authority activity, which is proposed to be transferred to the FSA, remains a continuing activity.

In order to provide further information, turnover and operating profit from continuing activities included in the consolidated profit and loss account have been sub-divided between the company, trading and information services activity and the competent authority activity. The turnover applicable to the competent authority activity for the period from 1 April 1997 to 31 March 1999 is based on the Exchange's price list for that period and was noted on the invoices issued. From 1 April 1999, competent authority fees have been invoiced separately. For the period from 1 April 1994 to 31 March 1997, the allocation of fees to the competent authority activity included within the financial information is based on the price list with effect from 1 April 1997 onwards as no separate charges had been agreed at that time. The expenses charged to the competent authority activity in the analysis described above are the direct expenses of the competent authority activity and do not include any applicable overheads, which are included within the expenses charged to the company, trading and information services activity. This reflects the expectation on the part of the directors that no significant change in overhead expenses will arise from the proposed transfer of the competent authority activity to the FSA. The operating profit of discontinued operations is stated after both applicable direct and overhead expenses.

Basis of accounting and consolidation

The financial information is prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets and includes information in respect of all subsidiary undertakings.

Joint ventures

The Group's share of turnover, gross assets and gross liabilities underlying the net equity amount, as required by FRS9 – Associates and Joint Ventures, is included in the financial information.

Fixed asset investments

Fixed asset investments are stated at cost less any provision required for permanent diminution in value.

Tangible assets and depreciation

(a) Freehold properties

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

Freehold buildings and related fixed plant are depreciated, based on cost or valuation at the beginning of the year plus subsequent additions, over their estimated economic lives. The estimated economic lives of properties range from 15 to 50 years, the estimated useful lives of fixed plant range from 5 to 20 years.

(b) Leasehold properties

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

(c) Plant and equipment

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

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

NOTES TO THE FINANCIAL INFORMATION

Turnover

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

Pension costs

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

Development costs

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

Following the issue of FRS 15 Tangible Fixed Assets, which comes into force for the Exchange's financial statements for the year ending 31 March 2000, the Exchange is examining its accounting policy for software development costs. Software development costs are currently expensed as incurred. The alternative under consideration is to capitalise software as a fixed asset and depreciate it over its useful life.

The directors have estimated the effect of capitalising software development costs on the financial information for the year ended 31 March 1999 and the six months ended 30 September 1999. This estimate is based on an assumption of three year lives for all developments, although this and other assumptions are still under consideration. Based on this estimate, the profit on ordinary activities before taxation for the year ended 31 March 1999 would have been reduced by £4.9 million and for the six months ended 30 September 1999 would have been unchanged. The increase to fixed assets at both 31 March 1999 and 30 September 1999 would have been £21.2 million.

Deferred taxation

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

2. Turnover

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Analysis of turnover						
Continuing operations						
Company, trading and information services						
Company services	18.2	17.6	19.3	21.0	23.1	12.1
Trading services	33.5	36.7	38.9	39.1	40.5	22.5
Information services	69.0	60.8	62.5	64.7	71.8	35.3
Other income	4.7	5.6	7.0	8.9	11.3	5.4
	125.4	**120.7**	**127.7**	**133.7**	**146.7**	**75.3**
Competent authority	10.0	10.3	11.2	12.0	12.0	5.9
Discontinued operations						
Settlement	55.5	65.2	54.8	0.4	—	—
Less: share of joint venture's turnover: Company, trading and information services	—	—	(2.2)	(3.0)	(3.4)	(2.1)
Gross turnover	**190.9**	**196.2**	**191.5**	**143.1**	**155.3**	**79.1**
Rebate – Company, trading and information services	—	—	(10.0)	(16.6)	—	—
Net turnover	**190.9**	**196.2**	**181.5**	**126.5**	**155.3**	**79.1**

The Exchange's principal operations are in the United Kingdom.

NOTES TO THE FINANCIAL INFORMATION

3. Administrative expenses

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Continuing operations						
Company, trading and information services						
– Operating costs	97.3	94.8	92.8	88.7	96.0	46.2
– Development and other costs	45.5	51.3	28.3	18.7	37.8	6.8
	142.8	**146.1**	**121.1**	**107.4**	**133.8**	**53.0**
Competent authority	3.4	3.4	4.6	5.6	4.6	2.8
	146.2	149.5	125.7	113.0	138.4	55.8
Discontinued operations						
Settlement	29.3	25.3	26.9	0.6	—	—
	175.5	174.8	152.6	113.6	138.4	55.8

4. Operating profit

Operating profit is stated after charging the following amounts:

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Depreciation of tangible assets	18.2	34.0	18.3	14.7	18.2	5.6
Operating lease rentals – properties	5.3	5.3	5.2	5.2	5.2	2.5
Auditors' remuneration for:						
Audit	0.2	0.2	0.2	0.1	0.1	—
Non-audit fees for other services	0.2	0.2	0.2	0.4	0.4	0.1
Fees payable to the FSA	0.9	1.1	1.3	1.3	0.8	0.5

5. Employees

Employees and their employment costs are summarised below:

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
The number of employees was:						
At the period end	1,011	941	750	529	559	587
Average for the period	1,017	983	872	573	536	569
Staff costs during the period amounted to:	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Wages and salaries	25.2	26.1	26.7	22.5	22.5	13.2
Social security costs	2.6	2.7	2.8	2.3	2.3	1.5
Other pensions costs *(see note 23)*	3.2	3.4	3.4	1.5	0.6	0.3
Total	**31.0**	**32.2**	**32.9**	**26.3**	**25.4**	**15.0**

NOTES TO THE FINANCIAL INFORMATION

6. Directors' emoluments

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Aggregate emoluments, including pension contributions	1.4	1.6	2.0	2.0	1.6	0.6
Compensation for loss of office	—	0.4	0.1	0.2	—	—
	1.4	**2.0**	**2.1**	**2.2**	**1.6**	**0.6**
Highest paid director, excluding pension contributions – £'000	342.0	239.6	291.8	476.7	580.1	211.0

7. Exceptional items charged in arriving at operating profit

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Provision/(release of provision) for future costs of surplus leasehold properties	4.7	3.5	11.9	—	—	(2.2)
Year 2000 rectification costs and EMU expenditure	—	—	—	0.9	17.6	—
Write down of tangible fixed assets	—	12.0	—	—	3.0	—
Redundancy costs	—	—	2.9	5.5	—	—
	4.7	**15.5**	**14.8**	**6.4**	**20.6**	**(2.2)**

Provision for future costs of surplus leasehold properties

Provision has been made for the estimated net present value of future costs for lease rentals less the expected receipts from sub-letting for those properties which are surplus to business requirements.

Year 2000 rectification costs and EMU expenditure

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

Write down of tangible fixed assets

In the year ended 31 March 1996 and the year ended 31 March 1999, accelerated depreciation was charged to write down the book amount of freehold premises reflecting impairments in value. These charges are included within the depreciation charges set out in Note 4.

Redundancy costs

The Exchange performed a strategic review of its operations and costs in July 1996 and a decision was made to reduce substantially the staff numbers employed. Redundancy costs represent costs arising from the implementation of the decisions made following the strategic review together with the closure of settlement operations.

NOTES TO THE FINANCIAL INFORMATION

8. Interest

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Interest receivable and similar income:						
Bank deposits	7.2	10.7	12.0	12.0	12.6	5.4
Other	0.2	1.2	0.4	0.6	0.2	—
	7.4	11.9	12.4	12.6	12.8	5.4
Interest payable and similar charges:						
On bank and other loans repayable after five years	(3.4)	(3.1)	(3.0)	(3.0)	(3.0)	(1.5)
On bank and other loans repayable within five years	(0.5)	(0.5)	—	—	—	—
Other interest	(0.3)	(0.3)	(0.1)	—	—	—
Interest on discounted provision for leasehold properties *(see note 17)*	(1.9)	(1.8)	(2.2)	(2.3)	(2.2)	(0.9)
	(6.1)	**(5.7)**	**(5.3)**	**(5.3)**	**(5.2)**	**(2.4)**
Net interest receivable	**1.3**	**6.2**	**7.1**	**7.3**	**7.6**	**3.0**

9. Taxation

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Corporation tax for the period at: September 1999 – 30%; March 1999 and 1998 – 31%; 1997, 1996 and 1995 – 33%.	15.8	16.2	17.1	4.9	8.6	8.0
Deferred taxation *(see note 14)*	(4.7)	4.9	0.8	1.9	0.4	(0.1)
Adjustment for previous years:						
Corporation tax	—	(7.7)	(6.1)	(1.8)	(0.6)	—
Joint venture	—	—	0.1	0.1	0.1	—
Taxation charge	**11.1**	**13.4**	**11.9**	**5.1**	**8.5**	**7.9**

10. Adjusted earnings

Adjusted earnings are based on earnings equal to the profit for the financial period adjusted to exclude the operating profit applicable to the competent authority and settlement activities as set out in the consolidated profit and loss accounts. The taxation applicable to those adjustments has also been adjusted in respect of the two and half years ended 30 September 1999.

NOTES TO THE FINANCIAL INFORMATION

10. Adjusted earnings (continued)

The amounts of earnings together with details of the adjustments referred to above are set out below:

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Earnings	5.6	14.2	24.4	15.4	16.4	18.6
Add back: taxation charge	11.1	13.4	11.9	5.1	8.5	7.9
Profit for the financial period	16.7	27.6	36.3	20.5	24.9	26.5
Less: operating profit attributable to:						
— Competent authority	(6.6)	(6.9)	(6.6)	(6.4)	(7.4)	(3.1)
— Settlement	(26.2)	(39.9)	(27.9)	0.2	—	—
Adjusted profit/(loss) before taxation	(16.1)	(19.2)	1.8	14.3	17.5	23.4
Adjusted applicable taxation charge				(3.2)	(6.2)	(7.0)
Adjusted earnings				**11.1**	**11.3**	**16.4**

NOTES TO THE FINANCIAL INFORMATION

11. Tangible assets

Cost or valuation	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Total £m
1 April 1994	**149.6**	**6.3**	**98.3**	**254.3**
Additions	1.2	0.4	11.7	13.3
Disposals	(0.7)	(0.7)	(30.3)	(31.8)
31 March 1995	**150.1**	**6.0**	**79.7**	**235.8**
Additions	0.7	—	12.7	13.4
Disposals	(4.5)	(1.0)	(14.3)	(19.8)
31 March 1996	**146.3**	**5.0**	**78.1**	**229.4**
Additions	0.8	—	5.3	6.1
Disposals	—	(0.2)	(14.9)	(15.1)
Revaluation	6.3	—	—	6.3
31 March 1997	**153.4**	**4.8**	**68.5**	**226.7**
Additions	0.6	—	9.0	9.6
Disposals	(7.2)	(0.1)	(20.3)	(27.6)
31 March 1998	**146.8**	**4.7**	**57.2**	**208.7**
Additions	9.7	—	7.8	17.5
Disposals	(0.5)	—	(2.1)	(2.6)
31 March 1999	**156.0**	**4.7**	**62.9**	**223.6**
Additions	—	—	1.4	1.4
Disposals	(1.1)	—	(7.2)	(8.3)
30 September 1999	**154.9**	**4.7**	**57.1**	**216.7**

Depreciation	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Total £m
1 April 1994	**38.7**	**6.3**	**80.4**	**125.5**
Provision for the year	10.5	0.4	7.3	18.2
Disposals	(0.7)	(0.7)	(30.1)	(31.5)
31 March 1995	**48.5**	**6.0**	**57.6**	**112.2**
Provision for the year	22.6	—	11.4	34.0
Disposals	(4.0)	(1.0)	(14.1)	(19.1)
31 March 1996	**67.1**	**5.0**	**54.9**	**127.1**
Provision for the year	9.1	—	9.2	18.3
Disposals	—	(0.2)	(14.7)	(15.0)
Revaluation	(14.8)	—	—	(14.8)
31 March 1997	**61.4**	**4.8**	**49.4**	**115.6**
Provision for the year	5.0	—	9.7	14.7
Disposals	(6.6)	(0.1)	(19.9)	(26.6)
31 March 1998	**59.8**	**4.7**	**39.2**	**103.7**
Provision for the year	7.7	—	10.5	18.2
Disposals	(0.5)	—	(1.9)	(2.4)
31 March 1999	**67.0**	**4.7**	**47.8**	**119.5**
Provision for the period	2.0	—	3.6	5.6
Disposals	—	—	(7.2)	(7.2)
30 September 1999	**69.0**	**4.7**	**44.2**	**117.9**

NOTES TO THE FINANCIAL INFORMATION

11. Tangible assets (continued)

Net book amount	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Total £m
31 March 1995				
At valuation	100.5	—	—	100.5
At cost less depreciation	1.1	—	22.0	23.1
	101.6	—	**22.0**	**123.6**
31 March 1996				
At valuation	77.5	—	—	77.5
At cost less depreciation	1.7	—	23.1	24.8
	79.2	—	**23.1**	**102.3**
31 March 1997				
At valuation	92.0	—	—	92.0
At cost less depreciation	—	—	19.1	19.1
	92.0	—	**19.1**	**111.1**
31 March 1998				
At valuation	86.4	—	—	86.4
At cost less depreciation	0.6	—	18.0	18.6
	87.0	—	**18.0**	**105.0**
31 March 1999				
At valuation	81.6	—	—	81.6
At cost less depreciation	7.4	—	15.1	22.5
	89.0	—	**15.1**	**104.1**
30 September 1999				
At valuation	78.3	—	—	78.3
At cost less depreciation	7.6	—	12.9	20.5
	85.9	—	**12.9**	**98.8**

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

Based on historical cost at 30 September 1999, the aggregate cost of group tangible assets was £177.2 million (31 March 1999: £184.2 million) and the aggregate depreciation was £128.9 million (31 March 1999: £132.6 million).

NOTES TO THE FINANCIAL INFORMATION

12. Fixed asset investments

	Joint venture £m	Other investment £m	Total £m
Cost at 1 April 1994	—	—	—
Additions	—	0.4	0.4
31 March 1995 and 31 March 1996	—	**0.4**	**0.4**
Share of retained profit	0.2	—	0.2
31 March 1997 and 31 March 1998	**0.2**	**0.4**	**0.6**
Share of retained profit	0.2	—	0.2
31 March 1999	**0.4**	**0.4**	**0.8**
Share of retained profit	0.2	—	0.2
30 September 1999	**0.6**	**0.4**	**1.0**

Joint venture

At 30 September 1999, the Exchange owned 50% of the 100 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is a joint venture owned together with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The Exchange is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. The investment shown above represents the Exchange's share of the joint venture's net assets. The accounting reference date for FTSE International Limited is 31 December.

Other investment

The other investment of £0.4 million represents the cost of the Exchange's 3.2% interest in unlisted redeemable fixed interest shares in CRESTCo Limited. A dividend of £0.1 million was received during the year ended 31 March 1999 (1998, 1997, 1996 and 1995: nil).

NOTES TO THE FINANCIAL INFORMATION

13. Debtors: due within one year

	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
Trade debtors						
General	16.1	15.5	10.1	9.6	14.0	13.9
Settlement balances	51.7	66.6	4.0	—	—	—
	67.8	82.1	14.1	9.6	14.0	13.9
Amounts owed by joint venture	—	—	—	0.3	—	0.1
Other debtors	0.5	1.1	0.6	0.7	0.5	0.5
Prepayments and accrued income	11.4	12.4	15.6	15.0	13.2	13.8
	79.7	**95.6**	**30.3**	**25.6**	**27.7**	**28.3**

The asset in respect of settlement balances arises from the former function of the Exchange as the principal responsible for the central clearing house for the settlement of transactions in securities and the collection of stamp duty. The asset is matched by the net of settlement cash and creditors as set out on the face of the balance sheet.

14. Deferred taxation: due after more than one year

	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
Balance at the beginning of the period	7.9	12.6	7.7	6.9	5.0	4.6
Credit/(charge) to profit and loss account during the period	4.7	(4.9)	(0.8)	(1.9)	(0.4)	0.1
Balance at the end of the period	**12.6**	**7.7**	**6.9**	**5.0**	**4.6**	**4.7**

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

Tax allowances available in excess of related depreciation	10.2	4.5	3.2	2.4	3.9	4.2
Other timing differences	2.4	3.2	3.7	2.6	0.7	0.5
	12.6	**7.7**	**6.9**	**5.0**	**4.6**	**4.7**
Potential deferred taxation assets, not recognised in this financial information, comprise:						
Tax allowances in excess of related depreciation	8.4	8.8	9.7	3.5	2.9	3.1
Other timing differences	10.4	9.9	8.1	10.0	9.9	9.0
	18.8	**18.7**	**17.8**	**13.5**	**12.8**	**12.1**

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

NOTES TO THE FINANCIAL INFORMATION

15. Creditors: due within one year

	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
Debenture loans	7.7	—	—	—	—	—
Bank loans	0.9	—	—	—	—	—
Bank overdraft	—	—	1.9	—	—	—
Trade creditors:						
General	1.9	4.3	4.2	5.3	7.8	2.3
Settlement balances	245.0	134.1	7.4	—	—	—
	246.9	138.4	11.6	5.3	7.8	2.3
Amounts owed to joint venture	—	0.3	0.1	—	—	—
Corporation tax	20.0	15.6	16.3	4.6	9.5	17.8
Other taxation and social security	2.3	1.3	3.8	2.4	2.9	3.4
Other creditors	2.0	3.1	3.1	3.5	3.5	4.9
Accruals and deferred income	38.1	24.7	30.2	38.8	34.8	30.8
	317.9	183.4	67.0	54.6	58.5	59.2

The liability in respect of settlement balance arises from the former function of the Exchange as the principal responsible for the central clearing house for the settlement of transactions in securities and the collection of stamp duty. The liability is matched settlement cash and debtors as set out on the face of the balance sheet.

16. Creditors: due after more than one year

	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
7¼% Mortgage Debenture Stock 1990/1995	7.7	—	—	—	—	—
10⅛% Mortgage Debenture Stock 2016	30.0	30.0	30.0	30.0	30.0	30.0
Total debentures	37.7	30.0	30.0	30.0	30.0	30.0
Bank loan 1993/2000	5.1	—	—	—	—	—
Total loans	42.8	30.0	30.0	30.0	30.0	30.0
Less bank loan and debenture repayments due within one year	(8.6)	—	—	—	—	—
	34.2	30.0	30.0	30.0	30.0	30.0

The 10⅛% Mortgage Debenture Stock 2016 is secured by a mortgage on the freehold site and buildings known as The Stock Exchange, London. The Exchange may purchase and cancel any of the Stock at any time and, except in so far as previously purchased or redeemed and cancelled, the Stock will be redeemed at par on 1 November 2016. Earlier purchase or redemption of the Stock could be at an amount above par.

NOTES TO THE FINANCIAL INFORMATION

17. Provisions for liabilities and charges

	Pensions £m	Property £m	Rationalisation £m	Total £m
1 April 1994	**2.5**	**24.0**	—	**26.5**
Provided/(released) in the year	(0.2)	4.7	—	4.5
Utilised during the year	—	(4.6)	—	(4.6)
Interest on discounted provision	—	1.9	—	1.9
31 March 1995	**2.3**	**26.0**	—	**28.3**
Provided/(released) in the year	(0.1)	3.5	—	3.4
Utilised during the year	—	(4.3)	—	(4.3)
Interest on discounted provision	—	1.8	—	1.8
31 March 1996	**2.2**	**27.0**	—	**29.2**
Provided/(released) in the year	(0.3)	11.9	6.3	17.9
Utilised during the year	—	(3.6)	—	(3.6)
Interest on discounted provision	—	2.2	—	2.2
31 March 1997	**1.9**	**37.5**	**6.3**	**45.7**
Released in the year	(0.2)	—	—	(0.2)
Utilised during the year	—	(3.4)	(5.9)	(9.3)
Interest on discounted provision	—	2.3	—	2.3
31 March 1998	**1.7**	**36.4**	**0.4**	**38.5**
Released in the period	(0.2)	—	—	(0.2)
Utilised during the period	—	(3.5)	(0.4)	(3.9)
Interest on discounted provision	—	2.2	—	2.2
31 March 1999	**1.5**	**35.1**	—	**36.6**
Released in the period	—	(2.2)	—	(2.2)
Utilised during the period	(0.1)	(1.7)	—	(1.8)
Interest on discounted provision	—	0.9	—	0.9
30 September 1999	**1.4**	**32.1**	—	**33.5**

NOTES TO THE FINANCIAL INFORMATION

17. Provisions for liabilities and charges (continued)

Pensions

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

Property

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

Rationalisation

The rationalisation provision represents the estimated costs for the closure of the settlement operation and related redundancies and restructuring costs.

18. Share capital

	31 March 1995	31 March 1996	31 March 1997	31 March 1998	31 March 1999	30 September 1999
Authorised						
A Shares of 5p each – number	5,601	5,601	5,601	5,601	5,601	5,601
– £	280	280	280	280	280	280
B Shares of 5p each – number	14,399	14,399	14,399	14,399	14,399	14,399
– £	720	720	720	720	720	720
Issued, called up and fully paid						
A Shares of 5p each – number	4,041	3,907	3,775	3,629	3,459	1,477
– £	202	195	189	181	173	74
B Shares of 5p each – number	14,399	14,399	14,399	14,399	14,399	14,399
– £	720	720	720	720	720	720

Each A Share of 5p shall be redeemed at a price of £10,000 in the case of a shareholder being a natural person by no later than 31 December 2002. In the case of a shareholder who is not a natural person, all A Shares were redeemed prior to or on 30 September 1999. The A Shares are non-voting and have a preferential right to be redeemed on a winding up. The premium on these redemptions is charged to the capital redemption reserve. The A Shares do not confer upon the holders thereof any right to attend and vote at any general meeting. The holders are not entitled to dividends, save for the redemption amount.

NOTES TO THE FINANCIAL INFORMATION

19. Reserves

	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m
1 April 1994	**44.5**	**42.0**	—	**37.6**
Profit for the financial year	—	—	—	5.6
Premium paid to A shareholders *(see note 18)*	—	(1.6)	—	—
Transfer in respect of revaluation surplus	(1.5)	—	—	1.5
31 March 1995	**43.0**	**40.4**	—	**44.7**
Profit for the financial year	—	—	—	14.2
Appropriation to the Irish Stock Exchange	—	—	—	(1.2)
Premium paid to A shareholders *(see note 18)*	—	(1.3)	—	—
Transfer in respect of revaluation surplus	(6.0)	—	—	6.0
Revaluation reserve realised on disposal of assets	(0.5)	—	—	0.5
31 March 1996	**36.5**	**39.1**	—	**64.2**
Profit for the financial year	—	—	—	24.4
Revaluation of tangible fixed assets	21.1	—	—	—
Premium paid to A shareholders *(see note 18)*	—	(1.3)	—	—
Transfer in respect of revaluation surplus	(1.2)	—	—	1.2
31 March 1997	**56.4**	**37.8**	—	**89.8**
Profit for the financial year	—	—	—	15.4
Premium paid to A shareholders *(see note 18)*	—	(1.5)	—	—
Transfer in respect of revaluation surplus	(1.9)	—	—	1.9
31 March 1998	**54.5**	**36.3**	—	**107.1**
Profit for the financial year	—	—	—	16.4
Premium paid to A shareholders *(see note 18)*	—	(1.7)	—	—
Transfer in respect of revaluation surplus	(1.9)	—	—	1.9
Transfer – establishment of trade compensation reserve	—	—	15.0	(15.0)
31 March 1999	**52.6**	**34.6**	**15.0**	**110.4**
Profit for the financial period	—	—	—	18.6
Premium paid to A shareholders *(see note 18)*	—	(19.9)	—	—
Transfer in respect of revaluation surplus	(1.0)	—	—	1.0
Revaluation reserve realised on property disposal	(1.0)	—	—	1.0
30 September 1999	**50.6**	**14.7**	**15.0**	**131.0**

The Exchange's Articles of Association provide that the profit and loss account reserves of the Exchange are not distributable to members except with regard to the redemption of the A Shares or in case of the dissolution of the Exchange.

Equity shareholders' funds on the balance sheet comprise the issued share capital of B Shares together with the revaluation and trade compensation reserves and the profit and loss account. Non-equity shareholders' funds comprise the issued share capital of A Shares and the capital redemption reserve. As explained in note 18 the A Shares have preferential rights to be redeemed on a winding up.

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

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

NOTES TO THE FINANCIAL INFORMATION

19. Reserves (continued)

The trade compensation reserve was established by a transfer from the profit and loss account reserve to identify reserves available to meet valid claims under the Trade Compensation Scheme, should they arise. This scheme provides cover for member firms only against price movements on order book trades if a counterparty is declared in default by the Exchange. The scheme is only available to member firms trading on the order book and is not available to private investors.

20. Reconciliation of movements in shareholders' funds

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
Profit for the financial period	5.6	14.2	24.4	15.4	16.4	18.6
Appropriation to the Irish Stock Exchange	—	(1.2)	—	—	—	—
Redemption of A Shares during the period	(1.6)	(1.3)	(1.3)	(1.5)	(1.7)	(19.9)
Unrealised surplus on the revaluation of tangible fixed assets	—	—	21.1	—	—	—
Net addition to/(decrease in) shareholders' funds	4.0	11.7	44.2	13.9	14.7	(1.3)
Opening shareholders' funds	**124.1**	**128.1**	**139.8**	**184.0**	**197.9**	**212.6**
Closing shareholders' funds	**128.1**	**139.8**	**184.0**	**197.9**	**212.6**	**211.3**

21. Notes to the consolidated cash flow statements

	Year ended 31 March 1995 £m	Year ended 31 March 1996 £m	Year ended 31 March 1997 £m	Year ended 31 March 1998 £m	Year ended 31 March 1999 £m	Six months ended 30 September 1999 £m
(i) Reconciliation of operating profit to operating cashflow						
Operating profit	15.4	21.4	28.9	12.9	16.9	23.3
Depreciation of tangible assets	18.2	34.0	18.3	14.7	18.2	5.6
Profit on disposal of tangible assets	(0.2)	(0.2)	(0.1)	—	—	—
(Increase)/decrease in debtors	(3.7)	(1.0)	2.7	1.1	(2.2)	0.3
Increase/(decrease) in creditors	13.6	(6.8)	26.2	8.8	(1.1)	(9.9)
Provisions utilised during the period	(4.6)	(4.3)	(3.6)	(9.3)	(3.9)	(1.8)
Net cash inflow from operating activities	**38.7**	**43.1**	**72.4**	**28.2**	**27.9**	**17.5**
(ii) Reconciliation of net cash flow to movement in net funds						
(Decrease)/increase in cash in the period	7.6	(47.2)	(38.4)	1.9	(0.9)	(1.3)
Increase in liquid resources	—	57.2	102.0	10.4	16.6	2.0
Change in cash and liquid resources	7.6	10.0	63.6	12.3	15.7	0.7
Repayment of bank loan	0.9	5.1	—	—	—	—
Repayment of debenture	—	7.7	—	—	—	—
	8.5	22.8	63.6	12.3	15.7	0.7
Net funds at the beginning of the period	47.6	56.1	78.9	142.5	154.8	170.5
Net funds at end of period	**56.1**	**78.9**	**142.5**	**154.8**	**170.5**	**171.2**

NOTES TO THE FINANCIAL INFORMATION

21. Notes to the consolidated cash flow statements (continued)

(iii) Analysis of changes in net funds

	Cash in hand and at bank £m	Bank over-drafts £m	Bank loan less than 1 year £m	Bank loan greater than 1 year £m	Current asset investments £m	Debenture less than 1 year £m	Debentures greater than 1 year £m	Net funds £m
At 1 April 1994	**83.5**	—	**(0.9)**	**(5.1)**	**7.8**	—	**(37.7)**	**47.6**
Timing movements	—	—	(0.9)	0.9	—	(7.7)	7.7	—
Cash flows	7.6	—	0.9	—	—	—	—	8.5
At 31 March 1995	**91.1**	—	**(0.9)**	**(4.2)**	**7.8**	**(7.7)**	**(30.0)**	**56.1**
Reclassification	(65.0)	—	(4.2)	4.2	65.0	—	—	—
Cash flows	17.8	—	5.1	—	(7.8)	7.7	—	22.8
At 31 March 1996	**43.9**	—	—	—	**65.0**	—	**(30.0)**	**78.9**
Cash flows	(36.5)	(1.9)	—	—	102.0	—	—	63.6
At 31 March 1997	**7.4**	**(1.9)**	—	—	**167.0**	—	**(30.0)**	**142.5**
Cash flows	—	1.9	—	—	10.4	—	—	12.3
At 31 March 1998	**7.4**	—	—	—	**177.4**	—	**(30.0)**	**154.8**
Cash flows	(0.9)	—	—	—	16.6	—	—	15.7
At 31 March 1999	**6.5**	—	—	—	**194.0**	—	**(30.0)**	**170.5**
Cash flows	(1.3)	—	—	—	2.0	—	—	0.7
At 30 September 1999	**5.2**	—	—	—	**196.0**	—	**(30.0)**	**171.2**

22. Commitments

	31 March 1995 £m	31 March 1996 £m	31 March 1997 £m	31 March 1998 £m	31 March 1999 £m	30 September 1999 £m
Contracted capital commitments not provided for in the financial information (mainly computing equipment and building refurbishment)	9.7	0.8	5.7	1.3	0.3	0.5
Financial commitments under property operating leases at the balance sheet date for payments in the following year are as follows:						
Leases expiring:						
In one year	0.1	0.1	0.2	0.1	—	—
Between two and five years	—	0.2	0.2	0.2	0.2	0.2
In five years or more	5.1	4.9	4.9	4.8	4.8	4.8
	5.2	**5.2**	**5.3**	**5.1**	**5.0**	**5.0**

NOTES TO THE FINANCIAL INFORMATION

23. Pensions

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

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

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

The Exchange provides a personal pension option to employees and will make contributions to these personal pensions instead of contributions to the main plan.

Since July 1999, the Exchange has provided a new defined contribution scheme to all employees and this is now the only scheme open to new employees. A core contribution of 8% of pensionable pay is provided and the Exchange will match employee contributions up to a maximum of 6% of pensionable pay. The assets of this scheme are held separately from those of the Exchange and the funds are managed, on behalf of the trustee, by Legal & General Investment Management Limited.

The total pension charge for the six months ended 30 September 1999 was £0.3 million (year ended 31 March 1999 – £0.6 million; 1998 – £1.5 million, 1997 – £3.4 million; 1996 – £3.4 million; 1995 – £3.2 million).

24. Financial assets and liabilities

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

Interest rate management

The Exchange finances its operations through retained earnings and a £30 million debenture. Details of the debenture are set out in note 16. There are no floating rate financial assets or liabilities. Term deposits with banks are for fixed rates for the period of the deposit.

Liquidity and credit management

The Exchange manages liquidity risk by depositing funds available for investment in approved instruments for periods up to one year. Counterparty risk is managed by establishing minimum credit worthiness limits and limiting the maximum exposure to each counterparty. The Exchange has available overdraft facilities of £5 million and this is subject to annual review.

NOTES TO THE FINANCIAL INFORMATION

24. Financial assets and liabilities (continued)

	31 March 1999 £m	30 September 1999 £m
Financial assets		
Other fixed asset investments	0.4	0.4
Investments – term deposits	194.0	196.0
Cash at bank	6.5	5.2
	200.9	**201.6**
Maturing in:		
One year or less, or on demand	200.5	201.2
Weighted average period of fixed interest rates	106 days	123 days
Weighted average interest rate	5.3%	5.2%
Financial liabilities		
The Group's financial liabilities and their maturity profile are:		
10⅛% Mortgage Debenture Stock 2016, repayable in more than 5 years	£30.0m	£30.0m

	Book value 31 March 1999 £m	Fair value 31 March 1999 £m	Book value 30 September 1999 £m	Fair value 30 September 1999 £m
Fair values of financial assets and liabilities				
Other fixed asset investments	0.4	0.4	0.4	0.4
Investments – term deposits and cash	200.5	200.5	201.2	201.2
10 ⅛% Mortgage Debenture Stock 2016	(30.0)	(53.4)	(30.0)	(48.6)
	170.9	**147.5**	**171.6**	**153.0**

25. Transactions with related parties

During the five years and six months ended 30 September 1999, no contracts of significance were entered into by the Exchange or any of its subsidiaries in which the directors had a material interest.

26. Share interests of directors

Mr Meinertzhagen, a director, was the beneficial owner of one A Share of the Exchange as at 30 September 1999. Since 30 September 1999, Mr Meinertzhagen has redeemed his single A Share.

During the five years and six months ended 30 September 1999, no director or member of a director's immediate family was granted or exercised any right to subscribe for shares in or debentures of the Exchange or any other body corporate in the Group.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

Part III: The trading facility

After the Proposals have been implemented, Cazenove will provide an off-market, matched bargain trading facility to enable shareholders to buy and sell Ordinary Shares. Access to trading information will be available through Primark and Reuters.

No transfer will be registered by the Exchange if it would result in any person (other than the trustee of the Exchange's Share Scheme), together with parties deemed, for the purposes of the Articles to be acting in concert with such person, having an interest in 4.9 per cent. or more of the Exchange's issued Ordinary Shares.

The key aspects of the facility to be operated by Cazenove, who will act in an agency capacity, are set out below:

- Cazenove will run an auction on each business day between 12.00 and 12.30 pm;
- all trades in the auction will be executed at a single auction price;
- orders may be entered on a public order book which will be displayed by Reuters and Primark;
- there will be no minimum or maximum order size for orders entered into the auction or the public order book although in the case of orders to purchase 0.5 per cent. or more of the Exchange's issued Ordinary Shares the identity of purchasers will be subject to prior notification to the Exchange;
- all bargains will be checked and reported through CREST; and
- settlement on a T+10 basis will take place by means of delivery of a physical stock transfer form and a share certificate.

Cazenove will send B Shareholders further information about the operation of the trading facility following the EGM.

Part IV: Additional information

1. THE EXCHANGE

The Exchange was originally constituted by deeds of settlement. It was incorporated and registered in England and Wales under section 680 of the Act on 19 November 1986, with company number 2075721, as a private company limited by shares with the name The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited.

The name of the Exchange was changed on 9 December 1995 to London Stock Exchange Limited and, on the Proposals becoming effective, will be changed to London Stock Exchange plc.

The Exchange's registered office and principal place of business is London Stock Exchange, London EC2N 1HP.

2. SHARE CAPITAL

The Exchange was incorporated under the Act with an authorised share capital of £1,000 divided into 5,601 A Shares and 14,399 B Shares of 5p each, all of which were issued and fully paid.

The A Shares are redeemable at the price of £10,000 per A Share at any time by an A Shareholder at the end of a calendar month on the giving of one month's notice by the A Shareholder and are to be redeemed by the Exchange on 31 December 2002. As at 31 January 2000, 4,538 A Shares had been redeemed and 1,063 A Shares were outstanding. The A Shares do not carry voting rights.

As at 2 February 2000, there were 14,399 B Shares all of which were issued and fully paid. All the B Shares not held by the other shareholders are held by the Share Trustee in accordance with the Exchange's existing articles of association. The B Shares held by the Share Trustee do not carry voting rights.

Since incorporation, there have been no issues of shares of the Exchange although shares have been transferred to new B Shareholders by the Share Trustee pursuant to the existing articles of association.

The Proposals will involve the following changes to the share capital of the Exchange:

- the A Shares both issued and unissued will be cancelled and extinguished and A Shareholders on the register on the day on which the reduction of capital becomes effective will be paid £10,000 for each A Share so held;
- all the B Shares held by the Share Trustee will be transferred to the Exchange for £1 and cancelled;
- each B Share will be reclassified as an Ordinary Share having the rights set out in the Articles;
- the authorised share capital will be increased to £2,000,000 by the creation of an additional 39,985,601 Ordinary Shares; and
- there will be a bonus issue of 99,999 Ordinary Shares for each Ordinary Share held following the transfer and cancellation of the shares held by the Share Trustee.

The following table sets out the authorised and the expected issued and fully paid share capital of the Exchange as it would be immediately following the full implementation of the Proposals:

Share capital following implementation of the Proposals

Authorised			Expected issued and fully paid	
Number	Amount	In Ordinary Shares of 5p each	Number	Amount
40,000,000	£2,000,000		29,800,000	£1,490,000

Following implementation of the Proposals, the directors will be generally and unconditionally authorised to exercise all the powers of the Exchange to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £500,000 provided that such authority will expire on 31 December 2004 except that the Exchange may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry.

Following implementation of the Proposals, the directors will be empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) for cash as if section 89 of the Act did not apply to such allotment, provided that this power will be limited to:

- the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of the holders of equity securities in proportion (as nearly as may be) to the respective number of securities held by them subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient; and
- the allotment (other than pursuant to the previous paragraph) of equity securities for cash up to an aggregate nominal amount of £75,000,

and shall expire on 31 December 2004 except that the Exchange may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

Save as disclosed in this Part IV, in the three years preceding the date of this Information Memorandum, apart from the redemption of A Shares there has been no change in the issued share capital of the Exchange and no material change in the amount of the issued share capital of any of its subsidiaries and no discounts or other special terms have been granted by the Exchange or any of its subsidiaries in connection with the issue or sale of any such share capital.

No share capital of the Exchange or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

Ordinary Shares will be in registered form and, subject to the provisions of the Uncertificated Securities Regulations 1995, the directors may, in the future, permit the holding of Ordinary Shares in uncertificated form and title to such shares may in such case be transferred in accordance with those regulations.

3. NEW MEMORANDUM OF ASSOCIATION

The Memorandum will provide that the Exchange's principal objects are to carry on the business of an investment exchange and clearing house and the provision of financial information. The objects of the Exchange are set out in full in clause 3 of the Memorandum.

4. NEW ARTICLES OF ASSOCIATION

The Articles to be adopted on implementation of the Proposals will contain provisions, amongst others, to the effect described in this paragraph 4.

4.1 Restrictions on ownership of Ordinary Shares

The following terms are defined, broadly, as follows:

- a person shall be treated as "Appearing to be Interested" in Ordinary Shares if the directors know or have reasonable cause to believe that he is, or may be, Interested in Ordinary Shares;

- "Interested" and "Interest" are widely defined but generally follow the definition used in deciding whether a person has a notifiable interest for the purposes of Part VI of the Act; and

- "Restricted Person" means any person (including a body corporate) or group of persons, other than the trustee of the Exchange's employee share scheme or the chairman of a meeting exercising voting rights under the Articles, which alone, or acting in concert, has, or is deemed to have, or who appear to the directors to have, an Interest in Ordinary Shares which carry more than 4.9 per cent. of the total votes attaching to Ordinary Shares of that class.

4.2 Maximum Interest

The purpose of this restriction is to prevent any person or body corporate together with any other body corporate in the same Group (as defined in section 53 of the Companies Act 1989) or group of persons acting in concert, other than the trustee of the Exchange's employee share scheme or the chairman of a meeting exercising voting rights under the Articles, from acquiring or retaining an Interest in Ordinary Shares which carries more than 4.9 per cent. of the total votes attaching to Ordinary Shares.

The directors may give notice (an "Affected Share Notice") to the holder of any Ordinary Share which they determine to deal with as affected (an "Affected Share") and to any other person who appears to them to be Interested in that share stating which of the provisions of the Articles shall apply to such share. The holder or any such other person may make representations to the directors as to why such share should not be treated as an Affected Share.

The holder of an Affected Share on whom an Affected Share Notice has been served will not be entitled to attend, speak or to vote at any general meeting or class meeting of the Exchange and such rights shall vest in the chairman of such meeting.

The persons on whom an Affected Share Notice has been served will within 21 days dispose of the Affected Shares so that no Restricted Person has an Interest in that share and it ceases to be an Affected Share. If after 21 days the directors are not satisfied that a suitable disposal has been made, the directors may arrange for the sale of the Affected Share on behalf of the holder so that it ceases to be or to be capable of being treated as an Affected Share at the best price reasonably obtainable at the relevant time based upon advice obtained.

In deciding which Ordinary Shares are to be dealt with as Affected Shares the directors will, in their absolute discretion, be entitled to have regard to:

- any information which the directors consider relevant;

- the Interests in the relevant Ordinary Shares which in their sole opinion have directly or indirectly caused the breach;

- the chronological order in which the relevant Ordinary Shares have been, or are to be, entered in the register of shareholders; and

- where the directors consider that applying such criteria will be inequitable, such circumstances as the directors, in their absolute discretion, consider appropriate.

Any resolution or determination of, or any decision or the exercise of any discretion or power by, the directors or any one of them or by the Chairman shall be final and conclusive and neither he nor they shall be obliged to give any reasons for it. The directors shall not be obliged to serve any notice required upon any person if they do not know either his identity or address. The absence of service in such circumstances and any accidental error in giving or failure to give any notice to any person shall not prevent the implementation of or invalidate any procedure.

The transfer of any Ordinary Share shall be subject to the approval of the directors if, in the opinion of the directors, such share would upon transfer become, or would be capable of being treated as, or would continue or be capable of continuing to be capable of being treated as, an Affected Share and the directors may refuse to register the transfer of any such share.

4.3 Transfer of Ordinary Shares

Following re-registration as a public company, Ordinary Shareholders will be entitled to transfer Interests in Ordinary Shares, save that no Interest in Ordinary Shares may be transferred to any person who is or would be, following the transfer of that Interest, a Restricted Person.

The directors may require every person applying to register the transfer of Ordinary Shares to submit a declaration (in such form as the directors may prescribe) stating the name or names of persons who are or will become Interested in Ordinary Shares upon registration and that upon registration such persons will not be Restricted Persons. The directors may request such additional information or evidence concerning a declaration as they think fit.

The directors may refuse to register a transfer if they do not receive a declaration, such other information as they request or if in their opinion the transfer may lead to a person becoming a Restricted Person.

The directors may also refuse to register the transfer of a share unless the instrument of transfer is in respect of only one class of share, is in favour of no more than four transferees, is lodged, duly stamped, at the registered office of the Exchange or such other place as the directors may appoint and is accompanied by the share certificate relative to the share to be transferred and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

The directors are authorised but not required to permit the holding and transfer of Ordinary Shares in uncertificated form subject to the provisions of the Uncertificated Securities Regulations 1995.

4.4 Notification and disclosure of Interests

The obligation to disclose interests in Ordinary Shares on acquiring or disposing of interests (pursuant to Part VI of the Act) will apply to the acquisition and disposal of Interests in Ordinary Shares. Where a person has an Interest in relation to Ordinary Shares or is treated as Appearing to be Interested in Ordinary Shares he shall notify the Exchange in writing as soon as practicable following any event which may cause that person to become a Restricted Person.

If an Ordinary Shareholder, or any other person Appearing to be Interested in Ordinary Shares held by that Ordinary Shareholder, has been given a notice requiring disclosure of Interests in Ordinary Shares and has failed to give the Exchange the information thereby required within 14 days (or such other specified period) from the date of service, the holder will not be entitled to attend or vote at any general meeting or class meeting of the Exchange. Where the shares represent at least 0.25 per cent. of their class, the Exchange may withhold payment of any dividends, and may refuse to register the transfer of such shares.

4.5 Voting rights

Subject to disenfranchisement in the event of either:

- non-compliance with a notice requiring disclosure of Interests in any Ordinary Shares in certain circumstances; or
- service of an Affected Share Notice,

and subject to any special terms for voting on which any shares of the Exchange may have been issued or may for the time being be held, at a general meeting on a show of hands every Ordinary Shareholder who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative not being himself a member entitled to vote shall have one vote for every Ordinary Share of which he is the holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote will be accepted to the exclusion of any votes tendered by the other joint holders.

4.6 Dividends and application of revenues

Subject to the Act, the Exchange may, by ordinary resolution, declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the directors and the directors may pay interim dividends as appear to them to be justified by the profits of the Exchange available for distribution. Except as otherwise provided by the Articles or the rights attached to the shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Any dividend which has remained unclaimed for 12 years from the date when it became due for payment will, if the directors so resolve, be forfeited and cease to remain owing by the Exchange.

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

4.7 Distribution of assets on a winding up

If the Exchange is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the holders of Ordinary Shares in kind the whole or any part of the assets and determine how such division shall be carried out. With the like sanction, the liquidator may vest the whole or any part of the assets in trustees upon such trust for the benefit of the holders of Ordinary Shares as he may determine, but no holder of Ordinary Shares shall be compelled to accept any assets upon which there is a liability.

4.8 Variation of rights

Subject to the Act, if at any time the share capital of the Exchange is divided into different classes of shares, the rights attached to any class may be varied in such manner (if any) as may be provided by those rights or, in the absence of such provisions, with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders, but not otherwise. To every such separate meeting, the provisions of the Articles relating to general meetings shall apply except that the necessary quorum at any such meeting shall be two persons together holding or representing by proxy at least one third in nominal value of the issued share capital of the class in question, and at an adjourned meeting, one person holding shares of the class in question or his proxy is a quorum.

4.9 Alteration of capital

The Exchange may, by ordinary resolution, increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares, sub-divide (subject to the Act) its shares (or any of them) into shares of smaller amounts, determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others, cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the Act, the Exchange may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, in any way. Subject to the Act, the Exchange may purchase its own shares (including redeemable shares).

4.10 Issue of shares

Subject to the Act and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Exchange may by ordinary resolution determine (or, if the Exchange has not so determined, as the directors may determine). Subject to the Act, any share may be issued which is, or is liable to be, redeemed at the option of the Exchange or the holder in accordance with the Articles. Subject to the Act and to the Articles, the unissued shares shall be at the disposal of the directors.

4.11 Directors

The directors need not be shareholders of the Exchange. Unless otherwise determined by the Exchange by ordinary resolution, the number of directors must be not less than 2. The quorum for a board meeting will be 2 directors or such higher number as the board may specify and any 2 directors will be entitled to call a board meeting. The Chairman has a casting vote.

Unless otherwise determined by the Exchange by ordinary resolution, the non-executive directors will be paid such fees for their services in the office of director (excluding fees as Chairman or for other services) as the directors may determine (not exceeding in the aggregate an annual sum of £500,000 or such larger amount as the Exchange may by ordinary resolution decide) divided between the non-executive directors as they agree or, failing agreement, equally.

At the annual general meeting of the Exchange in every year, there will retire from office by rotation all the directors who held office at the two preceding annual general meetings and did not retire together with such additional number of directors as are necessary to make that number up to one-third (or, if their number is not 3 or a multiple of 3, the number which is nearest to but does not exceed one-third) of the directors. A director shall not be required to retire by reason of his age, nor shall this be a bar to his appointment or reappointment.

No person may be nominated for appointment as a director, other than as nominated by the directors, unless proposed by Ordinary Shareholders holding not less than 10 per cent. of the Ordinary Shares.

A director shall not vote or be counted in the quorum present on any resolution concerning a matter in which he has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities in, or otherwise in or through, the Exchange) unless his interest arises only because the case falls within one of the following:

- the resolution relates to the giving to him of a guarantee, security or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the Exchange or any of its subsidiary undertakings;
- the resolution relates to the giving to a third party of a guarantee, security or indemnity in respect of an obligation of the Exchange or any of its undertakings for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- his interest arises by virtue of his being, or intended to become, a participant in the underwriting or sub-underwriting of any offer of any shares in or debenture or other securities of the Exchange or any of its subsidiaries for subscription, purchase or exchange;
- the resolution relates in any way to a retirement benefits scheme which has been approved by, or is conditional upon the approval of, the board of the Inland Revenue for taxation purposes;
- the resolution relates to an arrangement for the benefit of the employees of the Exchange or any of its subsidiary undertakings including, but without being limited to, an employees' share scheme which does not accord to any director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;
- the resolution relates to a transaction or arrangement with any other company in which he is interested, directly or indirectly, provided that he is not the holder of, or beneficially interested in, one per cent. or more of any class of the equity share capital of that company (or of any other company through which his interest is derived) and not entitled to exercise one per cent. or more of the voting rights available to members of the relevant company; or
- the resolution relates to the purchase or maintenance for any director or directors of insurance against any liabilities.

4.12 Gratuities and pensions

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

4.13 Borrowing powers

The directors may exercise without restriction in the Articles all of the borrowing powers of the Exchange.

4.14 Untraced shareholders

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

5. SUBSIDIARY UNDERTAKINGS

5.1 Subsidiary undertakings

The Exchange holds directly or indirectly 100 per cent. of the ordinary shares, being the only class of shares in issue, of all its subsidiaries. Each of the subsidiaries is incorporated in England and Wales except for SEPON (South Africa) (Proprietary) Limited and TALISMAN (Australia) Pty Limited which are incorporated in South Africa and Australia respectively. None of the subsidiaries has actively traded in the past year, other than B.I.S. Nominees Limited which is used to buy in securities under the Rules. The subsidiaries of the Exchange are:

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

5.2 Joint venture

The Exchange holds 50 per cent. of the 1,000 issued shares of £1 each in FTSE International Limited, a company which distributes financial information, whose registered office is St Alphage House, Podium Floor, 2 Fore Street, London EC2Y 5DA.

6. DIRECTORS' AND OTHER INTERESTS

None of the directors (nor any person connected with them within the meaning of section 346 of the Act) has any interest in the share capital of the Exchange or any of its subsidiaries. The following directors were each the holder of an A Share which has been redeemed during 1999, namely: Sir John Kemp-Welch, Ian Salter, Gavin Casey, Michael Marks, Peter Meinertzhagen, Hector Sants and Nigel Sherlock.

The executive directors will be eligible to entitlements in respect of shares under the Share Scheme. Further details of the Share Scheme are referred to in paragraph 8 below.

In so far as is known to the Exchange, no person will, following the implementation of the Proposals, be directly or indirectly interested in 3 per cent. or more of the issued Ordinary Share capital of the Exchange nor is the Exchange aware of any person or persons who, immediately following the implementation of the Proposals, will or could, directly or indirectly, jointly or severally, exercise control over the Exchange.

No director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significantly related to the business of any member of the Group, and which was effected during the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

None of the directors has any unspent convictions in relation to indictable offences, has been declared bankrupt or has made or been the subject of any individual voluntary arrangements.

None of the directors has been a director of any company at the time of or within the 12 months preceding the date of its receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors.

None of the directors has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time of or within twelve months preceding such event and there have been no receiverships of any assets of any of the directors or of any partnership of which any of the directors was a partner at the time of or within 12 months preceding such events.

None of the directors has been publicly criticised by any statutory or regulatory authority or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

There are no loans or guarantees which have been granted or provided to or for the benefit of any director by any member of the Group.

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

On the publication of this Information Memorandum, Schroder Securities Limited, a subsidiary of Schroders, held one B Share and Cazenove, through Cazenove Nominees Limited, Cazenove Fund Management Limited and Cazenove Securities Limited, held three B Shares.

7. DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

7.1 Chairman and executive directors

Sir John Kemp-Welch entered into a service agreement with the Exchange to act as Chairman on 11 February 1994. His term of office as Chairman was extended in December 1996 for a fixed term expiring at the Annual General Meeting in 2000 and is terminable by him at any time. Sir John Kemp-Welch's service agreement as Chairman provides for a salary of £250,000.

Gavin Casey, Jonathan Howell and Martin Wheatley have each entered into a service agreement with the Exchange. Gavin Casey's agreement is dated 11 June 1996, Jonathan Howell's is dated 25 January 2000 and Martin Wheatley's is dated 25 January 2000. Each of the service agreements of the executive directors may be terminated by not less than 12 months' written notice by the Exchange or the director concerned.

Gavin Casey's service agreement provides for a salary of £340,000, Jonathan Howell's of £165,000 and Martin Wheatley's of £190,000, all inclusive of a £15,000 car allowance. The executive directors all receive benefits in kind principally private health care and life assurance arrangements. In addition, each of the executive directors is considered for an annual discretionary bonus to reflect their individual contribution and performance. This bonus is awarded on the approval of SARC.

The executive directors are all members of one of the Exchange's pension schemes. Martin Wheatley is a member of the Exchange's non-contributory pension plan providing benefits based on final pensionable pay. Further details of this pension scheme are disclosed in note 23 of the Accountants' report in Part II of this Information Memorandum.

Gavin Casey and Jonathan Howell have elected to receive payments of 22.5 per cent. of their base salary into an appropriate vehicle for pensions according to their individual circumstances.

There is no entitlement to specific compensation payments under the service agreements.

The aggregate of the remuneration paid and benefits in kind granted to all directors by members of the Group during the year ended 31 March 1999 was £1,555,000. The aggregate estimated amount payable to all directors by members of the Group for the current financial year under arrangements in force at the date of this Information Memorandum is £1,226,000 which excludes any bonus which may be payable.

7.2 Non-executive directors

The non-executive directors (or their employing companies) receive an annual fee of £15,000 pursuant to letters of appointment. Ian Salter (Deputy Chairman) receives an additional £10,000 for further activities undertaken in fulfilling this role. The standard appointment to the board is for 3 years, renewable once. Further renewals are possible, with board agreement.

	Date of appointment
Ian Salter (Deputy Chairman)	19 November 1986
Gary Allen	14 July 1994
Graham Allen	13 July 1995
Michael Marks	14 July 1994
Peter Meinertzhagen	22 May 1997
Ian Plenderleith	30 September 1989
Simon Robertson	9 July 1998
Hector Sants	5 December 1996
Nigel Sherlock	13 July 1995

There are no commission or profit sharing arrangements for any of the non-executive directors.

Compensation is not payable upon early termination of a contract.

Save as set out above, there are no service agreements existing between any of the directors and the Exchange or any of its subsidiaries.

8. SHARE SCHEME

8.1 Introduction

The Share Scheme, comprising an Initial Share Plan and an Annual Share Plan, is being implemented as part of the Proposals.

The principal features of the Share Scheme, for which approval will be sought at the EGM, are summarised below.

8.2 Initial Share Plan

It is intended that senior executives will be granted an initial award of Ordinary Shares and options over Ordinary Shares following the implementation of the Proposals. The split in value terms between Ordinary Shares and options over Ordinary Shares will be approximately 25 per cent. as to Ordinary Shares and 75 per cent. as to the value of options over Ordinary Shares. The Senior Appointments and Remuneration Committee ("SARC") has determined that the total value attributable to the Initial Share Plan will be the lower of 2.5 per cent. of the value of the Exchange or £8 million. The value for this purpose will be calculated from the average price of Ordinary Shares during the first 28 days of trading in the period following the preliminary announcement of the Exchange's results for the year ending 31 March 2000 ("initial market value").

Share awards

Senior executives will be made an award of Ordinary Shares for nil consideration. The Ordinary Shares will be held by a trustee and released in the discretion of the trustee after a vesting period of three years provided the participant remains in employment.

The trustee may release shares early in the event of any takeover or reconstruction. Participants who leave employment early will forfeit their shares unless the termination of employment is on account of injury, disability, redundancy, normal retirement or any other reason approved by the trustee on the recommendation of SARC.

Share options

The grant of options over Ordinary Shares will be in five equal tranches by value, vesting at 20 per cent. per annum over five years. Options will be exercisable at progressive exercise prices. The first tranche of options will be exercisable at the initial market value. Further tranches of options will be exercisable only at a premium to the initial market value. The maximum exercise price will be twice the initial market value.

Options will be exercisable early in the event of the participant's death, or on leaving employment on account of injury, disability, normal retirement or any other reason approved by SARC. Options may also vest early if the Exchange is taken over or reconstructed. In the event of any capitalisation issue, rights issue, subdivision, consolidation or reduction of the Exchange's share capital, the number of Ordinary Shares under option and/or the exercise price may be adjusted. All options will lapse after 10 years if not exercised. Options may not be assigned or transferred.

General

The Initial Share Plan will contain an approved part, which will be submitted to the Inland Revenue for approval under the Income and Corporation Taxes Act 1988, allowing for the grant of options over up to £30,000 worth of Ordinary Shares per individual, and unapproved parts which will not attract any income tax reliefs. UK participants will be subject to PAYE on the value of the Ordinary Shares at the vesting date. The Exchange will deduct PAYE and pay employer's National Insurance contributions on the benefits. All benefits will be non-pensionable. Ordinary Shares and options over Ordinary Shares which are forfeited can be reallocated to other senior executives.

The Initial Share Plan will be established under Channel Island resident trusts.

8.3 Annual Share Plan

It is intended that all staff (including senior executives) will be eligible for annual awards of Ordinary Shares and options over Ordinary Shares funded out of the annual bonus pool. SARC will determine the size of the pool available for the annual bonus each year in the light of annual performance targets based on profitability, return on capital employed and any other factors considered appropriate by SARC. Ordinary Shares and options over Ordinary Shares will be allocated to staff on the basis of individual performance and potential.

Share awards

Awards of Ordinary Shares will be for nil consideration. The Ordinary Shares will be held by the trustee and normally released in the discretion of the trustee after a vesting period of three years provided the participant remains in employment.

The trustee may release shares early in the event of any takeover or reconstruction. Participants who leave employment early will forfeit their shares unless the termination of employment is on account of death, injury, disability, redundancy, normal retirement or any other reason approved by the trustee on the recommendation of SARC.

Share options

Options over Ordinary Shares will be granted annually at fair market value at the date of grant. Annual grants of options will vest over five years from the date of grant.

Options will be exercisable early in the event of the participant's death, or on leaving employment on account of injury, disability, normal retirement or any other reason approved by SARC. Options may also vest early if the Exchange is taken over or reconstructed. In the event of any capitalisation issue, rights issue, subdivision, consolidation or reduction of the Exchange's share capital, the number of Ordinary Shares under option and/or the exercise price may be adjusted. All options will lapse after 10 years if not exercised. Options may not be assigned or transferred.

General

The Annual Share Plan will contain an approved part, which will be submitted to the Inland Revenue for approval under the Income and Corporation Taxes Act 1988, allowing for the grant of options over up to £30,000 worth of Ordinary Shares per individual, and unapproved parts which will not attract any income tax reliefs. UK participants will be subject to PAYE on the value of the Ordinary Shares at the vesting date. The Exchange will deduct PAYE and pay employer's National Insurance contributions on the benefits. All benefits will be non-pensionable.

The Annual Share Plan will be established under Channel Island resident trusts.

SAYE Option Scheme

A SAYE Option Scheme will be operated under the Annual Share Plan. The SAYE Option Scheme, which will be submitted to the Inland Revenue for approval under the provisions of the Income and Corporation Taxes Act 1988, provides for the grant of options to those employees who enter into a SAYE savings contract. The scheme will confer income tax relief on option gains.

Any employee (who may also be a director) of the Exchange who satisfies prescribed service qualifications may participate in the scheme each time it is operated. All benefits will be non-pensionable.

The number of Ordinary Shares over which an option may be granted to any individual is limited to the number of shares which may be purchased at the exercise price out of the repayment proceeds of a savings contract. Eligible employees may save between £5 and £250 a month. A tax-free bonus is added at the end of three, five or seven years under the savings contract.

The exercise price of an option will be determined by the board and will be not less than 80 per cent. of the market value of the shares at the time invitations for the grant of the options are made.

Options will normally be exercisable within a period of six months from the date on which the SAYE contract matures. This may occur three, five or, in certain circumstances, seven years after the relevant savings contract commenced. If the option is not exercised within the six month period, the option will lapse.

Options will be exercisable early in certain specified circumstances, including in the event of the optionholder's death, upon reaching normal retirement age or if the optionholder ceases to be employed because of injury, ill-health, disability or redundancy, or on the sale of the business or the subsidiary by which he or she is employed or, on the optionholder leaving employment, in any other circumstances except dismissal for gross misconduct, and the option has been held for at least three years. If an optionholder ceases employment other than in the specified circumstances, the options will lapse. Options will also be exercisable within limited periods on a take-over or reconstruction of the Exchange. On any early exercise, optionholders may purchase only so many shares as their savings under the relevant savings contract will allow. Options are not transferable.

In the event of any capitalisation issue, rights issue, subdivision, consolidation or reduction of the Exchange's share capital, the number of Ordinary Shares under option and/or the exercise price may be adjusted.

8.4 Acquisition of Ordinary Shares

Awards of Ordinary Shares and options over Ordinary Shares under the Share Scheme will normally be satisfied by the acquisition of existing shares by the employee share trusts. The acquisition of the Ordinary Shares will be financed by interest-free loans and/or contributions by the Exchange. The limit on the maximum shareholding by any Ordinary Shareholder or group of connected Ordinary Shareholders of not more than 4.9 per cent. of the issued Ordinary Share capital will not apply to the shares held by the trustee. Exceptionally, the trustee may also subscribe for new shares to satisfy allocations. The cost of the Initial Share Plan will be charged to the Exchange's profit and loss account over the three years ending 31 March 2003. The costs of the Annual Share Plan will normally be charged over the performance period.

The maximum number of new shares which may be allocated under the Share Scheme over any 10 year period shall not exceed 10 per cent. of the issued Ordinary Share capital from time to time. The maximum number of new shares which may be allocated under the Share Scheme over any five year period shall not exceed five per cent. of the issued Ordinary Share capital from time to time.

9. WORKING CAPITAL

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

10. PROPERTY

The principal establishment of the Group is:

Premises	Tenure	Description
Exchange Tower Old Broad Street London EC2 (273,000 sq ft)*	Freehold Site area: 1.44 acres*	The building, constructed in the 1970's comprises three basements, mezzanine, ground and 26 upper floors (four of which house plant). There are 75 car parking spaces.

*includes 61 Threadneedle Street and 24 Throgmorton Street.

The Exchange also has two other freehold premises in London EC2, with a total area of 158,000 square feet.

11. £30 MILLION 10⅛ PER CENT. MORTGAGE DEBENTURE STOCK 2016

The Mortgage Debenture Stock is constituted by a trust deed made on 18 March 1986 between the Exchange, The Stock Exchange (Holdings) Limited, The Stock Exchange (Properties) Limited and The Law Debenture Trust Corporation p.l.c., as amended by supplemental deeds.

The Mortgage Debenture Stock is repayable on 1 November 2016 and, until repayment, carries interest at the rate of $10\frac{1}{8}$ per cent. per annum. The Mortgage Debenture Stock is secured by a first legal charge on the Exchange Tower. The Exchange has certain rights to dispose of or deal in the mortgaged property but, on disposal, it may be obliged to redeem the Mortgage Debenture Stock at the highest of (i) par; (ii) the market value of the Mortgage Debenture Stock by reference to quoted market prices for three months prior to the date of the notice of redemption; and (iii) the price at which the gross redemption yield on the Mortgage Debenture Stock would be equal to the gross redemption yield of 12 per cent. Treasury Stock 2013/17.

The Mortgage Debenture Stock is listed on the London Stock Exchange. The Exchange or any subsidiary may purchase stock in the market or by tender (available to all stockholders alike) at a price up to 105 per cent. of the quoted market price or by private treaty at a price (inclusive of accrued interest) not exceeding 115 per cent. of the quoted market price.

12. TAXATION

The following paragraphs, which are intended as a general guide only and are based on current legislation and Inland Revenue practice, summarise certain limited aspects of the UK taxation implications for persons (individuals and companies) who are direct beneficial owners of Ordinary Shares. Modified treatments may apply to certain classes of person, such as trustees, trust beneficiaries, charities or certain insurance companies. Shareholders who are in any doubt as to their own tax position, or are subject to taxation in a jurisdiction other than the UK, should consult an appropriate independent professional adviser.

12.1 The Exchange

The Exchange is resident for tax purposes in the UK.

12.2 Dividends

Under current UK legislation, no tax will be withheld from any dividend payments by the Exchange. Tax credits are available in certain cases, but these are not generally payable in cash to the shareholder.

UK resident individual shareholders

A UK resident individual shareholder will normally be entitled to a tax credit equal to one ninth of the amount of the dividend received. The tax credit therefore equals 10 per cent. of the aggregate amount of the dividend and tax credit. Such a shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit. The tax credit will then be available to offset or reduce such a shareholder's liability to income tax on the dividend.

Individual shareholders whose income is within the starting rate or basic rate tax bands are subject to income tax at the rate of 10 per cent. on their dividend income and such shareholders will have no further liability to income tax on the dividend.

An individual shareholder whose income is such that he or she is subject to the higher rate of income tax (normally 40 per cent.) is subject to tax on dividends at 32.5 per cent. Take for example a dividend of £80. The taxable amount is $\frac{10}{9} \times 80 = £88.89$. Income tax at 32.5 per cent. is £28.89 less tax credit $\frac{1}{9} \times 80 = £8.89$, i.e. £20. The net of tax dividend is £60.

UK resident corporate shareholders

A UK resident corporate shareholder will not normally be liable to UK taxation on any dividend received and will be able to treat the dividend plus the one-ninth tax credit as franked investment income. No cash payment is available from the Inland Revenue in respect of the tax credit.

Franked investment income may reduce the corporate shareholder's "shadow advance corporation tax" arising in respect of dividends which it pays.

Shareholders resident overseas

Corporate shareholders who are not resident in the UK for tax purposes are not liable to UK taxation on dividends received from the UK. Whether and to what extent such shareholders are entitled to any payment of the one-ninth tax credit in respect of such dividends depends in general upon the provisions of any double taxation convention or agreement which may exist between the UK and the foreign country in question.

Individual shareholders who are not resident in the UK for tax purposes are subject to UK income tax on dividends received from the UK, but the liability is treated as satisfied by the one-ninth tax credit. Special rules apply to individual shareholders who are not resident in the UK but who are Commonwealth citizens, nationals of member states of the European Economic Area, or fall within certain other categories of person within section 278 of the Income and Corporation Taxes Act 1988, and who as such claim personal reliefs from UK taxation.

12.3 Capital gains tax

Corporate shareholders who are resident in the UK for tax purposes are subject to UK corporation tax on chargeable gains on the disposals of shares. Individual shareholders who are resident or ordinarily resident in the UK for tax purposes will normally be liable to UK capital gains tax on taxable gains arising on the disposal of the shares.

Non-UK resident corporate shareholders, and individual shareholders who are neither resident nor ordinarily resident in the UK for tax purposes, are not subject to UK taxation on chargeable gains unless they carry on a trade or profession in the UK through a branch or agency and the shares are, or have been, used, held or acquired for the purposes of that activity or for the purposes of such branch or agency.

12.4 Inheritance tax

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

12.5 Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of shares, save to a person who issues depository receipts or provides clearance services in respect of such shares or to a nominee or agent for such person, in which case SDRT will be payable at the rate of 1.5 per cent. of the issue price. The Exchange will not meet such SDRT liability.

The above statements are intended only as a general guide to the current tax position under UK taxation law and practice of shareholders who beneficially own shares as an investment. An investor who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the UK should consult his or her professional adviser without delay.

13. MATERIAL CONTRACTS

The Exchange has not entered into any material contract (not being a contract entered into in the ordinary course of business) with any other party within two years immediately preceding the publication of this Information Memorandum. In addition, other than in respect of the Mortgage Debenture Stock, the Exchange has not entered into any contract at any time (not being a contract entered into in the ordinary course of business) which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this Information Memorandum.

14. LITIGATION

There are not and have not been any legal or arbitration proceedings (including any such proceedings which are pending or threatened by or against the Exchange) in the past 12 months of which the Exchange is aware which may have or have had a significant effect on the Exchange's financial position.

15. CONSENTS

Schroders, which is regulated by The Securities and Futures Authority Limited, is registered in England and Wales with number 532081 and has its registered office at 120 Cheapside, London EC2V 6DS, has given and not withdrawn its written consent to the inclusion in this Information Memorandum of its name in the form and context in which it appears.

PricewaterhouseCoopers, Chartered Accountants, of Southwark Towers, 32 London Bridge Street, London SE1 9SY has given and not withdrawn its written consent to the inclusion in this Information Memorandum of its report dated 2 February 2000 in the form and context in which it appears.

Cazenove has given and not withdrawn its written consent to the inclusion in this Information Memorandum of its name in the form and context in which it appears.

DTZ Debenham Thorpe has given and not withdrawn its written consent to the inclusion in this Information Memorandum of its name in the form and context in which it appears.

16. YEAR 2000 COMPLIANCE

The Exchange has conducted a comprehensive programme of upgrades and tests in order to ensure that all its systems are Year 2000 ready, both for the century change and also the leap year. This has involved internal testing and also testing with all market participants who have a direct interface to the Exchange's central systems.

The transition to the Year 2000 has passed smoothly for the Exchange and trading during the initial weeks of the new century has been conducted as normal. The Exchange will maintain increased vigilance over the coming months and is now working to ensure that appropriate arrangements are in place for the leap year.

17. MISCELLANEOUS

Since 30 September 1999, the latest financial period for which audited financial information has been published, save as disclosed in Part I of this Information Memorandum, there has been no significant change in the financial or trading position of the Group.

The annual consolidated accounts of the Exchange for the year ended 31 March 1999 have been audited without qualification by PricewaterhouseCoopers, and the accounts for the years ended 31 March 1997 and 31 March 1998 were audited without qualification by Coopers & Lybrand. PricewaterhouseCoopers and its predecessor firm Coopers & Lybrand are Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge Street, London SEI 9SY and 1 Embankment Place, London WC2N 6NN respectively.

Save as set out in Part II of this Information Memorandum, no other information in this Information Memorandum has been audited by the auditors.

18. EXPENSES

The total expenses payable by the Exchange in connection with the Proposals are estimated to amount to approximately £4.5 million.

19. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection at the registered office of the Exchange, London Stock Exchange, London EC2N 1HP during usual business hours on weekdays (excluding Saturdays and public holidays) from 2 February 2000 up to and including the date of the EGM:

(i) the existing and new Memorandum and Articles of Association of the Exchange;

(ii) the audited consolidated accounts of the Exchange for the two years ended 31 March 1998 and 1999;

(iii) the interim report of the Exchange for the six months ended 30 September 1999;

(iv) the Accountants' report set out in Part II of this Information Memorandum together with the statement of adjustments relating to it;

(v) the directors' service agreements referred to in paragraph 7 of Part IV of this Information Memorandum;

(vi) the letters of consent referred to in paragraph 15 of Part IV of this Information Memorandum;

(vii) the deeds constituting the £30m $10\frac{1}{8}$ per cent. Mortgage Debenture Stock 2016;

(viii) the form of contract for the transfer of B Shares held by the Share Trustee to the Exchange;

(ix) the valuation of freehold properties prepared by DTZ Debenham Thorpe;

(x) the Circular and the circular to A Shareholders dated 2 February 2000;

(xi) the draft documents establishing the Share Scheme as referred to in paragraph 8 of Part IV of this Information Memorandum; and

(xii) this document.

Dated 2 February 2000.

Part V: Definitions

In this Information Memorandum, the following words and expressions shall have the following meanings, unless the context requires otherwise:

"A Share"	a share of class 'A' in the Exchange;
"A Shareholder"	the holder of an A Share;
"Act"	the Companies Act 1985 (as amended);
"Annual Share Plan"	the Annual Share Plan forming part of the proposed Share Scheme as described in Part IV of this Information Memorandum;
"Articles"	the new Articles of Association of the Exchange to be adopted pursuant to the Proposals, which are described in Part IV;
"B Share"	a share of class 'B' in the Exchange;
"B Shareholder"	the holder of a B Share;
"board" or "directors"	the directors of the Exchange;
"Cazenove"	Cazenove & Co.;
"Circular"	the circular sent to B Shareholders on 2 February 2000;
"Competent Authority"	the UK competent authority for the admission of securities to official listing for the purposes of Part IV of the Financial Services Act;
"Council of the Stock Exchange"	the governing body of the Exchange pursuant to the Deed of Settlement prior to the appointment of the board in 1991;
"Deed of Settlement"	the indenture dated 31 December 1875 and made between (i) Thomas Biehl and others and (ii) Thomas Biehl and others as amended (being the constitution of the Exchange immediately prior to the adoption of articles of association in 1991);
"EGM"	extraordinary general meeting of B Shareholders to be held on 15 March 2000;
"Exchange"	London Stock Exchange Limited;
"Financial Services Act"	Financial Services Act 1986;
"FSA"	The Financial Services Authority Limited;
"FTSE International"	FTSE International Limited, a joint venture company owed equally by the Exchange and The Financial Times Limited;
"Group"	the Exchange and its subsidiaries;
"Information Memorandum"	this document;
"Initial Share Plan"	the Initial Share Plan forming part of the proposed Share Scheme as described in Part IV of this Information Memorandum;
"Member Firm"	a member firm approved by the Exchange under the Rules;

"Memorandum"	the new Memorandum of Association of the Exchange as changed pursuant to the Proposals, which is described in Part IV of this Information Memorandum;
"Mortgage Debenture Stock"	the £30 million 10⅛ per cent. Mortgage Debenture Stock 2016;
"Ordinary Share"	a new Ordinary Share of 5p;
"Ordinary Shareholder"	the holder of an Ordinary Share;
"Proposals"	the proposals referred to in the Circular for consideration at the EGM, including to cancel the A Shares; transfer and cancel the B Shares held by the Share Trustee; re-classify the B Shares as Ordinary Shares; increase the authorised share capital to £2,000,000; adopt the Memorandum and Articles; make a bonus issue of 99,999 Ordinary Shares for each Ordinary Share held; re-register the Exchange as a public company and approve the introduction of the Share Scheme;
"RIE"	a Recognised Investment Exchange under the Financial Services Act;
"RNS"	the Exchange's Regulatory News Service;
"Rules"	the Rules of the London Stock Exchange;
"SARC"	Senior Appointments and Remuneration Committee of the board;
"Schroders"	J. Henry Schroder & Co. Limited;
"Share Scheme"	the Initial Share Plan and the Annual Share Plan to be implemented as part of the Proposals as described in Part IV of this Information Memorandum;
"Share Trustee"	The Stock Exchange (Holdings) Limited;
"subsidiary"	subsidiary as defined in section 736 of the Act;
"techMARK"	the Exchange's market for innovative technology companies which was opened in November 1999;
"TOPIC"	a videotext terminal based information service which was run by the Exchange until December 1994;
"UK"	United Kingdom of Great Britain and Northern Ireland; and
"US"	United States of America.