THE WORLD IN ONE MARKETPLACE

London **STOCK EXCHANGE**

ANNUAL REPORT 1996

- **Value Creation** By operating successful markets we help issuers and investors to thrive, and our member firms to add value to their business.
- **Global Reach** Our markets attract the world's biggest companies and the largest international investors – helping make London one of the premier financial centres across the globe.
- **Efficiency** Speed, liquidity, immediacy of trading and appropriate regulation make the Exchange's markets among the most efficient in the world.
- **Integrity** Achieving the right balance between rules and cost is vital so that we protect investors and, at the same time, preserve the attractiveness of our markets.
- **Diversity** Dynamism, flexibility and innovation are the key to meeting the differing needs of our diverse range of member firms and investors.
- **Accessibility** We structure our markets to ensure that they can be accessed with ease by issuers, investors and intermediaries.

The world in one marketplace

Capital Raising

The London Stock Exchange provides a vital meeting place where supply and demand come together to serve the needs of investors and to satisfy the capital requirements of businesses worldwide.

As the United Kingdom's major Exchange, we serve the entire spectrum of UK companies, from the largest blue chip corporations, to smaller business start-ups.

- A record-breaking 362 domestic and international companies joined the Exchange
- Domestic companies raised £13.3 billion from issues (excluding eurobonds) on the Exchange
- At the end of March 1996 there were 2,316 domestic companies on the Exchange with a total market value of almost £925 billion, a record – up 18 per cent on last year's figure

Trading Services

The key to maintaining the Exchange's ability to provide effective markets for every sector is the efficiency and flexibility of its trading services.

To meet changing market needs and to improve the quality of the UK equity trading markets, the Exchange has been developing an integrated new electronic trading and information system which is due to be completed this year.

- Highest year ever for turnover in domestic equities – £682 billion – up almost 18 per cent on last year
- Foreign equity turnover reached a record figure of £865 billion
- Our Sequence programme – delivering our electronic trading platform – has involved 9,700 individual customer tests

Settlement Services

In 1995 we completed the biggest change in the settlement of shares for some 200 years, finalising the move from the account system to five-day rolling settlement.

Our Talisman settlement system performed at a high level throughout the year, and we moved smoothly toward the hand-over to the new electronic settlement system, CREST, which begins in summer 1996.

- In the year to end-March 1996, Talisman settled over 10 million bargains
- A daily average of over 41,000 bargains were settled by Talisman in 1995/6
- Since the Exchange launched T+5 on 26 June 1995, an encouraging daily average of 87 per cent of bargains by number and 90 per cent by value have settled on the due date

Regulatory Activities

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

Essential to striking that balance is the fostering of a service-driven culture throughout the implementation of our regulatory activities, while maintaining the highest standards of integrity in fulfilling our obligations.

- From 1 January 1996, new rules brought greater transparency with 75 per cent of trades by value being published immediately, compared with about 50 per cent previously
- Nearly 10,000 unusual price movements were identified and 1,150 were subject to detailed investigations
- Over 1,000 listed companies attended our advisory road-shows

Supporting Members

Membership of the London Stock Exchange stretches far and wide – from the largest investment banks in the world, to small local firms. Its 300 plus members work in a variety of environments, spanning a wide range of business interests. To serve their varied needs the Exchange depends upon the input it receives from its practitioner members.

- The Exchange's committee structure is designed to ensure practitioner input in all key areas
- The Exchange sponsored a visit to China in 1996 in association with its members
- The Exchange undertook the most searching examination ever conducted of UK private share ownership

Financial Management

Rigorous control of costs and sound financial management have ensured that the Exchange has established solid foundations for the future.

By reshaping the cost base, reducing staff levels and pursuing an aggressive property strategy, the Exchange has budgeted to accommodate the progressive loss of settlement revenue during 1996/7.

- Costs were cut by £16 million in the year 1995/6, to £161 million from £177 million in 1994/5. Further reductions are planned in 1996/7
- We made further progress in implementing our property strategy. The take-up by LIFFE of its allocated floors in the Tower, during 1996, will complete the full commercial letting of all the Exchange's surplus space

Above: John Kemp-Welch
Chairman, London Stock Exchange

The past year was a time of challenge and change for the Exchange. It was a period of achievement in a number of key areas, where the progress we made during the year will bring lasting benefits to the Exchange, its members and the markets we operate.

However, it was not achieved without some upheaval. In January 1996, the Board requested the resignation of Michael Lawrence, who had been chief executive since February 1994. The decision did not indicate a change to our ongoing policies; but the demanding programme of reform ahead required the appropriate leadership to be in place to take the Exchange successfully through this next taxing period.

As we go forward, our approach will be characterised by close co-operation with and understanding of the challenges faced by the users of our markets – members, issuers and investors. We believe this is the only way to make the progress necessary for us to achieve our aims.

In the year under review, co-operation, with both CRESTCo and the community of market participants, was the key to the difficult task of shaping the effective migration of settlement services from Talisman to CREST. I am pleased to say that the necessary planning has so far been carried out smoothly and efficiently, towards the completion of the migration to the demanding performance standards required.

Working with market participants

The creation of AIM – our new market for smaller and growing companies –

1995/6 was a year of significant progress for the Exchange

in mid-1995, was an example of the Exchange working with market participants to achieve mutual benefits. Research had shown there was a clear need for an innovative market of this type, and its success so far proves it to be the case.

I also believe it has demonstrated our ability, as an Exchange, to create and deliver appropriate markets to meet the specific needs of issuers and investors.

Throughout the year we also worked closely with members and information vendors to deliver successfully two phases of our new trading and information platform. The successful completion in August 1996 of the Sequence programme will, we believe, bring considerable benefits to our markets and their users. It has been a three-year programme of complex technological change, delivered on time and within budget.

We are also reasonably well advanced on developing proposals for the future structure of the market, which will include order matching.

Because of the profound nature of these changes, we have encouraged a full debate on the issues involved. I am pleased to say that there has been widespread support for the way in which the consultations have been handled.

On a broader front, we continue to look at how the Exchange can best be structured to meet, most effectively, the needs of the equity markets as a whole. As part of that process we are reviewing the Exchange's governance arrangements to see what refinements might be necessary. Moreover the Board and the executive team together are currently considering the Exchange's future shape and scope, with a view to putting in place a robust long-term strategy.

As our thinking on strategic issues has progressed, we have greatly valued input from our members and the users of our markets. Their contribution will continue to be very important, given the wide range of complex decisions which are on our agenda at the present time.

Regions

As well as looking forward, we looked back during the year to celebrate our long and proud history. It was a great pleasure for me to take part in anniversary celebrations in Newcastle and Birmingham, commemorating 150 years of stock exchange activity, and to celebrate 100 years in the case of Belfast. It was the coming together of all the regional exchanges that created the foundations of the Exchange which we have today. The key role of our regions in communicating with, supporting and reflecting back to the centre the views of our regional members and market users has never been more important.

In December 1995, the Irish Exchange separated from the London Exchange after 22 years. The separation, which was a result of EC legislation, was a complex process. It was conducted in the same spirit of co-operation and understanding which has always characterised the relationship between the two exchanges. We wish our former colleagues in the Irish Stock Exchange good fortune for the future.

International

Last year saw us increase our commitment to a strong international marketing policy – to play our part in helping to promote the London markets overseas and to do so in conjunction with our member firms.

This is a time of unprecedented international activity and we cannot lose sight of the fact that London is in competition with other financial centres. The removal of barriers to cross-border provision of investment services is a great opportunity for London to capitalise on our international reputation for integrity and effectiveness in the raising of capital.

A highlight of the year was a visit with member firms to India led by our deputy chairman, Ian Salter, in February 1996. The Exchange hosted conferences in Bombay and New Delhi which were very successful and are leading to further listings by Indian companies in London.

We also welcomed to the Exchange a senior delegation from the China Securities Regulatory Commission. Their visit to us has been followed, recently, by an international marketing trip to Beijing by the Exchange and a number of our member firms. China has the long term potential to be one of the world's largest marketplaces and I am hopeful that our exchange of visits will lead to fruitful areas of co-operation.

At the invitation of the Vietnamese Ministry of Finance, the Exchange organised and led a seminar on the creation of a capital market for Vietnam in Hanoi last July. The Exchange also participated in visits to South Africa, Eastern Europe, Latin America and Indonesia.

Working with Westminster

During the year we welcomed to the Exchange the Deputy Prime Minister, Michael Heseltine, the Chancellor of the Exchequer, Kenneth Clarke, the President of the Board of Trade, Ian Lang, the Economic Secretary to the Treasury, Angela Knight, and Labour's City spokesman, Alistair Darling.

Board and management

In July 1995, three directors retired from the Board. Rudi Mueller, Miles Rivett-Carnac and Herschel Post, all of whom are considerable City figures in their own right, made a substantial commitment and contribution to the Board and to the development of the Exchange. We owe them our gratitude and our thanks.

In their places we were pleased to welcome three new non-executive directors – Graham Allen, Richard Barfield, and Nigel Sherlock. Richard Kilsby also joined the Board and the Executive Committee as director of Market Services. Their contribution to the Board is already proving most valuable.

Deputy chairmen

Pending the appointment of a new chief executive, I was delighted that Ian Plenderleith, Board member and director of the Bank of England, accepted the Board's invitation to join Ian Salter as a deputy chairman to assist me during this period. Their experience and support have been immensely helpful to me.

I would also like to express my personal gratitude for the strong support both the Board and the executive team have given me during recent months which has enabled us to take the business forward, with no loss of momentum. And my thanks go to all members of the Exchange's staff for their hard work and resilience during a time of considerable change and intense public scrutiny.

I also want to acknowledge the major contribution that the Exchange's committees have made; their opinions and advice have been most valuable.

As we look forward, my conviction remains as strong as ever that by combining the best skills and traditions of the past with the flexibility to embrace new concepts and new technology that are essential to progress, our markets will remain the markets of choice.

I believe we are proving our ability to manage our business during substantial change. The achievements already realised, together with those that we intend to deliver in the future, will confirm the London Stock Exchange's key position as a provider of dynamic, and efficient equity markets. And I believe that they will ensure that the Exchange continues to make a full contribution to the UK economy and to the success of London as an international financial centre.

John Kemp-Welch
Chairman

Providing increasing value to members and market users

Our task last year was to manage the Exchange successfully through a period of considerable change, while laying solid foundations to support the even greater changes that lie ahead.

We carried forward a number of major issues very satisfactorily. And we began others, to position us well for the current financial year, and put the Exchange on course to become more competitive, more dynamic and to provide increasing value to its members in the future.

Our work to complete the Sequence programme – introducing the fully electronic trading services which are so important to the future efficiency of our markets – moved towards fruition.

These services, which will affect fundamentally the businesses of our member firms, have, like any major systems and service change, involved lengthy and complex planning. But when the final phase of our three-year, £90 million investment is delivered at the end of August – on time and on

Above: The Executive Committee (from left to right): Giles Vardey, director of Markets Development & Marketing, Claire Mascall, head of Corporate Affairs, Richard Kilsby, director of Market Services, Steve Hull, head of Personnel & Property, Christine Dann, director of Business Operations, Keith Robinson, secretary to the Board & head of Secretariat and Fields Wicker-Miurin, director of Strategy & Finance.

Left: LIFFE recently signed a major leasing agreement for space in the Exchange's Tower, situated in a prime location at the heart of the City. Left to right: Gareth Lloyd, facilities manager at LIFFE, Peter Barber, head of Estate Management at the Exchange and Steve Hull, the Exchange's head of Personnel & Property.

budget – it will support the markets we operate with one of the most flexible trading platforms in the world.

Anticipating needs

As well as meeting the immediate demands of the financial markets, we have to recognise underlying change and anticipate future needs. Our trading services now give us the ability to respond to change and have allowed us to embark on a fundamental exercise to develop the best market structure, rules and services to ensure the continued attractiveness of our markets as a place to raise capital, trade and invest.

During this calendar year so far, a great deal of time has been dedicated to intensive consultation with the market on the shape and scope of new trading structures.

The introduction of a public limit order book, which is described more fully on page 19, will bring to the investment and trading community the benefits of a greater range of trading services and the ability to respond to international competition.

During the remainder of the year we will progress the proposals in a measured and paced way, enabling the market to determine a framework which is viable and deliverable. And we will agree the best ways for achieving effective implementation.

Managing settlement changes

Another major achievement was the completion of our rolling settlement programme. Through close co-operation with the industry, we overcame misgivings in the market and delivered the move to T+5 highly successfully.

We also put the final building blocks in place for the move of settlement services to CREST. This involved an immense co-operative effort with CRESTCo and the industry, not just in developing our own arrangements, but in working together to devise the complex transition programme needed to ensure the effective transfer of stock.

For us, it has also meant the winding down of a major business. Managing that process has involved giving staff the help and support to look confidently to a future outside the Exchange, while providing a first class service efficiently up to the last moment. Thanks to the commitment of our staff we are confident that our core service will continue to perform as efficiently as ever during this testing time.

Regulating effectively

Clearly the systems underpinning our markets must be first class. But in an increasingly competitive world, (more so since the introduction of the Investment Services Directive), it is equally important that our trading rules and the way we monitor and regulate our markets are facilitators – not obstacles – to market growth.

In making regulatory decisions we have to achieve the right balance between rules and cost so that we protect investors and preserve, at the same time, the attractiveness and competitiveness of our markets.

The success of that balance is reflected in the new trade reporting regime that will apply after transition to CREST. The quality of data we will be able to accept from CRESTCo will allow us to monitor the market effectively, while keeping costs down. We are aware that this was an issue of concern to members and are pleased to have been able to deliver a positive result.

The same regulatory philosophy was also key to the success of AIM, our new market for young and growing companies. AIM's simple and innovative regulatory structure gives an appropriate level of investor protection but increases accessibility with minimal administration and cost.

Internationally, our changed approach to listing rules for emerging markets, promoting the growth of depositary receipts, resulted in a significant recapture of market share for London.

Strong financial footing

Acknowledging the future loss of income from settlement, we have taken the necessary steps to establish a solid financial base for the future. We have restructured our cost base, and begun reshaping our businesses, continuing to reduce our headcount and drive down costs. The adjacent charts show the downward trend in costs established over the last three years.

As part of the exercise, we are reviewing our pricing structure to simplify our charges and link them more transparently to the value they represent. In view of cost reductions throughout the business, we are confident that prices will be maintained at a level which is economic, competitive and acceptable to the market.

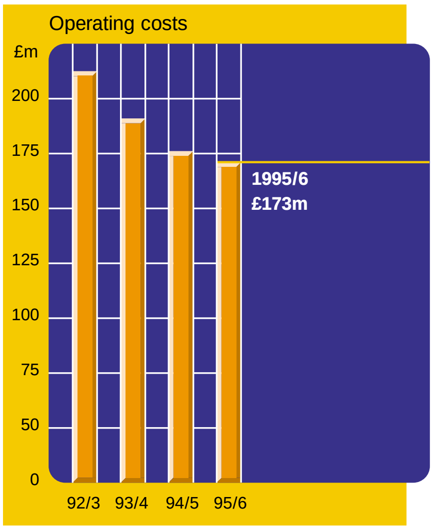
We have pursued a more aggressive policy for maximising the benefit of our property portfolio, for example, securing a leasing agreement with the London International Financial Futures and Options Exchange (LIFFE). We also took advantage of our strong financial performance to provide for changes in the market value of our property portfolio, consolidating our financial position going forward.

Future strategy

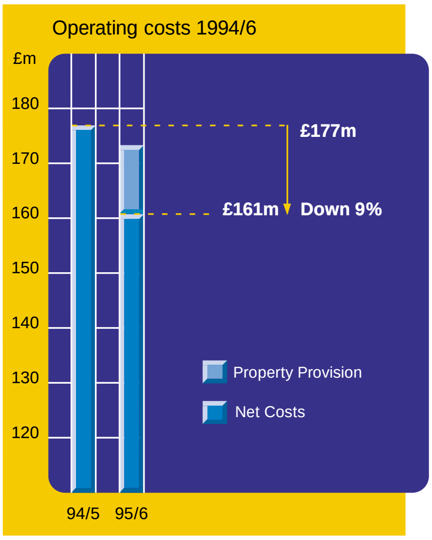
During the year we began a review of the Exchange's strategic direction, including a top to bottom appraisal of our activities and our cost structure. The review has involved detailed comparisons with other exchanges throughout the world. And we have consulted extensively with a wide range of domestic and international investors, issuers and intermediaries, to ascertain their needs and identify how the Exchange can better serve them.

Our strategic discussions are now well advanced. They identify the services we need to provide, how the Exchange can perform most effectively and most efficiently, and how, by the prudent and responsible management of our resources, we can provide best value to our members and to the users of our markets.

Our key task now, in planning the strategic direction and future of the Exchange, is to build on the foundations laid this past year, to ensure that we provide quality markets which are competitive and attractive to all participants.



Above: The cost per annum to run the London Stock Exchange.



Above: The reduction in operating costs showing the property provision for 1995/6.

Global equity markets – a time of change and opportunity for London

The financial period 1995/6 was a dynamic time for global financial markets. Stimulated by worldwide economic and political change, they responded vigorously to growing demand for capital.

The liberalisation of many economies, the demands for capital from emerging markets, and the growing programme of privatisations around the world, were all significant trends for capital markets. It has been estimated that the demand for capital from emerging economies is likely to exceed $1 trillion by the end of the century and the demand is expected to go on rising.

Major developments on the supply side include demographic changes in many developed countries, with the populations of Europe, Japan and North America growing older and richer. These are leading to substantial increases in the total funds for investment, which are more and more concentrated in the hands of large institutional investors.

Today, over 50 per cent of total investment funds worldwide are held by only 500 firms, managed by institutions located within the three principal markets of Europe, Japan and North America.

Increasingly, these and other investors are seeking investment opportunities outside their home markets. During the last ten years, there has been a five-fold increase in the value of cross-border institutional trading. This is a trend which is likely to develop further as fund managers increasingly seek investment opportunities in the emerging economies where demand for capital is growing.

As the world's largest international equity market, the London Stock Exchange is well placed to bring together supply and demand of capital to attract new business to London, for example by the promotion of the listing of depositary receipts.

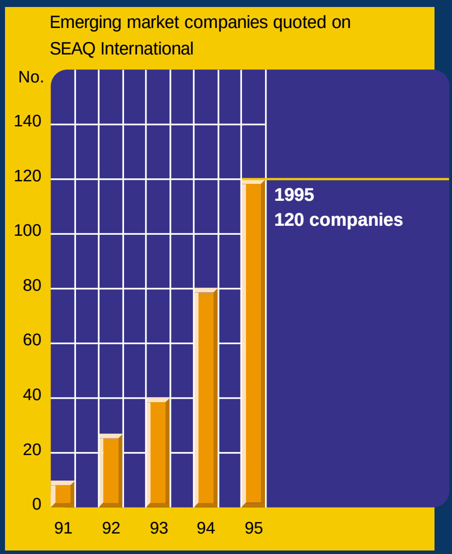
Ten years ago, when the London Stock Exchange created its SEAQ International market, most European markets were relatively inaccessible. At that time, SEAQ International was ideally placed to fulfil Europe's investment needs and it expanded rapidly. Since then, as these markets have matured, so the relevance of SEAQ International to price formation and trading in European markets has reduced.

Many of the conditions that existed in the mid-1980s for European markets now exist for emerging markets. The major trend of the mid-1990s for world markets is the channelling of funds from the major mature economies to the capital hungry emerging economies. And here, once again, London and in particular the SEAQ International market have a major role to play.

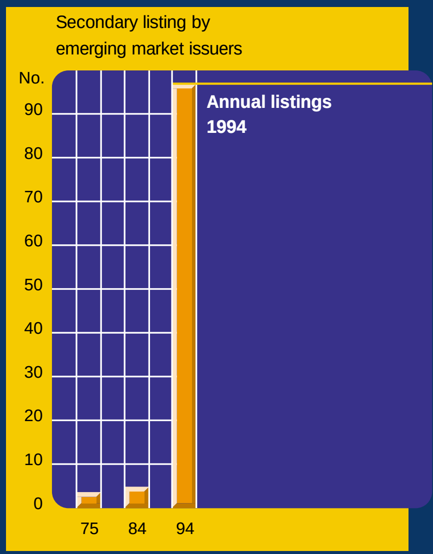
UK equities

1995/6 was a year of intense activity for London's equity markets, as trading volumes attained record highs. It was also a year which saw a reconfiguring of the traditional face of the City, with changing ownership among many well-known firms.

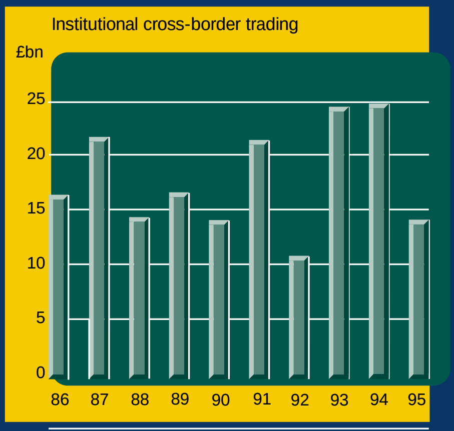
The index of leading UK shares rose in the year to end-March 1996 by over 17 per cent, prompted by record mergers and acquisitions involving UK companies. The value of mergers



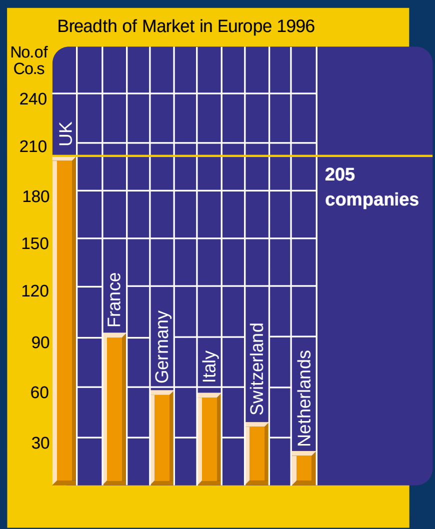
Source: London Stock Exchange



Source: London Stock Exchange, NASDAQ, Tokyo Stock Exchange, Luxembourg Stock Exchange



Source: Barings Cross-Border Analysis/Mercer Management Consulting Analysis



Source: Federation of European Stock Exchanges

and acquisitions during the last calendar year reached £32 billion, surpassing the previous peak of £27 billion in 1989.

Share prices rose both on the back of bid premiums and less directly through speculation in possible acquisition targets and reinvestment of bid proceeds. They also drew strength from strong company profits following corporate restructurings, and from three successive falls in interest rates.

Balancing this, downwards pressure from growing political uncertainty depressed sentiment, so that the UK FT-SE 100 ended March 1996 as the fourth best performing stock market index, following the Dow Jones Industrial Average (up 34 per cent), the Nikkei-225 (up 33 per cent) and the DAX index of leading German shares (up 29 per cent).

In the year ahead, the slow recovery in the UK economy is expected to continue to boost the equity markets. While political pressures will continue to impinge, the markets are likely to take strength as European economies move more soundly into recovery and as UK exports grow.

Top left: The Exchange provides access to emerging markets with its SEAQ International market.

Top right: Since 1975 listings in London from emerging markets have rocketed.

Bottom left: The value of institutional cross-border trading has increased five-fold since 1986.

Bottom right: London is the broadest market in Europe with 205 companies quoted on the FTA world index.

Powering future growth opportunities for companies worldwide

The London Stock Exchange is a vital meeting place where supply and demand unite to serve the needs of investors and to satisfy the capital requirements of businesses worldwide.

As the United Kingdom's major exchange, we serve the entire spectrum of UK companies – from the largest blue chip corporations to smaller business start-ups.

Registration, either on the Official List – the main market, or on AIM – the new market launched in June 1995 to cater for smaller companies, provides a sound base for capital raising, enabling companies to fund their expansion or to meet other financial needs.

The year in review was the London Stock Exchange's most successful year ever for attracting new companies to its markets. The record-breaking total of 362 domestic and international newcomers reflects an increase of almost a third on the 1994/5 figure.

New domestic listings

The Exchange's importance to the UK economy was reaffirmed, with

325 domestic companies joining the Exchange's markets, raising a combined total of £3.2 billion.

The National Grid Group, which was capitalised at £3.5 billion, was the largest UK company by value to join the Official List in 1995/6.

New small companies were also active in raising new capital through the Exchange. Of the domestic companies raising equity, over 90 had market values below £25 million, compared with 107 in 1994/5. There were a further 44 valued at less than £50 million. Between them, these smaller companies raised £0.9 billion.

Further issues by domestic companies already on the Official List (excluding eurobonds) raised £10.1 billion, of which £4.5 billion was raised by rights issues.

After the Irish Stock Exchange separated from the London Stock Exchange at the end of 1995, the total number of domestic companies registered on the Exchange was 2,316, with an equity market value of almost £925 billion.

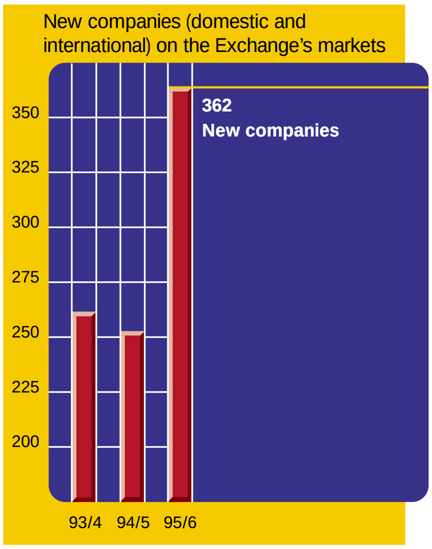
New international listings

During the year, 37 new international companies listed their shares or depositary receipts (representing shares listed on local exchanges). This was double the 1994/5 figure.

International issuers recognise that London provides access to a massive pool of investment capital, and to greater liquidity and visibility than may be available in their home market. By the close of 1995/6, 522 international companies from 40 countries were listed in London – more than on any other exchange in the world.

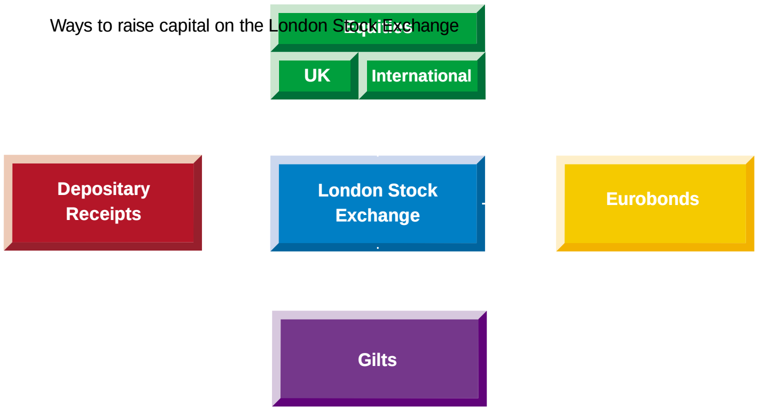
The Exchange is seeing a growing number of new issues from emerging markets, where it has a particularly valuable role to play in channelling investment to the fast-growing economies of the world. The Exchange's marketing efforts have been particularly focused on these markets, and on forthcoming overseas privatisations, where London's extensive knowledge and experience can be brought into play.

The Exchange's rules for listing depositary receipts (DRs), introduced

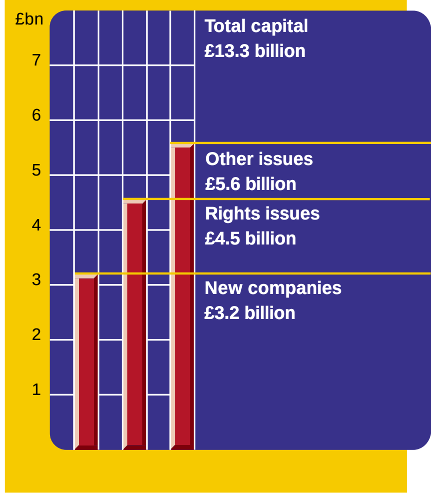


Above: The 1995/6 total of 362 domestic and international newcomers to the Exchange broke previous records, up almost a third on the 1994/5 figure.

Top: Nigel Atkinson, head of Listing at the Exchange (left) and Ian Roberts, head of Facilities at National Grid Group's Technology and Science Division in Leatherhead. National Grid Group was the largest UK company to join the Official List in 1995/6, valued at £3.5 billion.



Ways to raise capital on the London Stock Exchange



Capital raised by domestic companies by source

in 1994, have proved particularly successful in attracting issuers from emerging markets to London.

Depositary receipts are often more liquid and more easily transferable than the underlying shares, and appeal particularly to experienced, international investors interested in companies in emerging markets.

London now handles over a third of all DR issues worldwide. Last year saw the first DR issues from a number of developing markets including the Czech Republic, Hungary, Indonesia, Poland, South Africa, South Korea, Taiwan and Turkey. In total, 27 depositary receipt issues, raising £1.8 billion, were listed in London in 1995/6.

The number of eurobonds listed in London also soared. New listings reached 1,897 with proceeds of £67.2 billion, bringing the total number of London-listed eurobonds to 5,540. The 1995 figure for debt issuance programmes was 225.

The London Stock Exchange has also helped to promote the secondary listing of UK companies on European exchanges through our involvement with the Eurolist initiative. Through Eurolist, companies can use standardised procedures for further listing applications, and benefit from the co-ordination of company news of stock events across Europe.

AIM success

The Exchange's market for growing companies – AIM – began trading on 19 June 1995 and rapidly established its success. In the first 10 months 139 companies joined the market, raising over £220 million, with over two billion shares traded.

AIM offers smaller and younger companies access to new sources of funds, while providing investors with the opportunity to buy and sell shares. The rules of AIM are relatively uncomplicated and geared to the needs of growing companies.

The market is run, regulated and marketed by a team in the Exchange which reports to a management board and is supported by an external advisory committee. An extensive marketing programme targeting companies, investors and advisers is implemented with the support of the Exchange's regional offices.

The companies on AIM represent a diverse range of businesses from 23 different industrial and commercial sectors. The average market capitalisation of companies traded on AIM is nearly £20 million. However, half of all companies have a market capitalisation of £15 million or less.

AIM has a unique structure: instead of the market being policed directly by the Exchange, experienced firms of financial advisers – known as nominated advisers – are responsible for determining a company's suitability. This simple structure minimises bureaucracy, reduces cost and makes the market more accessible to younger, fast growing companies.

Companies joining AIM must appoint and retain a nominated adviser and nominated broker at all times. The nominated adviser must be drawn from a register of firms approved by the Exchange, having met specified criteria on experience and qualifications. The firm gives guidance and advice on the AIM rules and effectively acts as ‘quality controller’, confirming to the Exchange at the time of admission that the company has complied with the rules. Nominated advisers currently number 57 and are drawn from a range of brokers, banks, accountancy and law firms nationwide.

Nominated brokers, of which there are now 36, must be members of the Exchange and are required, in the absence of a market maker, to use best endeavours to match orders in a company’s securities.

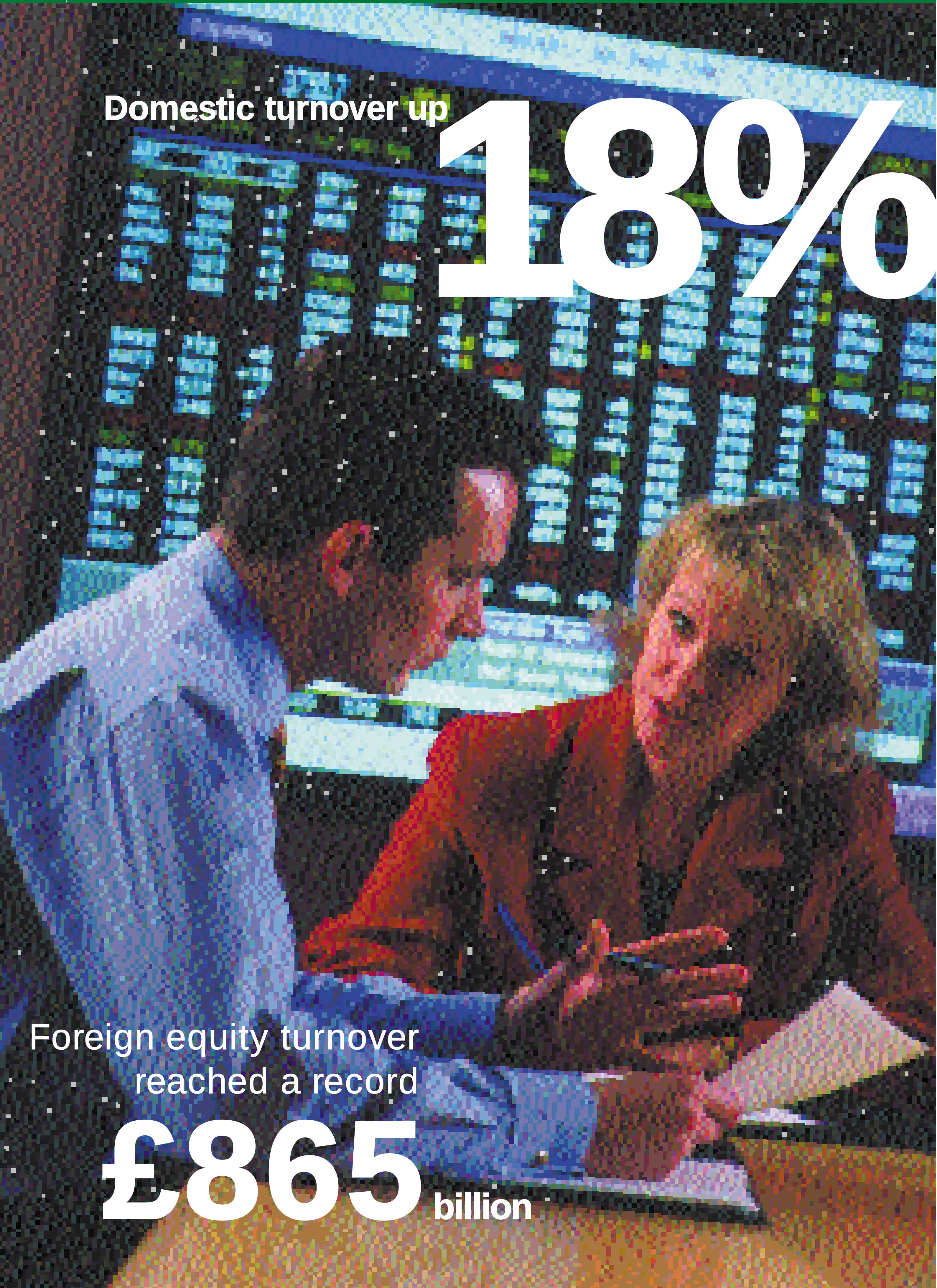
Trading on AIM

Trading on AIM is supported by the Exchange’s SEATS PLUS service with nine market makers and brokers registered to trade in AIM securities. By the end of March 1996, 71,665 bargains have been struck at a total value of £636 million.

In operating the AIM market, as with the Official List, the emphasis is on timely disclosure – with regulations to promote fair trading and a proper level of investor protection.

The nature of a market designed for smaller, young and growing companies implies a higher risk than for more established stocks. However, investors in AIM are mainly experienced, professional investors, able to balance the risk with an appreciation of the potential for higher returns.

Below: A key part of AIM’s success is its strong marketing strategy. Chief operating officer of AIM, Theresa Wallis (centre) talks through the next advertising campaign with Paul Anderson, creative director (left) and Philip Gregory, managing director of Citigate Albert Frank.



Domestic turnover up 18%

Foreign equity turnover reached a record **£865 billion**

Developing one of the most advanced ranges of trading services in the world

Efficient and flexible trading services are fundamental to the Exchange's ability to provide attractive and competitive markets.

The year in review was a highly active trading period – it was the highest ever for turnover in domestic equities – £682 billion. Foreign equity turnover reached a record figure of £865 billion.

To meet changing market needs and to improve the structure of the UK equity trading markets, the Exchange has been developing an integrated electronic platform which will give both trading and information services to a fully electronic market.

Our three-year, six-phase delivery programme – known as Sequence – moved nearer to conclusion during 1995 with the successful implementation of the fourth and fifth phases.

Acceptance of the sixth and final phase of software, in mid-January 1996, marked the end of the development stage of this major project. We remain on target to complete implementation on 27 August 1996, when the fully automated electronic capability, with its wide range of associated services, goes live for both UK and international markets.

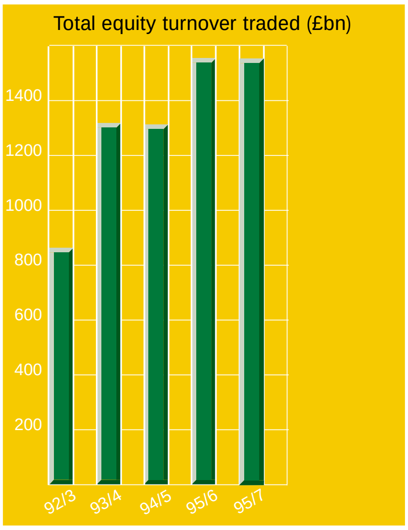
The new system replaces all the Exchange's existing trading and information systems. And, because of its flexibility, it has the built-in capability to evolve to meet the market's future needs, with significantly less disruption and cost to market users than has previously been the case.

All six stages of this complex technology programme have been carried out in conjunction with Andersen Consulting, and each phase has been delivered on time and on budget. At its peak, the programme involved a project team of more than 150 people, working to produce more than 750,000 lines of software, and carrying out 425 testing phases. Individual customer tests have totalled 9,700, with the joint Exchange and Andersen team carrying out the most rigorous trialling procedures ever undertaken by the Exchange.

The following section describes the requirement for the Sequence programme and details the key events and deliveries of the three year project.

The Sequence programme

Having been built up on a piecemeal basis since before Big Bang, the Exchange's trading and information systems became difficult and expensive to maintain and increasingly unreliable. The decision was taken in 1992 to replace them in full. Streamlining



Left: Throughout the year, the Exchange gave demonstrations of the potential new market structure to market participants.

projects were undertaken to reduce IT operating costs and so to fund the development of what would become known as the Sequence programme.

The new system provides the platform for the Exchange to respond to rapidly changing business requirements and to maintain its position as one of the leading international exchanges.

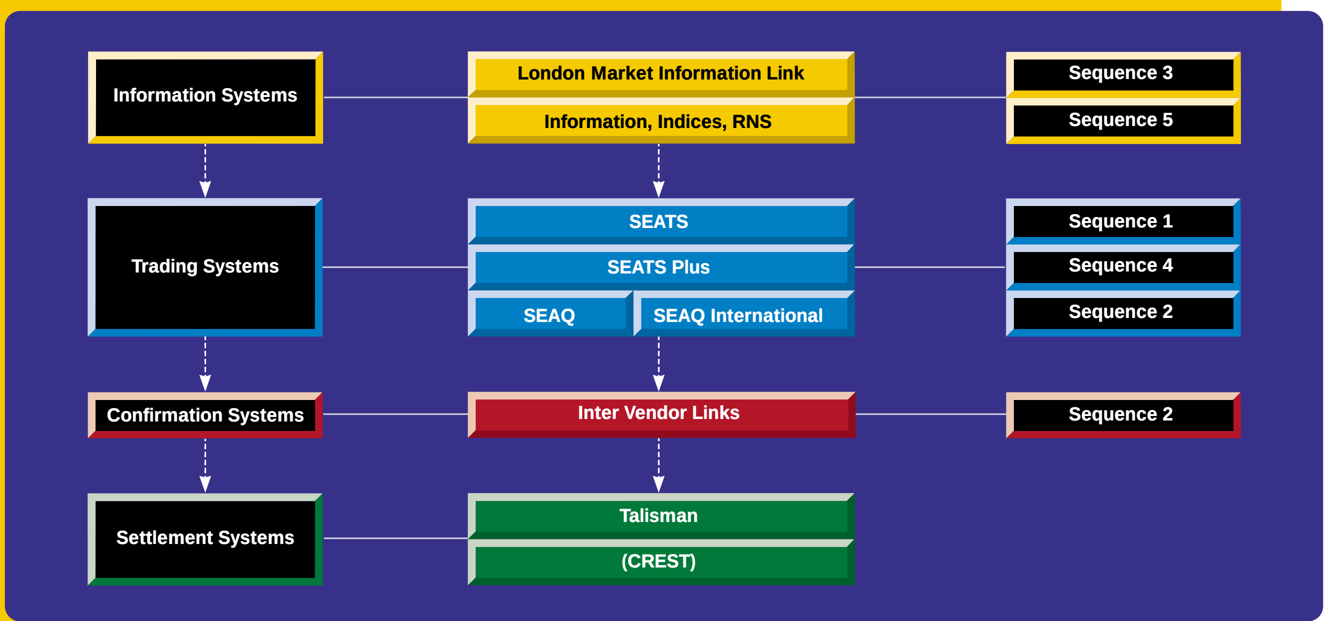
Key landmarks in the Sequence programme include:

- Sequence 1 – August 1993
  Phase one of the programme made the SEATS order market available in a digital form – enabling the wider distribution of information for this market in less liquid stocks.
- Sequence 2 – October 1994
  Phase two saw the introduction of Inter Vendor Links to enable cross-service use of trade management services.
- Sequence 3 – November 1994
  This phase introduced the UK Marketline service – the primary source of UK price information for market professionals and information vendors. More significantly, it created the technical infrastructure for the new trading and information services.
- Sequence 4 – June 1995
  Sequence 4 saw the enhancement of the SEATS service for less liquid stocks by the introduction of electronic order hitting. The new service SEATS Plus included prices, trades and volumes and reference data. The flexibility of the system allowed it to support the rapid introduction of AIM in 1995.
- Sequence 5 – September 1995
  Sequence 5 introduced new services for UK information, indices and the Regulatory News Service. Also, late in the programme, it was extended to meet the international trade reporting and publication requirements of the Investment Services Directive. This was achieved without any delay.
- Sequence 6 – August 1996
  The sixth and final phase completes the jigsaw. It launches replacement SEAQ and SEAQ International trading services. It will also enable trading in an order book as well as by telephone, completing the introduction of electronic trading begun at the time of Big Bang.

To support the roll-out of the programme, Andersen Consulting developed, with the Exchange, a comprehensive customer testing service based on the simulation of real business conditions. This service has been fully supported by a team of test analysts, who are on hand to help customers solve problems as they arise. The service has helped every customer to enhance their systems to interface with the Exchange and they have been ready to go live at each release date. This level of preparation for each new stage of the Sequence programme is believed to have saved market users millions of pounds.

As part of its broadly-based commitment to the success of the

London Stock Exchange trading systems



new services, the Exchange has also co-ordinated and synchronised the work of other interested parties. These include the information vendors, who provide the work station access to its market services and software houses. And, recognising the need for every member firm in the country to be able to connect with its markets, the Exchange has provided extensive advice and technical support, together with an integrated data network link, by which every member firm in the UK can access the new services.

Future developments

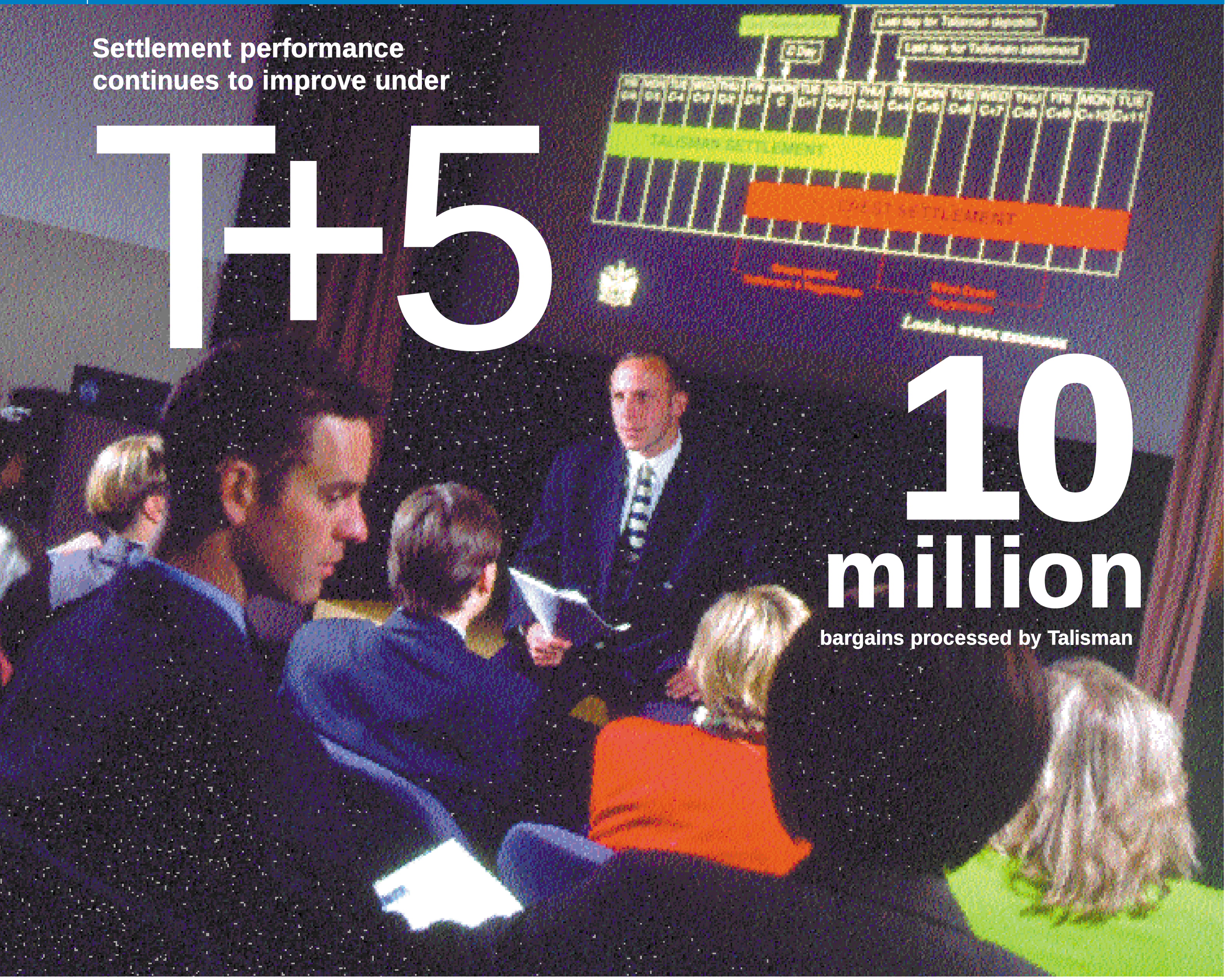
Looking to the future, the Exchange is now working to provide greater flexibility of trading styles, reflecting the fundamental structural change which has taken place in the markets in the last few years.

In March 1996, it was agreed that an order book should be introduced for the FT-SE 100 stocks with a block trading regime for large deals. Under order-driven trading buy and sell orders will be entered on a central electronic system and automatically executed when they match.

The order book should produce better value for investors and enable member firms to focus their risk capital more effectively.

By autumn 1996, the Exchange expects to have completed the final phase of an extensive and thorough consultation with member firms and a wide range of market participants and end users on the detail of the structure, regulation and implementation of these new services. When they are introduced, during 1997, they will significantly improve the quality of the markets and boost the overall competitiveness of London.

Above: Screens at the UK trading desk at Morgan Stanley provide dealers with information from the London Stock Exchange that is vital to their business.



Laying the ground for effective transition of settlement services

1995/6 was a busy and demanding year for settlement. We completed the biggest change in the settlement of shares for some 200 years, finalising the move from the account system to a five-day rolling settlement cycle.

Throughout this period of change, we continued to deliver an efficient, reliable settlement service with performance at a high level. For the year to March 1996, the system settled over 10 million bargains. At the same time, we worked to lay the foundations for a smooth and efficient transition of settlement from Talisman to CREST. Our work to prepare the market for the move to the new fully electronic service, which will begin to be introduced in July 1996, is progressing well – on time and on budget.

Left: A settlement transition seminar – one of a major programme of seminars that was held during the year.

Rolling settlement

The Exchange's move to a five-day settlement regime (T+5) on 26 June 1995 was achieved smoothly, despite some concerns by market participants. The new timescale, which is more in line with other major financial centres, became accepted rapidly.

As part of the rolling settlement programme, the Exchange made a significant number of enhancements to its settlement services which in turn helped its members and other settlement participants to change their methods of working to adapt to a shorter settlement cycle.

Best practice

With the aim of supporting and encouraging the industry's efforts to improve settlement performance, the Exchange produced its UK Securities Industry Equity Settlement Code of Good Practice in December 1994. This established targets against good practice activities for both member firms and other participants involved directly in settlement.

In October 1995, the Code was updated in the light of experience of T+5 and other regulatory bodies have been asked to recognise it.

Settlement performance

To support the Code of Good Practice, the Exchange publishes monthly statistics identifying performance against standards set.

Since T+5 was introduced, an encouraging daily average of 87 per cent of bargains by number and 90 per cent by value have settled on the due date. Some private clients continue to take advantage of Exchange rules which allow non-standard settlement dates, with around 10 per cent of bargains by number dealt for T+10.

Registrars' performance monitoring

In August, the Exchange and the major service registrars agreed a contract detailing standards of efficiency and performance under five-day settlement. The contract – the result of co-operation between the Exchange and the British Bankers Association – imposes obligations on registrars related to the Code of Good Practice.

Major service registrars now submit a statement to the Exchange each month giving details of their performance, including share certificate dispatch. The Exchange will carry out audits to verify the information received.

This brings major registrars into line with other direct participants in the settlement process – member firms, custodians and institutional investors – with the Exchange imposing and enforcing performance standards on participants who are vital to the success of the process.

Dematerialised stock lending

In October, the Exchange introduced dematerialised stock lending (DSL). The service offers major institutions and custodians easier and lower-cost custody, settlement and administration by holding stock in dematerialised form under the direct electronic control of the participating organisation. The Exchange currently holds stock valued at around £15 billion in the DSL service.

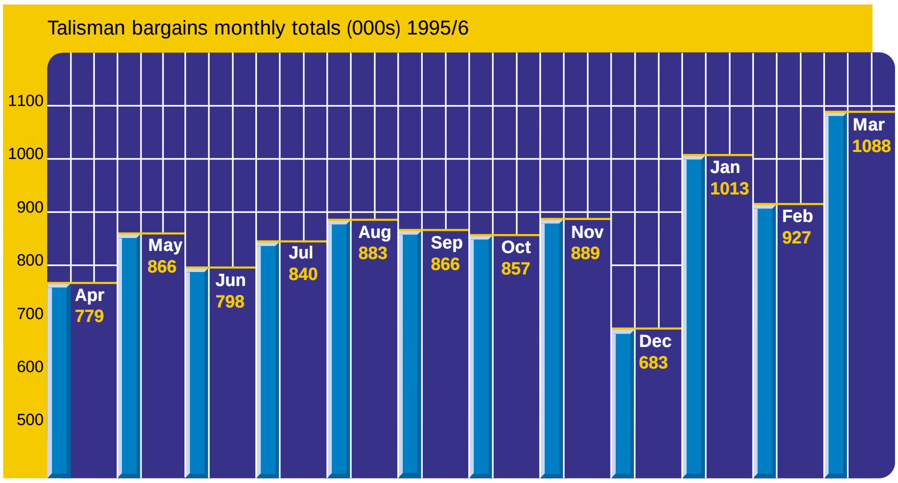
CREST

The Talisman system has delivered a consistent, high quality service every day since its introduction in 1979. But the industry now needs to move on to a more modern service that can support better the even shorter settlement cycles which are becoming the standard internationally.

This will be provided by CREST, developed as a result of the recommendations of the 1993 Task Force on Securities Settlement. It will be operated by CRESTCo, a company in which the Exchange is a shareholder.

The Exchange will play a vital role in the smooth transition from Talisman to CREST, working closely with CRESTCo and with market participants to ensure that transition is a success. Migration of securities from Talisman will begin in earnest at the end of September 1996 and will take about seven months to complete.

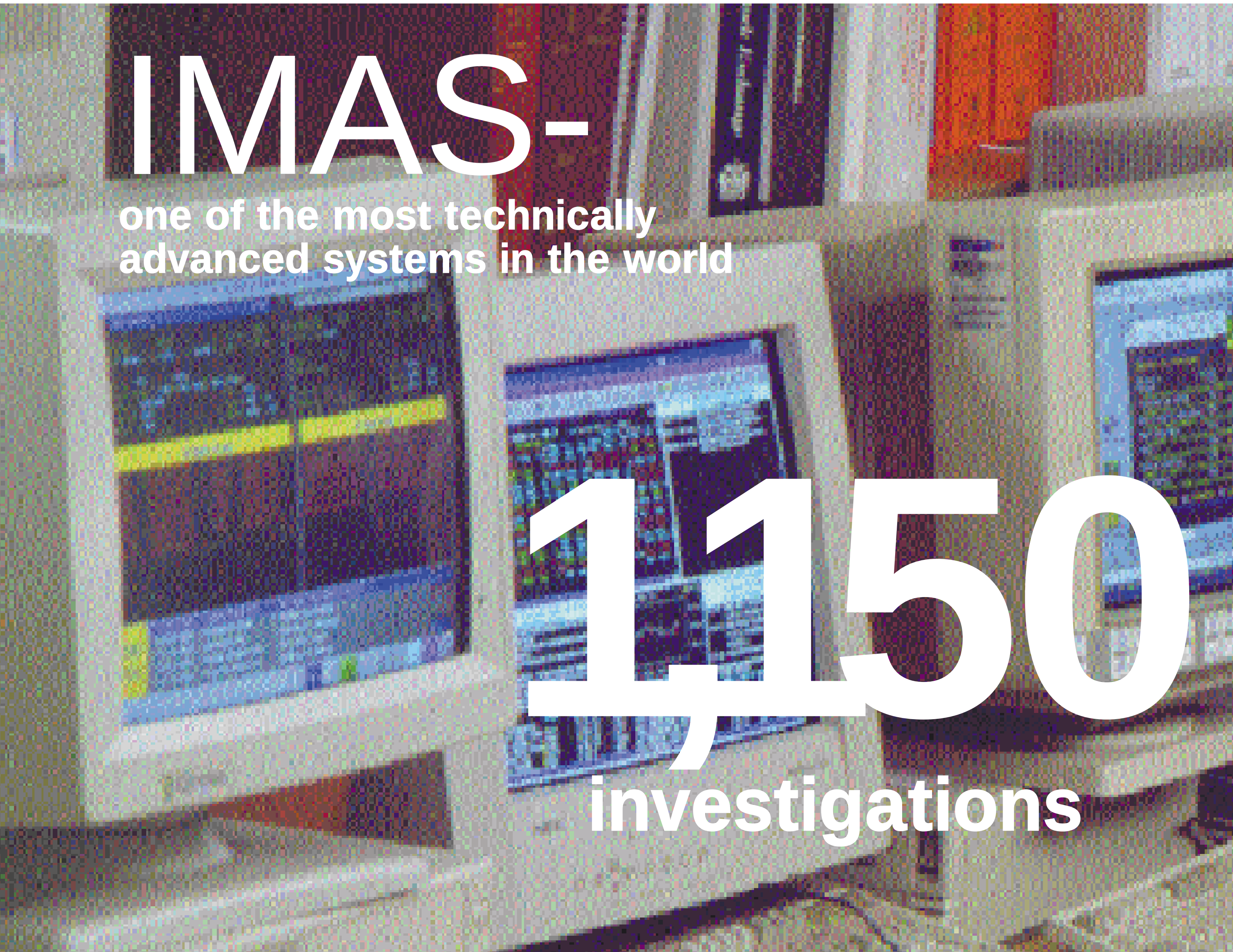
Once all eligible securities are being settled by CREST, Talisman is scheduled to be closed in April 1997.



Integrity and fairness are vital for successful markets

The success of London's equity markets in attracting companies, investors and intermediaries is dependent on and reflects the quality and efficiency of the regulation which the Exchange provides as an integral part of its service.

In imposing and enforcing rules, we must provide sufficient regulation to protect investors, giving them confidence to use the markets and perceive them as fair. At the same time, we recognise that regulation must not overburden



issuers and intermediaries by adding to overall costs, thereby reducing the efficiency and competitiveness of the markets for raising capital, facilitating trade and providing liquidity. Our guiding principle, therefore, which we reconfirmed during 1995/6, is that regulation must add to the attractiveness and long-term viability of our markets – but that we should not regulate for regulation's sake.

Essential to striking an appropriate balance is the fostering of a service-driven culture throughout the implementation of the Exchange's regulatory activities, while maintaining the highest standards of integrity in fulfilling our obligations. To help strengthen this customer-focused approach we reviewed and restructured our Market Regulation department during the year under review. We will be undertaking a similar exercise in the Listing department during 1996. The new organisation will give greater clarity overall, and provide a clear operational structure for the integration of the various regulatory activities of the Exchange.

The Listing Rules

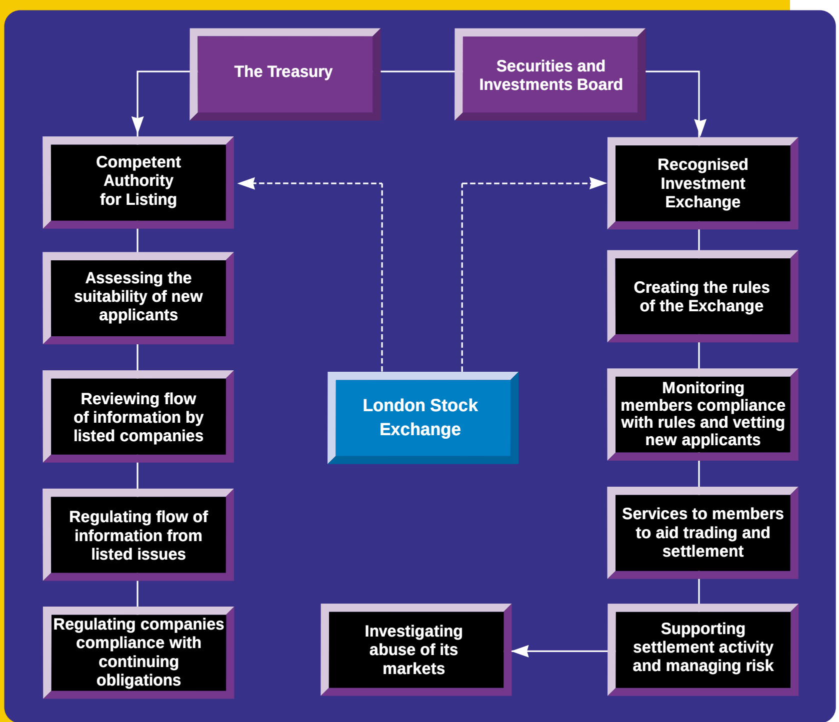
A key area spotlighted under the strengthened focus was the Yellow Book, containing the Listing Rules which are produced by the Exchange as a function of its responsibility as the UK's Competent Authority for Listing.

Below: The Exchange's integrated monitoring and surveillance system – IMAS – is one of the most advanced systems in the world.

During the year a major review of the rules was conducted, to eliminate a number of outdated regulations and simplify the procedures for listed companies. The clarity and conciseness of the rules were considered and each of the approximately 1,000 rules was assessed on the basis of whether it was needed for the proper protection of investors or to enact a mandatory European Union directive.

The review was thorough, involving extensive consultation with the market. It resulted in a number of amendments, including the deletion of Class 1 circulars and the removal of the rules on the methods of the flotation. Companies now have to make a positive statement that the business is a going concern. Also new rules were introduced to enable Venture Capital Trusts to be listed.

London Stock Exchange regulatory framework



In October, following the recommendations of the Greenbury Committee, the Exchange introduced new rules requiring companies to:

- disclose information relating to directors' remuneration
- make a statement of compliance with the best practice provisions regarding remuneration committees
- make a statement that full consideration has been given to the best practice provisions relating to remuneration policy, service contracts and compensation.

The Exchange is consulting on a new rule to implement the recommendations of the recent consultation carried out by the Institute and Faculty of Actuaries concerning the disclosure of directors' pension entitlements.

Guidelines for regulators

In January the Exchange published a set of guidelines for industry regulators regarding price sensitive information. These guidelines were widely welcomed, and will reduce the likelihood of disorderly markets developing. They will also minimise the risk of potential insider dealing in shares of regulated companies before the official release of price sensitive information by the regulators.

While the Exchange has no official authority to impose rules upon the regulators, the guidelines were produced as a result of extensive consultation and have the full support of all parties involved.

Informing and advising

Recognising its key role in informing and advising those affected by its rules, the Exchange undertook during the year a major information programme of 20 seminars around the UK on changes to the Listing Rules and other matters affecting listed companies.

Left: The Exchange's Regulatory News Service (RNS) processes information from companies – helping to ensure that all price sensitive announcements are released to the market at the same time. Over 96,000 announcements were released to the market last year.

The principal objective of the programme, which was organised with the help of the Exchange's regional managers, was to give listed companies the opportunity to hear first-hand about the recent rule changes and to give feedback.

We were very pleased that over 1,000 listed companies took part, representing approximately 60 per cent of UK companies.

At the seminars, the opportunity was also taken to describe arrangements for the transition from the Talisman settlement service to CREST, as well as transitional arrangements for companies transferring from the Unlisted Securities Market to the Official List.

Monitoring and enforcement

We also worked during the year to increase our ability to carry out effective monitoring and enforcement of the trading rules.

The markets are monitored principally using the integrated monitoring and surveillance (IMAS) system, which allows the Exchange to monitor, on a real-time basis, activity in its markets. IMAS is one of the most technically advanced monitoring systems in the world and is currently being developed still further to enhance its capabilities for the future.

In our role as the front line detection mechanism for identifying potential cases of insider dealing and other market abuse, the Exchange highlighted nearly 10,000 significant price movements and carried out 1,150 subsequent inquiries during the year.

Where evidence is found of illicit activity, we refer the matter to the appropriate investigatory or prosecutory body. During the year, 28 referrals were made to the Department of Trade and Industry concerning potential insider dealing.

We welcome the recent calls for additional measures to combat insider dealing, including potential civil remedies, which we believe are necessary to enhance London's reputation.

Publication and transparency

Following the Equity Market Review by the Securities and Investments Board (SIB), the Exchange announced in July 1995 that it had made a number of changes to its publication rules in the domestic equity markets. These were designed to bring greater transparency to the markets and achieve immediate publication of 75 per cent by value of all trades. We are committed to a further review this summer.

The transition from the Talisman settlement system to CREST has involved a huge amount of work for the industry, and has meant a major number of changes to regulation.

As part of our commitment to effecting a successful transition, we have worked with the SIB and CRESTCo to devise a method of transaction reporting which minimises the burden on the securities industry.

The arrangement we have been able to put in place will keep costs to a minimum, while maintaining the integrity of the Exchange's regulatory information.

Working together with members and the wider financial community

Membership of the London Stock Exchange stretches far and wide – from the largest investment banks in the world to small, regional firms. Its 300 plus members work in a variety of environments, spanning a wide range of business interests.

To serve their varied needs, the Exchange depends upon the input it receives from its practitioner members. It values highly their contribution, whether in informal meetings, through its wide consultative processes through its regional network, or through its formal committee structure. The Exchange has over 30 committees, made up of a wide range of representatives from the financial sector. These committees deal with a broad spectrum of development and regulatory issues from the new trading services to detailed changes to the listing rules and rules for members.

Working with members

As well as providing markets that are recognised around the world for high standards of regulation and trading services, the Exchange works to promote the business interests of its member firms.

Right: Ian Salter, one of the Exchange's deputy chairmen (left), taking part in the Exchange's recent conference in Beijing. During the year, the Exchange worked closely with its member firms to organise this and other conferences overseas.

300
Delegates attend Exchange seminar in China

A particular emphasis during the year has been a heightened level of activity by the Exchange's international marketing department. It included a visit to India early in 1996. This visit, which was well supported by member firms, involved two seminars in New Delhi and Bombay, which were attended by over 200 representatives from the Indian Government and India's top companies.

Private client brokers were supported through the Exchange's regional offices in Belfast, Birmingham, Glasgow, Leeds, London, and Manchester. The regional programme of developing and maintaining links with the business community included a nationwide series of seminars and conferences, helping to keep brokers, advisers and companies up to date with changes to its markets and rules.

Also on behalf of private client brokers and their customers (smaller investors) the Exchange undertook the most searching examination ever conducted of private share ownership in the UK. The Committee on Wider Share Ownership is a group of leading and knowledgeable practitioners, under the chairmanship of Sir Mark Weinberg. Since September 1995, they have been examining thoroughly the current situation on share ownership under broad terms of reference.

Small investors

Today, more than 10 million people own shares, while many more belong to a pension scheme or have an insurance policy invested in shares traded on the London markets.

The Exchange has helped support the small investor through the setting up in 1992 of ProShare, the organisation committed to promoting individual and employee share ownership in the UK.

The Exchange continues to sponsor ProShare and three directors of the Exchange are members of the ProShare Board.

Listed companies

The Exchange works on behalf of, and with companies to encourage growth. It is constantly developing its rules to encourage wider investment while keeping a level playing field for investors. Over the year, the Exchange organised a series of road shows in conjunction with its regional offices, which travelled the country advising company representatives of changes to the Listing Rules and on settlement.

This year a major project was undertaken to incorporate the recommendations of the Study Group on Directors' Remuneration (the Greenbury committee) into the Exchange's Listing Rules. We consulted widely with listed companies nationwide, both directly and through discussions with the CBI and with market practitioners, and the new rules were designed to be interpreted consistently by both companies and their advisers.

Working with Westminster

The Exchange has continued to promote good working relations with Ministers and Opposition frontbench spokespeople and we welcomed a number of senior figures from both sides of the House to the Exchange during the year.

For several years, the Exchange has belonged to the Industry and Parliament Trust, which exists to promote understanding of business matters among members of both Houses of Parliament.

Left: Pupils from Gunnersbury school, West London taking part in the ProShare School's Challenge.

During the current year, the extent of the Exchange's involvement with the Trust has increased and a programme of visits by back bench Members of Parliament and by members of the House of Lords has been established.

Earlier this year we gave evidence to the House of Commons Treasury Select Committee on the steps we are taking to maintain our competitive position in world markets. As part of that process we were pleased to welcome a number of the committee members to the Exchange for a demonstration on how changes to the market structure will enable us to fulfill our members' needs.

Annual report awards

The Exchange believes that it is vital to the market that information published by companies is of the highest standards. To encourage high standard of financial reporting, the Exchange co-sponsors the Annual Awards for Published Accounts with the Institutes of Chartered Accountants.

Reports from all companies listed on the London Stock Exchange are considered by a panel of judges comprising senior representatives from the investment community, accountancy and law. In 1996, Reuters won the large company category while Triplex Lloyd took the small company award for the second time.

Charitable donations

Donations to charity by the Exchange recognise its wider role in the community – particularly supporting the City's needy. The focus for donations remains with charities within the inner London area covering categories as wide as the arts, community services, education, enterprise, medical and environment. Donations for the year totalled over £113,000 including over £7,000 to match donations raised by staff.

Two new organisations to receive support for the first time were Action for Kids and the Association for All Speech Impaired Children. During the year, organisations receiving major donations from the Exchange included Birkbeck College, St Mungo's and the Spitalfields Festival.

We have invested for the future and cut our costs

In the past financial year we have invested substantially for the future and at the same time, cut our costs significantly, laying the foundations for a solid, financially viable Exchange in the years ahead.

While we are not a dividend paying organisation, we are more focused than ever on providing value to our shareholders. We will do this through lowering costs and through the quality of our services which support our members' business in our markets.

Financial strategy

Financially, we aim to be self-funding over time. Through the prudent management of the assets and resources entrusted to us, we will be able to continue to invest in the quality of our trading, information and regulatory infrastructure and services which underpin our markets.

The major financial issue we are facing today is the imminent loss of revenue from our Talisman settlement services as and when Talisman-settled securities migrate to CRESTCo in 1996/7.

As you can see from our accounts, revenue from settlement represents just over one-third of our total revenue. To meet our self-funding objective, therefore, we have used this past financial year to plan and prepare for the 'post-Talisman' world. We have conducted a thorough analysis of our cost base and structure to identify how we can reduce it without damaging the competitiveness of our markets.

As the accounts show, we have already begun to reduce our costs. Equally importantly, we have taken advantage of the strong performance in income this year to provide for known rationalisation costs and losses next year when we will have to operate Talisman at a loss during the final months of migration to CREST.

In addition, we made further progress in implementing our property strategy, bringing staff together into fewer properties, and achieving the maximum letting of surplus space. In this regard, we are delighted to confirm that we have signed a sub-lease of space in the Stock Exchange Tower, including the Market Floor, with LIFFE. This is an excellent agreement for both parties, and will provide valuable income for the Exchange. The majority of space in our leasehold properties has now been let, and provision made for the net present value of future payments for lease rentals, less the expected receipts from sub-tenants in those properties. With the same objective of providing for the future, we have also made a provision of £12 million on our freehold properties which may be surplus to our needs post-Talisman.

Turning now to the financial year just ended:

Income

Levels of activity in the Exchange's markets remained strong, and income for the year, at £196.1 million, exceeded last year by 2.6 per cent. With market activity higher than for many years, the income from trading fees and settlement services reached record levels.

As we had anticipated following the transfer of customers to the new ICV-TOPIC services last year, our income from information services showed a decline in this past year (down £7.7 million). Our income from other information services held up well and was in line with last year.

Although slightly down from last year's high, income from listing was still strong at £27 million. An impressive 186 new domestic companies joined the Official List during the year, while in the first 10 months 139 companies joined AIM.

Operating costs

For the third year in succession we reduced our cost base. Allowing for a one-off depreciation charge of

£12 million against the value of our freehold properties, we reduced our operating costs by £15.8 million, or 9 per cent. Even including that charge, bringing total costs to £173.3 million, our costs were 2.1 per cent lower than last year. These results represent a concerted and focused effort by all Exchange staff to monitor costs carefully and reduce them actively.

We have achieved this reduction in costs while continuing to invest in first-class services to support the market. The investment in the replacement and enhancement of the Exchange's information and trading platforms through the Sequence programme is nearly complete. This programme, which has involved investment of £90 million over three years, has been entirely self-funding from the savings achieved in annual operating costs.

Rationalisation of settlement

As referred to above, our accounts include a provision for the costs of rationalising our settlement operations. The settlement of securities, which is currently carried out through our Talisman system, will begin to be transferred to CREST in July of this year. Directly related costs incurred so far amount to £0.5 million, and we have made a provision for future costs of £19.0 million. The main costs that the Exchange will incur are staff redundancies, trading losses during the final stages when the operation continues below break-even, and required system changes.

Final results

After the exceptional settlement provision, but benefiting from higher net interest income, we ended the year with a pre-tax surplus of £9.5 million.

The taxation charge of £7.5 million looks unreasonably high at some 79 per cent of the pre-tax surplus. This is mainly because of the £12 million property provision referred to above, which has reduced our surplus, but is not allowable as a tax deduction. After tax and the appropriation to the Irish Stock Exchange of £1.2 million following our de-merger during the year, we are transferring £0.8 million to reserves.

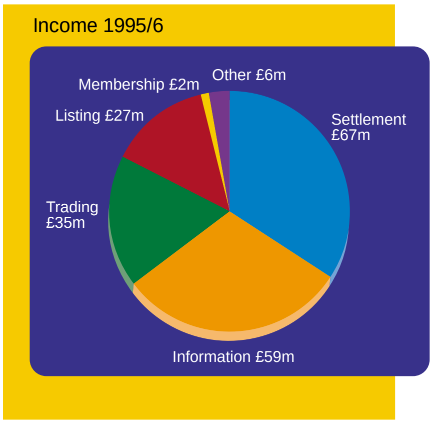
Balance sheet and cash flow

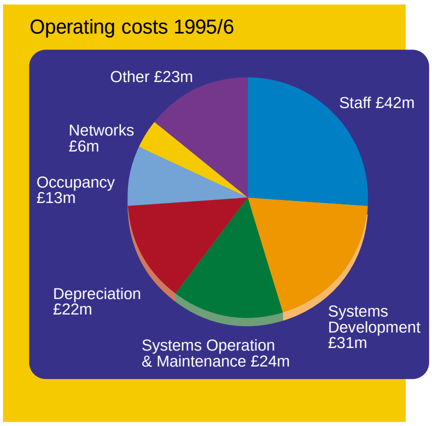
We had a very strong positive cash flow during the year, with the inflow from operating activities more than offsetting taxation, capital investments and financing requirements. We took advantage of our position to repay our bank loan drawn down at the time of the Taurus development. We also repaid our 7 1/4 per cent debenture. The £30 million debenture is now the only loan outstanding.

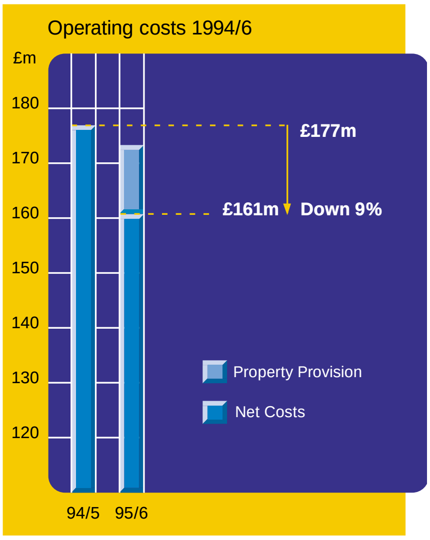
End-of-year settlement balances were at a more normal level this year, after the exceptionally high balances last year due to the acquisition by Glaxo Holdings of the Wellcome shares in SEPON. Operating cash balances and working capital are adequate to meet normal business requirements.

Going concern

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



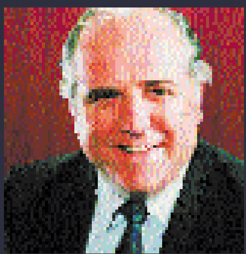





Ian Plenderleith

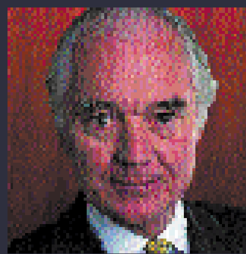

John Kemp-Welch


Ian Salter


Gary Allen, CBE, DL


Graham Allen


Richard Barfield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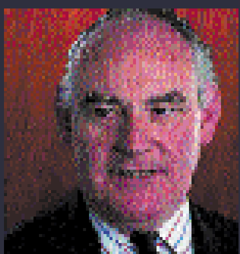
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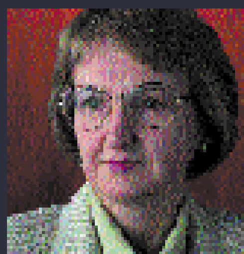
Stephen Cooke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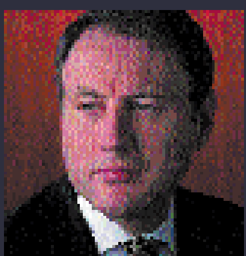
Masashi Kaneko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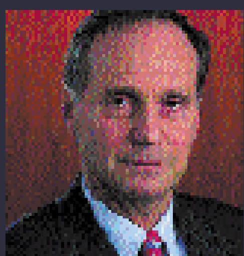
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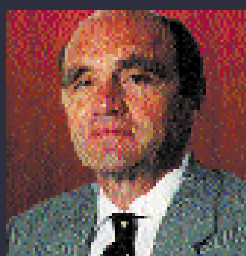
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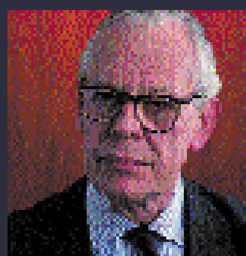
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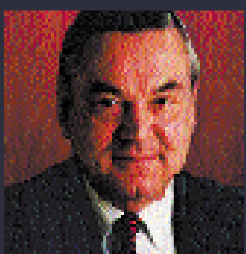
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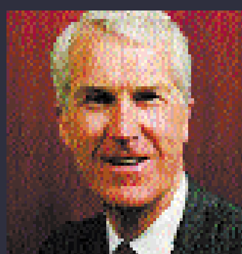
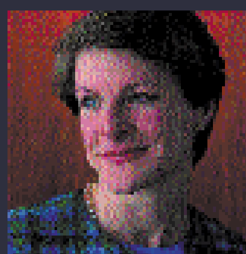
Bernard Solomons


Giles Vardey


Nicholas Verey


Helda Wicker-Murin

▲ Member of the Audit Committee
● Member of the Senior Appointments and Remuneration Committee
✱ Executive members of the Board

Gary Allen, CBE, DL 51, ▲
chief executive, IMI plc since 1986. He was appointed to IMI's Board in 1978, having joined the company in 1965. He is deputy chairman of Marley plc, a non-executive director of NV Bekaert SA, Belgium and a member of the Council of the CBI.

Graham Allen 45, ▲
managing director, ICI Investment Management Ltd. He joined ICI in 1974. He is Chairman of the NAPF Investment Committee, vice chairman of the NAPF Council and a member of the Panel on Takeovers and Mergers.

Richard Barfield 48,
chief investment manager of Standard Life Assurance Co. He joined Standard Life in 1970. He is a member of the ABI Investment Committee and the Executive Committee of IFMA.

John Bond 54, ●
group chief executive of HSBC Holdings plc and director of The Hongkong and Shanghai Banking Corporation Ltd in Hong Kong and Midland Bank plc. He is also non-executive director of British Steel plc, Visa International and Orange plc.

Donald Brydon, OBE 50, ●
acting chief executive, BZW. He is chairman, BZW Private Equity Ltd and BZW Property Advisory Group. He has been vice president of NAPF and chairman of the Institutional Shareholders' Committee.

Stephen Cooke 45,
chief executive, Gerrard Vivian Gray Ltd since 1987, and director, Gerrard and National Holdings plc. He is a non-executive director of TT Group plc.

Christine Dann 47, ✱
director of Business Operations since March 1994. She has been with the Exchange since 1974. After managing the Birmingham Stock Exchange, she transferred to London in 1983. She became chief operating officer of the Primary Markets Division in 1991 and head of Information Services in July 1992. She is a director of FT-SE International Ltd and a member of the CRESTCo Advisory Committee.

Masashi Kaneko 57,
senior managing director, head of Nikko Securities Co Ltd, international operations from February 1996. He was formerly chairman, Nikko Europe plc and chairman, European Division, Nikko Securities Co Ltd, the company he joined in 1982. He was appointed senior managing director in 1994.

John Kemp-Welch 60,
chairman since July 1994. He was formerly joint senior partner, Cazenove & Co, the firm he joined in 1959. He is deputy chairman of the Financial Reporting Council Ltd, chairman of The Scottish Eastern Investment Trust plc, and a director of Sun Alliance Group plc, ProShare (UK) Ltd, British Invisibles, the Securities and Futures Authority Ltd and The Savoy Hotel plc. He is also a member of the Panel on Takeovers and Mergers.

Richard Kilsby 45, ✱
director of Market Services since September 1995. He was formerly a managing director with Bankers Trust for three years in the UK and USA before moving to the Exchange. From 1982 to 1992 he was vice chairman of Charterhouse Bank and prior to that a partner in Price Waterhouse.

Michael Marks 54, ●
deputy chairman, Merrill Lynch International and co-head of Global Equities. In 1994 he was appointed chairman, Smith New Court plc. He is a member of NASD's International Markets Advisory Board.

Robert Metzler 58,
a managing director of Morgan Stanley Securities since 1984 and head of the Worldwide Equity Division.

Ian Plenderleith 52, ▲
appointed government broker in 1989. He is an executive director of the Bank of England, responsible for monetary stability (operations), and a deputy chairman of the Exchange. During his career at the Bank of England since 1965, he has worked on secondment at the IMF in Washington DC and served on the Board of the European Investment Bank.

Mark Radcliffe 58, ▲
was previously a director of the TI Group plc and deputy director general of the CBI. He is currently a director of a number of listed companies. He is a member of the board of the Securities and Futures Authority Ltd.

Nigel Sherlock, DL, 56,
chairman of Wise Speke Ltd, having formerly been a partner of Wise Speke & Co from 1969/87. He is deputy chairman of APCIMS, a member of the Securities Institute, an associate member of the Institute of Investment Management and Research.

Bernard Solomons 51, ▲
deputy chairman, Greig Middleton & Co Ltd and director of King and Shaxson Holdings plc. Non-executive directorships include Scottish Amicable Life Assurance Society and The Edinburgh Income Trust. Chairman of the London Stock Exchange in Scotland.

Ian Salter 53, ●
director, SOCGEN Investment Management Ltd. He is a deputy chairman of the Exchange, a member of the Quotations and Quotations Appeals Committees and a director of ProShare (UK) Ltd.

Giles Vardey 39, ✱
director of Markets Development and Marketing since December 1992. He is also a director of FT-SE International Ltd. Previously he was managing director, Equities, Swiss Bank Corporation, following an earlier career at Salomon Brothers and with County NatWest Securities.

Nicholas Verey 53, ●
managing director, SBC Warburg. He was chairman, SG Warburg Securities Ltd from June 1994 and from 1990 to 1992 he was chairman of SG Warburg & Company Inc, New York.

Fields Wicker-Miurin 37, ✱
director of Strategy and Finance since September 1994. She is also a director of ProShare (UK) Ltd. Previously she was vice president and partner of Mercer Management Consulting/Strategic Planning Associates, following an earlier career as vice president of the Philadelphia National Bank in Europe.

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

The Exchange's Board is satisfied that it has complied throughout the year ended 31 March 1996 with the Code of Best Practice published by the Cadbury Committee.

Board of directors

The Board, at 31 March 1996, comprised the chairman, four executive and 15 non-executive directors. The non-executives represent various aspects of the Exchange's membership but also include five independent directors. Directors considered to be independent are those who are not an employee or partner of an Exchange member firm and whose appointment is, under the Articles of Association, subject to prior consultation with the Governor of the Bank of England. The roles of chairman and chief executive are normally separate. To preserve the division of responsibilities, since the chairman took responsibility for the Executive Committee on the resignation of the chief executive, the Board has had two non-executive deputy chairmen.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below and the directors who serve on these committees are indicated on page 33.

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

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

The Senior Appointments and Remuneration Committee is chaired by J R H Bond, another independent director, and comprises four other non-executive directors. A report from this committee is set out on page 35.

Internal financial control

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

Delegation of authority – There are clearly defined matters which are reserved for Board approval only. The Board has delegated the day to day management of the Exchange to the Executive Committee and expenditure authorisation limits to individual executive directors.

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

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

Finance manual – Key procedures and controls for authorisation, reporting and investment appraisal are set out in a finance manual. A revised and updated manual was approved by the Board in 1995 and is now used throughout the Exchange.

Risk management – The approach to risk management has been strengthened by the formation of a Risk Management Committee, reporting to the Executive Committee. Including two executive directors, the Committee promotes a culture of risk awareness and ensures that major risks are identified, and that controls or procedures are in place to minimise those risks. One specific area of review this year was the Exchange's settlement risk exposure where actions were taken to mitigate the exposure, especially during the forthcoming migration to CREST.

Going concern

As explained in the Financial Review on page 31, the directors continue to adopt the going concern basis in preparing the accounts.

Audit review

The Company's auditors have reported to the Board that in their opinion the directors' statements above on internal financial control and on going concern, included in the Financial Review on page 31, provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance). The statements are not inconsistent with the information of which the auditors are aware from their audit work on the financial statements, and the above statement on corporate governance appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the London Stock Exchange for their review. They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor the ability of the Company to continue in operational existence.

As chairman of the Senior Appointments and Remuneration Committee, I am pleased to be introducing its first formal report. During 1995, the Study Group on Directors' Remuneration (the 'Greenbury Committee') published a Code of Best Practice for Directors' Remuneration. This report is in accordance with the recommendations made in the Code of Best Practice.

Membership and terms of reference

The Committee comprises five non-executive directors who are appointed by the Board. The Committee members are shown on page 33. The Committee meets as required to:

- review and present recommendations to the Board regarding the appointment, remuneration and conditions of service of the chairman, chief executive and executive directors
- perform the function of a Nomination Committee for the appointment of non-executive directors
- monitor the remuneration and conditions of service of members of the Executive Committee who are not directors
- review and approve the remuneration of non-executive directors, which is then ratified by the whole Board.

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

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

Remuneration policy

The Committee's terms of reference are approved by the Board. The remuneration policy is designed to attract, retain and motivate senior executives of a high calibre through a remuneration package which is competitive and representative of best practice. Part of the package is related to performance objectives set by the Committee.

All executive directors have one year rolling service contracts with the Company. No director has an employment contract with a notice period which exceeds one year.

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

Executive directors' rewards

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

Base salaries are reviewed annually on 1 January and this review takes into account market comparisons for similar roles, together with the performance of the individual.

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

The **annual performance bonus** is a non-pensionable cash payment for achieving targets set out in individual performance objectives. The target bonus is expressed as a percentage of base salary and can be up to a maximum of 40 per cent of salary.

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

The amounts disclosed in note 3 to the financial statements, in respect of individual directors who are members of the Company pension scheme, are based on the actual percentage pension contributions payable by the Company for the relevant period. Following the guidance issued by the Institute and Faculty of Actuaries, note 3 (i) also includes the increase in accrued pension during the year. Further details will be provided in future years when the results of the current consultation on the relevant changes to the Listing Rules are known.

Non-executive directors' fees

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

Compliance

Details of directors' remuneration are set out on pages 44 and 45, in note 3 to the financial statements.

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

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

John Bond
Chairman of the Senior Appointments and Remuneration Committee

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 1996.

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

Directors

The directors of the Company at 31 March 1996 are shown on pages 32 and 33. The following resigned as directors on the dates shown: R G Mueller, H Post, M J Rivett-Carnac (13 July 1995) and M J Lawrence (4 January 1996). The following directors were appointed on the dates shown: G K Allen, R A Barfield, N Sherlock (13 July 1995) and R P Kilsby (28 September 1995).

Under the Articles of Association of the Company, J R H Bond, D H Brydon, Mrs C L Dann, M H J Radcliffe, I G Salter and G E Vardey retire by rotation and R P Kilsby retires following appointment during the year; they all offer themselves for re-election.

The share interests of the directors are shown in note 23 to the financial statements. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

The Exchange's Corporate Governance statement is set out on page 34.

Membership

The number of member firms as at 31 March 1996 was 318 (1995, 353) as follows:

	1996	1995
Corporate members	279	316
Partnerships	39	37
Total	318	353

Interests in share capital

14,066 (1995, 14,035) 'B' shares are held by The Stock Exchange (Holdings) Limited as the share trustee in accordance with the Company's Articles of Association.

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

Principal activities and results

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

The surplus of the Group on ordinary activities before taxation for the year ended 31 March 1996 was £9.5 million compared with a surplus of £17.1 million in 1995. The premium of £1.34 million on redemption of 134 'A' shares has been deducted from the capital redemption reserve.

The result for the year compared with the previous year shows an increase in the operating surplus of £8.8 million with income increasing by £5.0 million and a reduction in operating costs of £3.8 million. Operating costs include a charge of £12.0 million to reduce the value of freehold properties to their estimated recoverable amount. The accounts also include a charge of £19.5 million for the rationalisation of settlement operations due to the planned migration from Talisman to CREST.

Further details of the financial results are given in the Financial Review. The business and systems developments and future developments of the Company are described more fully in the Chairman's Report and the Operating and Financial Reviews on pages 4 to 31.

Tangible assets

All freehold properties were revalued at 31 March 1994 and are included in the financial statements at the revalued amounts less depreciation. In the opinion of the directors, the market value of freehold properties at 31 March 1996 exceeded book value by between £5 million and £10 million.

Employment

The Exchange treats its responsibilities to its staff seriously. As well as publishing personnel and training policies, it has in place a whole series of programmes and procedures to ensure that best employment practices are implemented.

The Exchange discriminates solely on the grounds of ability to do the job, both in its selection and promotion policies.

All new employees undergo a detailed and planned induction programme which includes training on health and safety. Vacancies are advertised internally and an extensive range of training and development programmes are available for staff to develop their skills and knowledge. The Exchange encourages and assists the employment, training and retention of disabled people. Additionally, the occupational health centre provides both well woman and well man screening clinics and health awareness seminars which are available to all staff. Where changes to working practices or the structure of a department affect individuals, extensive consultations take place with all of the individuals affected. They are also given training and career counselling support including, where appropriate, the provision of outplacement help.

All employees are provided with information on matters of concern to them in their work and are consulted on developments affecting the business of the Exchange. This is achieved through regular briefing meetings and a range of internal publications.

Donations

During the year the Exchange gave £113,000 (1995, £117,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

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

Auditors

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

By Order of the Board
K O Robinson
Secretary
23 May 1996

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 38, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

The directors consider that in preparing the financial statements on pages 39 to 57 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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

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

To the shareholders of London Stock Exchange Limited.

We have audited the financial statements on pages 39 to 57.

Respective responsibilities of directors and auditors

As described on page 37 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1996 and of the surplus, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Talisman Settlement System review

In addition to our financial statements audit, we have carried out a review of the manual and computer controls used in the support and operation of systems known as the Talisman Settlement System. The Talisman Settlement System includes the core Talisman mainframe system and the peripheral systems for input and control. In our opinion, based on this review, the controls which provide reasonable assurance over the completeness, accuracy and existence of data received, processed and the production of computerised and paper outputs were operated satisfactorily throughout the year ended 31 March 1996.

Coopers & Lybrand
Chartered Accountants and
Registered Auditors

London 23 May 1996

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

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

3. Tangible assets and depreciation
a) Freehold properties
Freehold properties, including related fixed plant, are revalued periodically by external chartered surveyors and included in the financial statements at the revalued amounts.

Freehold buildings and related fixed plant are depreciated, based on cost or valuation at the beginning of the year plus subsequent additions, over their estimated economic lives. The estimated economic lives of properties range from 25 to 40 years, the estimated useful lives of fixed plant range from seven to 20 years.

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

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

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

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

4. Foreign currency amounts
Assets and liabilities in foreign currencies and income and expenditure of overseas subsidiaries are translated into sterling at the rates of exchange prevailing at the balance sheet date or at the contracted rate if the transaction is covered by a forward exchange contract. Exchange differences arising on consolidation are taken directly to reserves.

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

6. Pension costs
The pension costs are assessed in accordance with the advice of an independent actuary. The accounting cost for providing pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Further details of the Company's pension scheme and the basis upon which the charge to the revenue account is determined are set out in note 21 to the financial statements.

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

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

Continuing operations	Notes	1996 £000	1995 £000
Income	1	196,090	191,058
Operating costs	2	(173,312)	(177,110)
Operating surplus		22,778	13,948
Rationalisation of settlement operations	5	(19,500)	–
Net interest receivable	6	6,223	3,168
Surplus on ordinary activities before taxation		9,501	17,116
Taxation on surplus on ordinary activities	7	(7,534)	(11,209)
Surplus for the financial year		1,967	5,907
Appropriation to the Irish Stock Exchange	8	(1,176)	–
Transfer to reserves	17	791	5,907

Statement of Total Recognised Gains and Losses

Surplus for the financial year		1,967	5,907
Other recognised gains and losses for the year:			
Surplus on the revaluation of tangible assets		69	–
Currency translation differences on foreign currency net investments		–	26
	18	69	26
Total recognised gains for the year		2,036	5,933

Note of Historical Cost Profits and Losses

Surplus on ordinary activities before taxation	9,501	17,116
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	6,021	1,502
Historical cost surplus on ordinary activities before taxation	15,522	18,618
Historical cost surplus retained after taxation	7,988	7,409

	Notes	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Fixed assets					
Tangible assets	*9*	102,301	123,597	102,301	122,031
Investments	*10*	390	390	491	488
		102,691	123,987	102,792	122,519
Current assets					
Debtors: due within one year					
Settlement	*11*	66,605	51,718	66,605	51,707
Other	*11*	28,972	27,980	28,899	27,943
Deferred tax: due after more than one year	*12*	12,287	11,350	12,287	11,350
Investments – certificates of tax deposit		–	7,804	–	7,804
Cash:					
Settlement		67,495	193,316	67,495	192,953
Other		108,880	91,083	108,880	91,051
		284,239	383,251	284,166	382,808
Creditors: due within one year					
Settlement	*13*	134,100	245,034	134,100	244,660
Other	*13*	44,460	66,481	44,666	67,125
		178,560	311,515	178,766	311,785
Net current assets		105,679	71,736	105,400	71,023
Total assets less current liabilities		208,370	195,723	208,192	193,542
Creditors: due after more than one year	*14*	30,000	34,175	30,000	34,175
Provisions for liabilities and charges	*15*	48,140	30,838	48,140	30,838
Net assets		130,230	130,710	130,052	128,529
Capital and reserves					
Called up share capital	*16*	1	1	1	1
Reserves:					
Revaluation	*17*	36,585	43,010	36,585	41,502
Capital redemption	*17*	39,070	40,410	39,070	40,410
Revenue	*17*	54,574	47,289	54,396	46,616
Total shareholders' funds		130,230	130,710	130,052	128,529
Analysed between:					
Equity shareholders' funds	*17*	91,160	90,300	90,982	88,119
Non-equity shareholders' funds	*17*	39,070	40,410	39,070	40,410
		130,230	130,710	130,052	128,529

The financial statements on pages 39 to 57 were approved by the Board on 23 May 1996 and signed on its behalf by:

John Kemp-Welch Chairman
Fields Wicker-Miurin Director of Strategy and Finance

	Notes	1996 £000	1995 £000
Net cash inflow from continuing operating activities	*19(i)*	43,141	38,724
Returns on investments and servicing of finance			
Interest received		11,828	7,254
Interest paid		(4,258)	(4,243)
Appropriation to the Irish Stock Exchange	*8*	(500)	–
Net cash inflow from returns on investments and servicing of finance		7,070	3,011
Taxation			
Corporation tax paid	*19(ii)*	(5,153)	(18,434)
Investing activities			
Payments to acquire tangible fixed assets		(13,376)	(13,295)
Receipts from sale of tangible fixed assets		292	535
Payments to acquire investments		–	(390)
Net cash outflow from investing activities		(13,084)	(13,150)
Net cash inflow before financing		31,974	10,151
Financing			
Repayment of bank loan	*19(iii)*	(5,102)	(928)
Redemption of debenture	*19(iii)*	(7,735)	–
Redemption of ‘A’ shares	*19(iii)*	(1,340)	(1,590)
Cash outflow from financing		(14,177)	(2,518)
Increase in cash and cash equivalents	*19(iv)*	17,797	7,633

1. Income

	1996 £000	1995 £000
Analysis of income:		
Membership fees	1,878	1,951
Listing	26,966	27,832
Trading fees	34,990	31,749
Information services	59,481	67,177
Settlement services	66,627	56,511
Other income	6,148	5,838
	196,090	191,058

2. Operating costs

		1996 £000	1995 £000
Operating costs include:			
Development costs for market systems	*i)*	11,255	23,652
Depreciation of tangible assets	*ii)*	33,959	18,192
Operating lease rentals – properties		5,287	5,308
– plant and machinery		35	89
Auditors' remuneration		176	179
Other fees payable to Coopers & Lybrand	*iii)*	249	206

Notes

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

ii) Depreciation of tangible assets includes £12,000,000 to reduce the book value of freehold properties to their estimated recoverable amount. This follows a re-assessment of the business property requirements and current property values.

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

iv) The revenue account includes £1,671,000 (1995, £1,338,000) for the operating costs of the Regulatory News Service. Total income for this service, including internal charges within the Company, for the year ended 31 March 1996 was £451,000 (1995, £402,000).

3. Directors' emoluments

The report of the Senior Appointments and Remuneration Committee on directors' remuneration is on page 35.

	1996				1995				1996	1995
	Salary £	Performance Bonus £	Benefits £	Total £	Salary £	Performance Bonus £	Benefits £	Total £	Pensions (note i) £	Pensions (note i) £
Chairman and executive directors										
Chairman										
J Kemp-Welch (note ii) from 14 July 1994	162,179	–	2,152	164,331	106,346	–	1,006	107,352	–	–
Sir Andrew Hugh Smith until 14 July 1994	–	–	–	–	57,692	–	3,378	61,070	–	2,307
Executive directors										
M J Lawrence until 4 January 1996	182,580	–	12,210	194,790	228,750	100,000	13,278	342,028	–	–
pension provision (note i)	63,333			63,333	79,875			79,875		
C L Dann	163,000	64,000	11,200	238,200	141,250	54,000	9,533	204,783	26,080	21,188
R P Kilsby from 28 September 1995	88,938		3,847	92,785	–		–	–	–	–
guaranteed bonus (note iii)		70,000		70,000		–		–		
relocation allowance (note iii)	28,333			28,333	–			–		
pension provision (note i)	20,107			20,107	–			–		
G E Vardey	170,237	56,000	13,332	239,569	154,166	75,000	12,644	241,810	30,000	31,250
F Wicker-Miurin from 19 September 1994	160,175	48,000	13,589	221,764	80,956	37,500	7,569	126,025	39,500	17,756
	1,038,882	238,000	56,330	1,333,212	849,035	266,500	47,408	1,162,943	95,580	72,501
Compensation for loss of office										
M J Lawrence				395,000				–	–	–
Total emoluments for chairman and executive directors				1,728,212				1,162,943	95,580	72,501
Non-executive directors' fees										
Directors in office throughout both years										
I Plenderleith – deputy chairman from 4 January 1996				15,000				12,500	–	–
I G Salter – deputy chairman				18,750				18,750	–	–
J R H Bond				12,500				12,500	–	–
D H Brydon				12,500				12,500	–	–
S P Cooke				15,000				15,000	–	–
M H J Radcliffe				12,500				12,500	–	–
B Solomons				12,500				12,500	–	–
Directors who did not hold office for the whole of the two financial years										
G J Allen from 14 July 1994				12,500				9,375	–	–
G K Allen from 13 July 1995				9,375				–	–	–
R A Barfield from 13 July 1995				9,375				–	–	–
D L Jones from 14 July 1994 to 15 December 1994				–				6,250	–	–
K Kane until 14 July 1994				–				4,125	–	–
J Kemp-Welch (note ii) until 14 July 1994				–				4,125	–	–
M Kaneko from 14 July 1994				12,500				9,375	–	–
M J P Marks from 14 July 1994				12,500				9,375	–	–
R Metzler from 14 July 1994				12,500				9,375	–	–
P D Minchin until 14 July 1994				–				4,125	–	–
R G Mueller until 13 July 1995				4,125				12,500	–	–
H Post until 13 July 1995				5,875				17,500	–	–
Sir Michael Richardson until 14 July 1994				–				4,125	–	–
M J Rivett-Carnac until 13 July 1995				4,125				12,500	–	–
N Sherlock from 13 July 1995				9,375				–	–	–
Sir Anthony Tennant until 14 July 1994				–				4,125	–	–
H N Verey from 14 July 1994				12,500				9,375	–	–
P S Wilmot-Sitwell until 14 July 1994				–				4,125	–	–
Total non-executive directors' fees (note iv)				203,500				216,625	–	–
Total directors' emoluments				1,931,712				1,379,568	95,580	72,501

3. Directors' emoluments continued

Notes

i) Pensions

The Company has provided additional emoluments to M J Lawrence of £63,333 (1995, £79,875) and R P Kilsby of £20,107 (1995, nil) for them to apply towards their pensions arrangements. No separate pension contributions are made.

Mrs C L Dann is a member of the Company's defined benefit scheme. The value disclosed is based on the actual percentage pension contributions payable by the Company for the relevant period. The increase in accrued pension during the year was £7,716 (1995, £7,294). Further details will be provided in future years when the results of the current consultation on the relevant changes to the Listing Rules are known.

The Company makes payments into a senior executive defined contribution pension scheme for G E Vardey and Mrs F Wicker-Miurin.

ii) J Kemp-Welch

The emoluments for J Kemp-Welch as chairman applied from 14 July 1994 when he was appointed. An additional sum of £4,125 was paid for the period before he became chairman; this is included in non-executive directors' fees.

iii) R P Kilsby

The bonus paid to R P Kilsby represents a one-off guaranteed payment for 1995 as part of his service contract. A one-off payment of £28,333 was also made to Mr Kilsby in respect of his relocation from the USA. This was in addition to tax allowable costs incurred of £8,000.

iv) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £174,750, representing 15 directors (1995, £152,375, representing 14 directors).

v) Waiver of emoluments

None of the directors waived emoluments during 1995 or 1996.

4. Employees

	1996	1995
Employees of the Group and their employment costs are summarised below.		
The number of employees was:		
At the year end	941	1,011
Average for the year	983	1,017

Staff costs during the year amounted to:	£000	£000
Wages and salaries	26,138	25,205
Social security costs	2,657	2,594
Other pension costs	3,441	3,237
Total	32,236	31,036

5. Rationalisation of settlement operations

	1996 £000
Rationalisation of settlement operations	19,500
Taxation at 33%	(6,435)

The total costs for the rationalisation of settlement operations of £19.5 million include £0.5 million incurred this year and £19.0 million to be incurred within the next two years. These costs are being incurred by the Company to support the orderly and efficient transfer of securities from Talisman to CREST, commencing in 1996. They comprise redundancy and support costs for staff being made redundant as a result of the transfer, trading losses expected to be incurred during the final phase of the transfer when the settlement operation is continuing at below break-even and the system changes resulting from this rationalisation.

6. Interest

	1996 £000	1995 £000
Interest receivable:		
Bank deposits	10,710	7,218
Other	1,250	185
	11,960	7,403
Interest payable:		
On bank and other loans repayable after five years	(3,038)	(3,367)
On bank and other loans repayable within five years	(550)	(561)
Other interest	(329)	(307)
Interest on discounted provision for leasehold properties, *(see note 15)*	(1,820)	–
	(5,737)	(4,235)
Net interest receivable	6,223	3,168

7. Taxation

Corporation tax for the year at 33% (1995, 33%)	16,154	15,825
Overseas taxation	59	57
Deferred taxation *(see note 12)*	(4,826)	(4,706)
Adjustment for previous years:		
Corporation tax	(7,742)	33
Deferred taxation *(see note 12)*	3,889	–
Taxation charge	7,534	11,209

The tax charge is higher than might otherwise be expected because the depreciation provision of £12 million on freehold property, referred to in note 2(ii), is not allowable as a taxation deduction.

8. Appropriation to the Irish Stock Exchange

At an Extraordinary General Meeting on 13 July 1995, a special resolution was passed for the Company to make a contribution to the Irish Stock Exchange Limited upon its separation from the Exchange to form a separate Irish Exchange. The contribution, which was made on 8 December 1995, comprised a capital sum of £500,000 and a building and assets valued at £676,000. The special resolution was required to amend the Exchange's Articles of Association to permit the contribution to be made to the Irish Stock Exchange which is owned by a number of "B" shareholders of the Company *(see also note 17)*.

9. Tangible assets

	Land and buildings		Plant and	Service	
	Freehold	Leasehold	equipment	equipment	Total
	£000	£000	£000	£000	£000
a) GROUP					
Cost or valuation:					
1 April 1995	150,082	6,004	22,165	57,526	235,777
Additions	636	26	1,832	10,882	13,376
Disposals	(4,542)	(964)	(3,297)	(11,044)	(19,847)
Transfers	71	(71)	(4,782)	4,782	–
Revaluation	69	–	–	–	69
31 March 1996	146,316	4,995	15,918	62,146	229,375
Depreciation:					
1 April 1995	48,532	6,004	19,141	38,503	112,180
Provision for the year	22,503	26	1,480	9,950	33,959
Disposals	(3,967)	(964)	(3,117)	(11,017)	(19,065)
Transfers	71	(71)	(4,623)	4,623	–
31 March 1996	67,139	4,995	12,881	42,059	127,074
Net book values:					
1 April 1995	101,550	–	3,024	19,023	123,597
31 March 1996	79,177	–	3,037	20,087	102,301
Analysed as follows:					
Valuations at 31 March 1994 less depreciation	77,496	–	–	–	77,496
Cost less depreciation	1,681	–	3,037	20,087	24,805
	79,177	–	3,037	20,087	102,301

9. Tangible assets continued	Land and buildings Freehold £000	Leasehold £000	Plant and equipment £000	Service equipment £000	Total £000
b) COMPANY					
Cost or valuation:					
1 April 1995	148,482	6,004	22,165	57,462	234,113
Additions	728	26	1,832	10,882	13,468
Disposals	(4,542)	(964)	(3,297)	(10,980)	(19,783)
Transfers	71	(71)	(4,782)	4,782	–
Revaluations	1,577	–	–	–	1,577
31 March 1996	146,316	4,995	15,918	62,146	229,375
Depreciation:					
1 April 1995	48,492	6,004	19,141	38,445	112,082
Provision for the year	22,503	26	1,480	9,947	33,956
Disposals	(3,927)	(964)	(3,117)	(10,956)	(18,964)
Transfers	71	(71)	(4,623)	4,623	–
31 March 1996	67,139	4,995	12,881	42,059	127,074
Net book values:					
1 April 1995	99,990	–	3,024	19,017	122,031
31 March 1996	79,177	–	3,037	20,087	102,301
Analysed as follows:					
Valuations at 31 March 1994 less depreciation	77,496	–	–	–	77,496
Cost less depreciation	1,681	–	3,037	20,087	24,805
	79,177	–	3,037	20,087	102,301

c) Notes

i) Freehold land and buildings includes freehold properties and the associated fixed plant. All freehold properties were valued as at 31 March 1994 on the basis of open market value for existing use or depreciated replacement cost where appropriate. The total value of properties for the group was £110,857,000 and the valuation was prepared by DTZ Debenham Thorpe, International Property Advisers. Depreciation provisions have been made to reduce the book value of properties to their estimated recoverable amount at 31 March 1996. The Group revaluation is in respect of the Irish property which was disposed of during the year. The Company revaluations include the Irish property and an intra-group transfer which was effected at original cost and revalued based on the valuation carried out at 31 March 1994 referred to above.

ii) The net book values of Group plant and equipment and service equipment include assets under finance leases of nil (1995, £42,000). Depreciation on these assets provided in the year to 31 March 1996 was £42,000 (1995, £101,000).

iii) Based on historical cost at 31 March 1996, the aggregate cost of Group tangible assets was £196,189,000 (1995, £202,660,000) and the aggregate depreciation was £130,473,000 (1995, £122,073,000).

10. Fixed asset investments	Subsidiary undertakings Shares £000	 Loans £000	 Other £000	 Total £000

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

a) GROUP				
Cost:				
1 April 1995 and 31 March 1996	–	–	390	390
b) COMPANY				
Cost:				
1 April 1995	73	25	390	488
Exchange gain	–	3	–	3
31 March 1996	73	28	390	491

Subsidiary undertakings

The Company holds directly or indirectly 100% of the ordinary shares, being the only class of shares in issue, of the subsidiaries listed below. All subsidiaries were incorporated in Great Britain unless otherwise stated and operate principally in the countries of incorporation.

	Country of incorporation	Nature of business
Loch (Nominees) Limited		Non trading
London Option Clearing House Limited		Non trading
Securities Settlement & Clearing House Limited		Non trading
S E (Global Custody) Limited		Non trading
SE Mutual Reference Limited		Information exchange
Sepon (Australia) Proprietary Limited	Australia	Non trading
Sepon Limited		Non trading
Sepon (South Africa) (Proprietary) Limited	South Africa	Non trading
Stock Exchange (Leasing) Limited		Non trading
Talisman (Australia) Proprietary Limited	Australia	Settlement services
The Birmingham Stock Exchange Buildings Company Limited		Property letting
The London Stock Exchange Retirement Plan Trustee Company Limited		Non trading
The Stock Exchange (Holdings) Limited		Non trading
The Stock Exchange (Nominees) Limited		Non trading
The Stock Exchange (Properties) Limited		Non trading

Associated undertaking

On 16 November 1995, the Company purchased, for £50, 50 % of the 100 £1 issued equity shares in FT-SE International Limited, a company which distributes financial information. FT-SE International Limited is an associated undertaking owned jointly with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The first accounting period of FT-SE International Limited will be to 31 December 1996. The Company is entitled, under a shareholders agreement, to receive royalties from FT-SE International Limited. Profits are shared equally between the Company and The Financial Times Limited. Details of other transactions between the Company and FT-SE International Limited are included in note 22.

Other investment

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

11. Debtors

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Due within one year:				
Trade debtors – Settlement *(see note 13)*	66,605	51,718	66,605	51,707
– Other	15,485	16,078	15,424	16,056
VAT recoverable	458	–	446	–
Other debtors	612	532	612	532
Prepayments and accrued income	12,417	11,370	12,417	11,355
	95,577	79,698	95,504	79,650
Representing:				
Settlement *(see note 13)*	66,605	51,718	66,605	51,707
Other	28,972	27,980	28,899	27,943
	95,577	79,698	95,504	79,650

12. Deferred taxation: due after more than one year

	£000
1 April 1995	11,350
Credit to revenue account during the year	937
31 March 1996	12,287

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

	1996 £000	1995 £000
Tax allowances available in excess of related depreciation	4,523	10,169
Other timing differences	7,764	1,181
	12,287	11,350

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

	1996 £000	1995 £000
Tax allowances available in excess of related depreciation	8,792	8,397
Other timing differences	9,931	10,392
	18,723	18,789

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

13. Creditors: due within one year	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Debenture loans *(see note 14)*	–	7,735	–	7,735
Bank loans *(see note 14)*	–	927	–	927
Trade creditors – Settlement	134,100	245,034	134,100	244,660
– Other	4,262	1,930	4,262	1,930
Amounts owed to subsidiary undertakings	–	–	248	520
Amounts owed to associated undertaking	335	–	335	–
Corporation tax	15,553	20,040	15,528	20,192
Other taxation and social security	1,255	2,291	1,255	2,296
Other creditors	3,054	2,004	3,054	2,004
Accruals and deferred income	20,001	31,554	19,984	31,521
	178,560	311,515	178,766	311,785
Representing:				
Settlement – Member firms and other Talisman participants	80,647	207,228	80,647	206,854
– Inland Revenue	53,453	37,806	53,453	37,806
	134,100	245,034	134,100	244,660
Other	44,460	66,481	44,666	67,125
	178,560	311,515	178,766	311,785

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

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Trade debtors *(from note 11)*	66,605	51,718	66,605	51,707
Cash	67,495	193,316	67,495	192,953
Trade creditors	(134,100)	(245,034)	(134,100)	(244,660)
Net current assets	–	–	–	–

The cash and trade creditor balances are significantly lower than the previous year due to transactions relating to the acquisition by Glaxo Holdings of the Wellcome shares in SEPON at the end of March 1995.

14. Creditors: due after more than one year

		1996 £000	1995 £000
Medium and long term borrowing:			
$7^1/_4$ % Mortgage Debenture Stock 1990/95	*i)*	–	7,735
$10^1/_8$ % Mortgage Debenture Stock 2016	*ii)*	30,000	30,000
Total debentures		30,000	37,735
Bank loan 1993/2000	*iii)*	–	5,102
Total loans		30,000	42,837
Less bank loan and debenture repayments due within one year		–	(8,662)
Loans repayable after more than one year		30,000	34,175
Repayable:			
Between one and two years		–	928
Between two and five years		–	2,783
In five years or more – otherwise than by instalments		30,000	30,000
– by instalments		–	464
		30,000	34,175

Notes

i) The $7^1/_4$ % Mortgage Debenture Stock 1990/95 was secured on the freehold site and buildings known as The Stock Exchange, London. It was redeemed at par on 1 December 1995.

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

iii) The bank loan was a syndicated loan and was repaid in October 1995. The average interest rate for the period prior to repayment was 7.2 % per annum.

15. Provisions for liabilities and charges	Pensions note (i) £000	Property note (ii) £000	Rationalisation note (iii) £000	Other note (iv) £000	Total £000
1 April 1995	2,338	26,000	–	2,500	30,838
Utilised during the year	(198)	(4,334)	(500)	–	(5,032)
Provided in the year	–	3,514	19,500	–	23,014
Transferred to creditors due within one year	–	–	–	(2,500)	(2,500)
Interest on discounted provision	–	1,820	–	–	1,820
31 March 1996	2,140	27,000	19,000	–	48,140

Notes

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

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

iii) The rationalisation provision represents the estimated costs to be incurred in the rationalisation of settlement operations *(see note 5)*.

iv) The other provision relates to expenditure associated with rationalisation of the Company's computing activities.

16. Share capital	1996 £000	1995 £000
The authorised share capital comprises 5,601 'A' shares and 14,399 'B' shares of 5p each.		
Issued, called up and fully paid		
3,907 'A' shares of 5p (1995, 4,041 shares)		
14,399 'B' shares of 5p (1995, 14,399 shares)	1	1

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

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

	1996 No of shares	1995 No of shares
Within five years	910	866
Between five and 10 years	1,042	1,025
Between 10 and 15 years	923	970
Between 15 and 20 years	478	534
After 20 years	554	646
	3,907	4,041

17. Reserves

	Group			Company		
	Revaluation £000	Capital redemption £000	Revenue £000	Revaluation £000	Capital redemption £000	Revenue £000
1 April 1995	43,010	40,410	47,289	41,502	40,410	46,616
Surplus for the financial year	–	–	1,967	–	–	2,462
Premium paid to ‘A’ shareholders *(see note 16)*	–	(1,340)	–	–	(1,340)	–
Appropriation to the Irish Stock Exchange	–	–	(1,176)	–	–	(1,176)
Revaluation of tangible assets	69	–	–	1,577	–	–
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(6,021)	–	6,021	(6,021)	–	6,021
Realised gain, representing the amount of the revaluation surplus realised on disposal of assets	(473)	–	473	(473)	–	473
31 March 1996	36,585	39,070	54,574	36,585	39,070	54,396

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

Equity shareholders’ funds on the balance sheet comprise the issued share capital of ‘B’ shares together with the revaluation and revenue reserves. Non-equity shareholders’ funds comprise the issued share capital of ‘A’ shares and the capital redemption reserve. As explained in note 16, the ‘A’ shares have preferential rights to be redeemed on a winding up.

18. Reconciliation of movements in shareholders’ funds

	1996 £000	1995 £000
Surplus for the financial year	1,967	5,907
Appropriation to the Irish Stock Exchange	(1,176)	–
Redemption of ‘A’ shares	(1,340)	(1,590)
	(549)	4,317
Other recognised gains and losses	69	26
Net (reduction from) addition to shareholders’ funds	(480)	4,343
Opening shareholders’ funds	130,710	126,367
Closing shareholders’ funds	130,230	130,710

19. Notes to the Group cash flow statement

	1996 £000	1995 £000
i) Analysis of continuing operating activities		
Operating surplus	22,778	13,948
Provision for rationalisation of settlement operations	(19,500)	–
Depreciation of tangible assets	33,959	18,192
Profit on disposal of tangible assets	(186)	(206)
Increase in debtors	(992)	(3,690)
(Decrease) increase in creditors	(10,693)	8,521
Increase in provisions for liabilities and charges	17,302	1,802
Increase in net accrued interest payable	473	157
Net cash inflow from continuing operating activities	43,141	38,724

Changes in debtors and creditors exclude those relating to settlement as these, together with the changes in settlement cash balances, do not give rise to a movement in net current assets as shown in note 13.

	1996 £000	1995 £000
ii) Taxation		
Corporation tax paid	(12,957)	(18,434)
Redemption of certificates of tax deposit	7,804	–
Total corporation tax paid	(5,153)	(18,434)

iii) Analysis of changes in financing during the year

	1996			1995		
	Bank loan £000	Debentures £000	Capital redemption reserve £000	Bank loan £000	Debentures £000	Capital redemption reserve £000
1 April 1995	5,102	37,735	40,410	6,030	37,735	42,000
Cash outflow from financing	(5,102)	(7,735)	(1,340)	(928)	–	(1,590)
31 March 1996	–	30,000	39,070	5,102	37,735	40,410

iv) Analysis of changes in cash and cash equivalents during the year	1996 £000	1995 £000
Cash balances excluding settlement:		
1 April 1995	91,083	83,450
Net cash inflow	17,797	7,633
31 March 1996	108,880	91,083

20. Commitments

	1996 £000	1995 £000
Contracted capital commitments not provided for in the accounts	843	9,748

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

		1996 Property £000	1996 Other £000	1995 Property £000	1995 Other £000
Financial commitments under operating leases at 31 March 1996 for payments in the year to 31 March 1997 are as follows:					
Leases expiring	– in one year	137	–	131	5
	– between two and five years	206	–	43	–
	– in five years or more	4,884	–	5,108	–
		5,227	–	5,282	5

21. Pension costs

The Company operates a non-contributory pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, the majority being invested in managed fund and fixed interest units of Pension Management (SWF) Limited. Pension costs are charged to the revenue account so as to spread the costs of pensions over employees' working lives with the Company. The pension costs are determined by an independent qualified actuary on the basis of regular valuations using the projected unit method. The most recent actuarial valuation was carried out at 31 March 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in pensionable pay and pensions. The principal assumptions for the March 1994 valuation were that over the long term the annual rate of return on investments would be 2% above increases in pensionable pay, 4% above the level of inflation and 4½% above the level of increases in present and future pensions. Contributions to the pension scheme are made in accordance with advice given by an independent qualified actuary and were at a rate of 16% of pensionable payroll (1995, 15%).

In addition to the Company's contributions to the pension scheme, the Company matches certain additional voluntary contributions by employees; in the year to 31 March 1996 the cost of this match amounted to £281,000 (1995, £259,000).

As an alternative to being members of the pension scheme, employees may opt for a personal pension plan. The Company will make contributions to these plans instead of its contribution to the main scheme. In the year to 31 March 1996 the cost of these contributions amounted to £273,000 (1995, £203,000).

The total pension charge for the year was £3,441,000 (1995, £3,237,000). Contributions paid to the pension scheme during the year were lower than the pension charge by £129,000. This amount is included within other creditors in the balance sheet.

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

22. Transactions with related parties

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

FT-SE International Limited
In addition to the royalties referred to in note 10, the Company provided computing services and property space to FT-SE International Limited for a charge of £85,000 (1995, nil). At 31 March 1996, the Company owed £335,000 (1995, nil) to FT-SE International Limited in the ordinary course of business.

ProShare (UK) Limited
Three of the Company's directors are non-executive directors of ProShare (UK) Limited. The Company provided property space to ProShare (UK) Limited for a charge of £55,000 (1995, £17,000). The Company also makes a contribution to the annual expenditure of ProShare (UK) Limited. The contribution during the year was £410,000 (1995, £407,000); this increase in contribution took into account the charging at full market rate for property space from April 1995.

23. Share interests of directors

The following directors were each the beneficial owner of one 'A' share of the Company as at 31 March 1995 or at subsequent appointment and at 31 March 1996:

S P Cooke	N Sherlock (appointed 13 July 1995)
J Kemp-Welch	B Solomons
M J P Marks	H N Verey
I G Salter	

There have been no changes in the above interests since 31 March 1996.

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

Notice is hereby given that the 1996 Annual General Meeting of London Stock Exchange Limited will be held on the 23rd floor of the London Stock Exchange, London EC2N 1HP on Thursday, 11 July 1996 at 12.00 noon for the following purposes:

Agenda

Ordinary business

1. To receive and adopt the directors' report and audited financial statements for the year ended 31 March 1996
2. To reappoint directors

   The directors recommend for reappointment:

   (a) the following directors who retire by rotation under Article 16.03 of the Company's Articles of Association:

   (i) J R H Bond
   (ii) D H Brydon
   (iii) Mrs C L Dann
   (iv) M H J Radcliffe
   (v) I G Salter
   (vi) G E Vardey

   (b) the following director, who has been appointed since the last Annual General Meeting under Article 16.07 of the Company's Articles of Association:

   R P Kilsby
3. To reappoint Coopers & Lybrand as auditors of the Company and to authorise the directors to fix their remuneration.

By Order of the Board
K O Robinson Secretary

14 June 1996

Any holder of 'B' shares of 5p each in the capital of the Company entitled to attend and vote at the meeting convened by the above notice may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

To be valid, the instrument appointing a proxy, and any authority under which it is executed, must be deposited at the office of the Secretary to the Board not less than 48 hours before the time appointed for the meeting.

The Report and Accounts are circulated to all share and debenture holders but only 'B' shareholders are entitled to attend the above meeting.

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