London
STOCK EXCHANGE

ANNUAL REPORT 2004

Cover photograph: view from our former location, Old Broad Street, looking towards our new offices at Paternoster Square

Contents

The London Stock Exchange will compete in the global market for financial transaction services to become the supplier of choice, providing customers with the most efficient, trusted and reliable services, and shareholders with the most successful exchange business.

We aim to:

> Reinforce and extend our position as the premier source of equity market liquidity, benchmark prices and market data in the European time zone

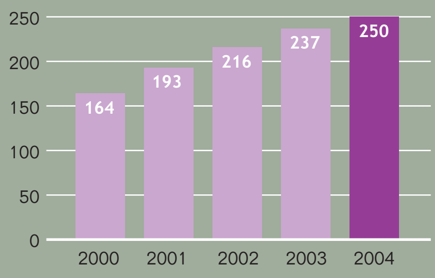
> Operate a diversified business which capitalises on the emergence of an increasingly innovative environment through leadership in technology and service

> Deliver superior value to our customers and shareholders

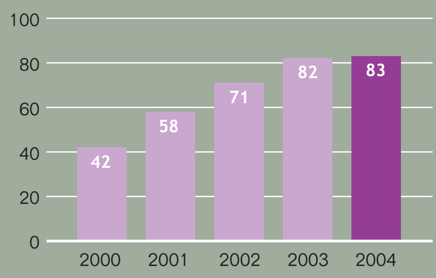
Financial Highlights

	2003/04	2002/03	Growth
Turnover	£250m	£237m	6%
Operating profit before exceptional items and goodwill amortisation	£83m	£82m	2%
Operating profit	£82m	£70m	17%
Profit before tax	£89m	£80m	12%
Earnings per share	21.7p	18.1p	20%
Adjusted earnings per share	21.3p	20.9p	2%

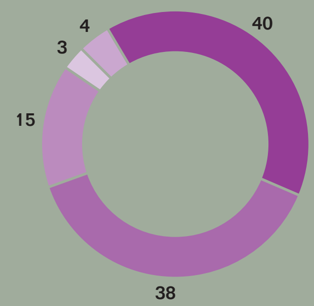
TURNOVER
Years ended 31 March (£ million)



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

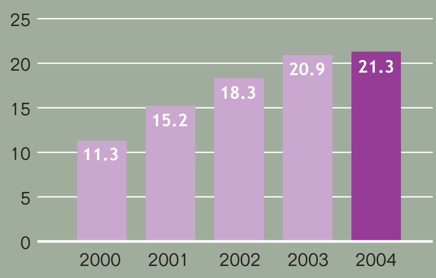


TOTAL REVENUE
Year ended 31 March 2004 (%)



- Information Services £101m
- Broker Services £94m
- Issuer Services £38m
- Derivatives Services £6m
- Other £11m

ADJUSTED EARNINGS PER SHARE
Years ended 31 March (pence)

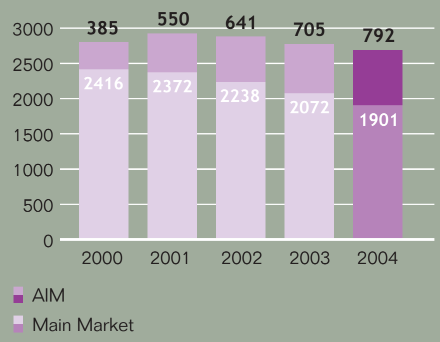


Our revenues come from activities in four main business areas: Issuer Services, Broker Services, Information Services and Derivatives Services.

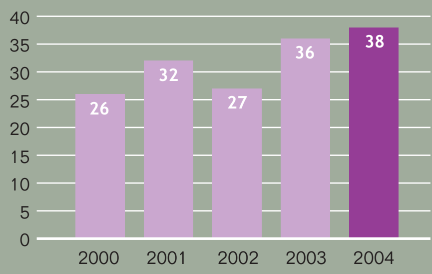
Issuer Services

receives revenue from fees for admission to trading and from annual fees.

TOTAL NUMBER OF COMPANIES
Years ended 31 March



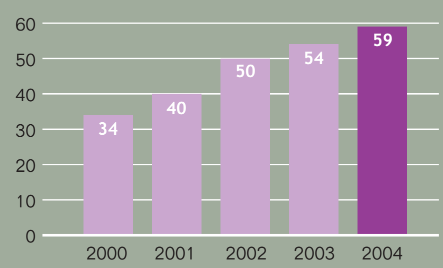
REVENUE
Years ended 31 March (£ million)



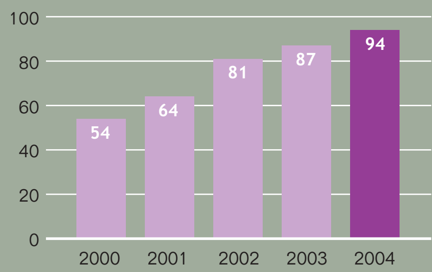
Broker Services

derives its revenue principally from charges levied on trades.

NUMBER OF EQUITY BARGAINS
Years ended 31 March (million)



REVENUE
Years ended 31 March (£ million)

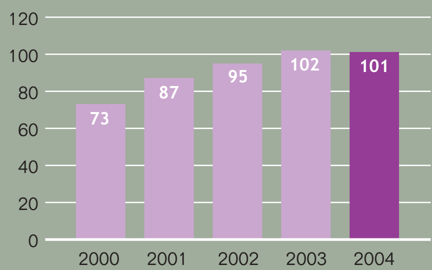


Information Services

receives revenue principally from charges levied on terminals with access to Exchange trade and price data.

NUMBER OF TERMINALS
Years ended 31 March (thousand)

REVENUE
Years ended 31 March (£ million)



Derivatives Services

earns its revenue from EDX London, our international derivatives exchange and the Covered Warrants market for retail investors.

Chairman's Statement

The London Stock Exchange is operating in a rapidly changing business environment. Always, during such periods of change, significant opportunities arise and your company is well-placed to benefit from them.

The Exchange has produced a set of satisfactory results in a year during which many of our customers have been operating in highly variable market conditions. The Board has recommended a final dividend of 3.4 pence per share, an increase of 13 per cent on the previous year's final dividend. Together with the interim dividend of 1.4 pence per share, the total dividend for the year rises 12 per cent to 4.8 pence per share.

The Board extends its thanks to Martin Wheatley, who has departed as Deputy CEO, for his very considerable contribution after 19 years at the Exchange. In addition, thank you to all the staff of the Company for their hard work over the year to deliver this performance.

STRATEGY

These results leave the London Stock Exchange in a good position to pursue our growth strategy. Changes to market structures and customer requirements are creating openings of which we can take advantage. As the barriers to competition are removed from global capital markets, specifically in Europe, investors and market participants want to be able to benefit from choice.
To enable us to capitalise on the choices that our customers make in future, we are committed to offering a range of products and services that they want, at prices that are competitive and on platforms that are reliable, flexible and scalable.

SPECIAL DIVIDEND AND SHARE CONSOLIDATION

Good cash flows in recent years, coupled with the anticipated receipt of proceeds from the disposal of the Tower, have resulted in surplus cash being available for return to shareholders. The Board therefore proposes to return approximately £162 million by way of a special dividend of 55 pence per share payable to shareholders on the register on 23 July 2004. The return will be accompanied by a consolidation of current shares in issue on the basis of six new shares for every seven existing shares. The special dividend and share consolidation is conditional on shareholder approval at the AGM, 14 July 2004. The Board believes that the Exchange's cash generation capability, together with significant undrawn loan facilities, will maintain its financial flexibility to continue to pursue opportunities for growth.

EUROPE

The EU's Financial Services Action Plan is designed to remove barriers to an efficient single market in financial services across Europe. This year key directives were passed that will provide choice in the execution venues for trading in cross-border securities, enable companies to be admitted to trading where they choose and provide investors with equal access to company information wherever they are in Europe. We have worked hard to influence the outcome of these directives to ensure that they do not enshrine national protectionism and properly reflect London's open and competitive market model.

It remains to be seen whether the agreed measures have removed sufficient regulatory barriers to conducting business across borders. Despite this, we believe that there will be significant opportunities for all areas of our business in the new single European market.

CLEARING AND SETTLEMENT

However, a truly competitive cross-border trading landscape is dependent on access on fair terms to the rest of the infrastructure. As we argued successfully when LCH and Clearnet merged last year, it is vital that any consolidation of the clearing and settlement infrastructure serves the interests of customers. Closed access to clearing and settlement is a barrier to effective competition for exchange services. We are pleased that the European Commission has accepted our arguments in its review of the cost and accessibility of EU post-trade services published in April. We will continue to press for European-wide measures leading to effective open access to the post-trade infrastructure.

COMMUNITY AND LOCALITY

This year marks a new focus for our community programme and an important change in our physical location. Our partnership with educational charity, The Trident Trust, has now come to an end and we have begun a two-year relationship with Brainwave, supporting children with brain injury or impairment.

We moved to our new offices at 10 Paternoster Square opposite St Paul's Cathedral in May 2004. The building is modern and outward-looking and our business will greatly benefit from a working environment that allows better interaction between our staff and with our customers. In July we will be welcoming Her Majesty The Queen and HRH The Duke of Edinburgh to open our new building.

OUR ROLE

The London Stock Exchange stands at the heart of the most international capital market in the world and our markets are central to the future economic wellbeing of society. Your Board and the executive team recognise that we have an important role to highlight the appropriate regulatory and economic agenda that will maintain and enhance London's success. We will continue to campaign for fairer and more open markets in Europe and for an appropriate domestic regulatory regime that encourages investors to have confidence in the equity markets.

C. S. Gibson-Smith.

Chris Gibson-Smith
Chairman

Chris Gibson-Smith
Chairman

"As the barriers to competition are removed from global capital markets, specifically in Europe, investors and market participants want to be able to benefit from choice."

Chief Executive's Review

In a year of mixed fortunes for markets, the London Stock Exchange has continued to reinforce and improve its position as the premier source of liquidity, benchmark prices and data for equity markets in the European time zone. Our core business has performed well during a period of increasing competition in a developing single market in Europe.

Over the last year, we have advanced our strategy for financial services and diversified our business with a series of initiatives. Proquote, our low cost financial market software and data services supplier, has nearly doubled the number of terminals it provides. EDX London, our international derivatives market, commenced operations in June 2003 and has seen record volumes since the start of 2004. Our Covered Warrants market, launched last year, increased revenues during a year of growth.

We have also supported an increasingly innovative environment, stimulated by the new ways in which our customers wish to conduct business and the changes to market structure driven by regulation. SETSmm, our new hybrid order book market-maker platform for trading mid-cap securities has already helped to grow the volume of business in its stocks and significantly reduce dealing costs. The move towards a single European market in financial services will be assisted by the launch of EUROSETS which will enable us, for the first time, to compete for the trading of European securities on our efficient, transparent and low cost SETS platform. As a first step we began trading the most liquid Dutch securities in May 2004.

This year we have cemented our leadership in technology and driven ahead with a step change in customer service. Using flexible and scalable technology we have developed central databases that enable the delivery of new products quickly and competitively. Making use of this technology, an update to Level 1 Plus, our enriched market data service, was launched in May 2004. SEDOL, our new global securities identifier launched in March, has already proved a success with customers. Both products have been designed to deliver services that anticipate and increase market demand as well as add value to our business.

All of these initiatives will broaden our customer base and extend the reach of our business into new markets. Worldwide we now have agreements with exchanges in the key growth markets of India, Russia and China. We will be opening an office in Hong Kong this year as part of our commitment to facilitate listings from the growing number of Asian companies who seek access to the international capital managed in London.

We believe that our proven ability to compete in the global market for transaction services will provide further strong organic growth opportunities. In addition, our global brand; our stewardship of the deepest, most liquid and most international equity market in Europe; and our strong financial position provide the base from which to develop attractive growth prospects.

"We have also supported an increasingly innovative environment, stimulated by the new ways in which our customers wish to conduct business."

FINANCIAL PERFORMANCE

Results this year were satisfactory against a backdrop of variable market conditions. Turnover increased six per cent to £250.4 million and operating profit before exceptional items and goodwill amortisation increased to £83.2 million, a rise of two per cent, with a rise of 17 per cent in operating profit. Earnings per share increased 20 per cent to 21.7 pence. Adjusted earnings per share (excluding exceptional items and goodwill amortisation) rose two per cent from 20.9 pence to 21.3 pence per share. These results reflect a period of capital investment in the initiatives designed to diversify our business and to deliver an uplift in earnings in future.

CAPITAL RESTRUCTURING

The Exchange has maintained a strong financial position since listing, aided by positive cash generation over the period. In April we announced an agreement to dispose of the Tower for £67 million, with £34 million to be received on completion, expected in July. With a cash balance standing at £228 million at 31 March 2004, we believe it is appropriate to return surplus cash to shareholders. We remain confident that we retain sufficient financial flexibility to pursue opportunities for growth.

MARKET ACTIVITY

Trading volumes in the UK equity market reached 49 million bargains, an increase over the previous year of 22.5 per cent. SETS, our electronic order book which trades the UK's most liquid securities continues to grow rapidly. The average number of UK trades per day reached 132,000, an increase of 22 per cent on the year, but primary market conditions remained very difficult. However, despite this we admitted 236 companies to our markets including 117 Initial Public Offerings (IPOs).

ISSUER SERVICES

Over the year, market conditions for issuers have been challenging. Despite this our markets have delivered an impressive performance and we have again outstripped all our competitors with 85 per cent of all IPOs in Western Europe. AIM goes from strength to strength. Where other markets for smaller growing companies around the world struggle to survive, AIM has seen 94 IPOs this year, raising £1,400 million and taking the total number of companies to 792. The Main Market continues to be the most attractive listing venue in Europe and attracts companies from around the globe. The first Indian company to take a primary listing in London came to the Main Market in October and we also continue to strengthen our links with Russia and China, the other high growth markets.

Clara Furse
Chief Executive

This year, the Office of Fair Trading conducted an inquiry into increases in our annual and admission fees for the UK Main Market and AIM. Although we consider that the increases were entirely justified given the value obtained from admission to trading on our markets, we decided to negotiate a settlement in order to avoid lengthy and costly distractions as we seek to move our business forward. This settlement reduced UK annual and AIM fees with effect from 1 April 2004.

Chief Executive's Review

BROKER SERVICES

Volume on SETS, our electronic order book, continues to increase. In order to meet our customers' increasing use of electronic trading and technical trading strategies we have improved functionality with the introduction of iceberg orders that make the execution of large orders easier. In addition, and in collaboration with the market, we have designed a new pricing model that offers incentives to increase trading through the order book. These initiatives improve the quality of the market by reducing cost, thereby improving volume and liquidity.

SETSmm has also been designed to improve the quality and depth of our market. It combines the benefits of SETS with London's market-maker talent to deliver a more efficient and transparent market in FTSE 350 stocks. It has been highly successful as trading in those stocks has increased significantly and spreads have reduced by nearly 40 per cent in the first five months since introduction.

The initiative to create a trading service for Dutch equities is a first step in broadening our European offering in response to clear market demand. EUROSETS offers all of the benefits of the London market model and is designed to meet customers' needs and deliver substantial benefits in costs and reliability. As the first measure of true competition for the trading of national market equities, we intend to lead the development of a future competitive landscape for exchanges in Europe.

INFORMATION SERVICES

The success we have had in broadening our revenue base is demonstrated by the growth of Proquote since we acquired it just over a year ago. Despite continued pressures in the data vendor market which have led to a further decline in the number of terminals taking our real-time market data, Proquote has almost doubled the number of screens it provides to the market. As Proquote's data richness is enhanced to meet the growing needs of market participants, it will improve our direct customer access and help to inform future product development.

We are focussed on the needs of our customers who require a greater range of information and reduced levels of operational risk and cost. The new SEDOL Masterfile service for listed securities will potentially save the industry millions of pounds and looks set to become the global standard for instrument and trade identification. RNS, our company news service, has improved its customer interface to allow users greater control over the way in which they present information to the market. In its second year of operation in competition with other news providers, we maintained a market-leading position with 90 of the FTSE 100 using our service.

DERIVATIVES SERVICES

Our new derivatives products include those offered by EDX London that we acquired from OM AB in June 2003 and Covered Warrants. With good volume growth in the nine months since launch, EDX London has been working with customers on providing services to the European OTC derivatives market, the first of which was launched in March 2004. Together with EDX London's model of linked exchanges, offering trading firms access to multiple markets through one order book, it is positioned to benefit from growth in the international derivatives market. The Covered Warrants market has grown steadily and improving underlying market conditions coupled with increasing investor awareness should drive growth in future.

TECHNOLOGY ROADMAP

Our strategy for technology is a critical determinant for the future of the business. In order to build on our technology advantage, we aim to reduce the total cost of ownership of our systems over time while making a step change in flexibility and scalability. To achieve this we are deploying new generation commoditised hardware in stages across the business, working with the world's leading technology companies such as Microsoft, HP, Accenture and Cisco. The effect of this is the removal of future volume capacity constraints, enabling us to add new services at much lower cost.

THE FUTURE

The Exchange is well-placed to benefit from the opening up of the global market for transaction services and the lowering of regulatory barriers within a single financial services market in Europe. Our continuing investment in technology; our primary focus on customer service; and our global brand, international markets and deep liquidity pool provide the Exchange with a sharp competitive edge. As our customers move to internationalise their businesses and adopt new and more complex trading strategies, we will offer them access to an increasing range of products across national market boundaries.

Our successful efforts to influence the development of the regulatory landscape in Europe will continue. This will enhance our ability to compete in the expanding market for financial services. We will use our pivotal position in Europe to ensure that our customers reap the benefits of structural change, as we did this year in ensuring that the merger between LCH and Clearnet delivered both lower fees for our market and improved strategic flexibility for the Exchange.

We believe that our strategy for growth is on track. Our special dividend provides an immediate return for shareholders while maintaining a strong financial position. We are well-placed to capitalise on the changing competitive landscape while retaining the financial flexibility to grasp opportunities that are likely to deliver significant additional growth for our business.

Clara Furse
Chief Executive

"Our continuing investment in technology; our primary focus on customer service; and our global brand, international markets and deep liquidity pool provide the Exchange with a sharp competitive edge."

YELL GROUP: THE YEAR'S BIGGEST IPO

After de-merging from BT in 2001, Yell always had an eye on a London listing. "With our brand and profile," says John Condron, Yell's CEO, "it was the natural thing for us to do." For management and venture capital backers, a listing was the best way to cut debt and make strategic acquisitions possible, while rewarding and incentivising Yell's large international workforce.

The first presentations to potential investors were in 2002 but, as Condron remembers, "During the weeks of the roadshows the market fell 18 per cent. We didn't want to sell at those levels." Instead Condron and Yell bided their time before returning in the summer of 2003. "Conditions weren't perfect but we knew from the first time around that investors liked the company."

Yell listed on the Main Market on 15 July 2003, raising £1.14 billion. It joined the FTSE 100 on 11 September 2003. By 31 March 2004 the shares had risen by more than 13 per cent.

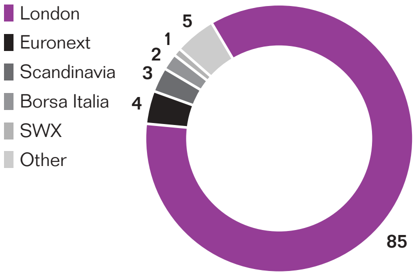
Has anything changed, now that Yell is listed? "There are extra, important things to do – like speaking to investors and City journalists" Condron says. "But most of us are doing what we've always done – winning, keeping and growing our business with customers. That's what builds long-term sustainable benefits for our investors. But when I come in on Monday morning, our security guys might mention Friday's closing price – that's the way it should be. Everyone in our company is a stakeholder.

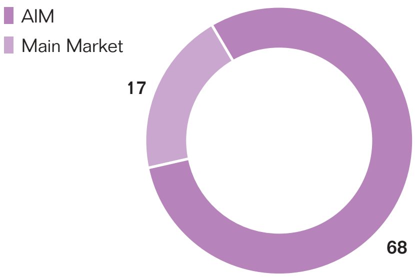
"We know it's what we do that creates the value and are confident that the market gets the valuation right in the end."

Issuer Services

A robust performance in challenging market conditions, underlining the quality of the London markets; a sharper focus on customer service, creating new opportunities; an international strategy targeted on key emerging markets.

PERCENTAGE OF WESTERN EUROPEAN IPOS
Year ended 31 March 2004 (%)





PERCENTAGE OF WESTERN EUROPEAN IPOS TRADING IN LONDON (%)

Source: Thomson Financial, individual exchange websites, LSE analysis. IPOs exclude introductions, re-admissions and transfers between markets.

Issuer Services works with customers before, during and after listing, offering a high-quality service that gives companies access to one of the world's deepest and most liquid pools of investment capital. The Main Market and AIM, our international market for smaller, growing companies, provide companies with world class choice in London.

Issuer Services currently derives the majority of its income from fees paid on new issues (both IPOs and subsequent issues) and from annual listing fees. At 31 March 2004 there were 2,693 companies listed on our markets as compared with 2,777 a year earlier, a decrease of three per cent. There were 1,901 companies listed on the Main Market and 792 companies quoted on AIM. Of these 439 are international companies from 58 countries, making the London Stock Exchange a truly global marketplace. The combined market capitalisation of our markets was £3,303 billion, a rise of 19 per cent in the year.

The year saw a total of 117 IPOs on the Main Market and AIM, raising £5,304 million, as compared with £3,701 million in 2002/03. This accounted for 85 per cent of all IPOs in Western Europe – up from 69 per cent last year.

This represents an impressive performance from our core business in a year of challenging market conditions. The London Stock Exchange remains by far the largest equity market in Europe and the most international of all the world's stock exchanges. The quality of the listing product, world class standards of market regulation and the power of the London brand are key factors contributing to the resilience of our Issuer Services revenue.

By offering a choice of highly efficient, transparent and well-regulated markets, we continue to attract companies and their advisers from all over the world. This year we have also been working with customers to develop a range of additional services based on our capital markets expertise. The development of new products such as our education and training services are designed to inform and advise our customers, so helping them maximise the value of their listings, while diversifying and growing our revenue streams.

revenue
£38m
+7%

Issuer Services

THE MAIN MARKET: EUROPE'S BLUE-CHIP LISTING VENUE

The Main Market continues to offer Europe's most prestigious and effective listings venue for larger and well-established companies, a proven way to raise capital and gain the profile to develop a business. As at 31 March 2004 there were 1,901 issuers listed on the Main Market, including some of the world's largest and most successful companies. The Main Market was capitalised at £3,281 billion, a rise of 18.8 per cent in the year.

This year there were a total of 23 Main Market IPOs raising a total of £3,898 million, as compared with £3,311 million last year. IPO highlights included Yell Group plc (see customer case study), which raised £1.14 billion in July 2003, the second largest IPO in Europe of the year. In June, insurance brokers Benfield Group plc made their Main Market debut, raising £100 million, while in December, mining company Vedanta Resources plc became the first primary listing for an Indian company in London.

As well as working with Main Market issuers and their advisers, the Exchange lobbies governments and regulators in support of our markets. This year we have campaigned vigorously to ensure that the Transparency Directive, which sets standards for company reporting and is one of the directives designed to create a single European capital market, properly reflects the UK practice of immediate disclosure of price sensitive information. We also successfully argued for the removal of quarterly reporting as a mandatory reporting requirement in the Transparency Directive.

AIM: THE INTERNATIONAL GROWTH MARKET

AIM is a phenomenon. While other growth markets around the world stagnate or decline, AIM continues to enjoy strong growth. Since being founded in 1995 more than 1,380 companies have raised more than £11 billion on AIM, making it the world's leading small-cap international growth market and a global brand in its own right. As at 31 March 2004 there were 792 issuers listed on AIM with a combined market capitalisation of £21.92 billion, a rise of nearly 130 per cent in the year.

Over the year there were 94 IPOs on AIM, raising a total of £1,407 million. Highlights include the largest ever issue on AIM – Northumbrian Water's £389 million IPO – used as a stepping stone to the Main Market: issuers regularly cite the choice and flexibility of our markets as a key advantage of listing in London.

The typical AIM issue is smaller than the Main Market – raising an average of £14.97 million – usually to develop businesses that are growing beyond their start-up phase. Increasingly AIM companies come from all around the world. Our strategy is to further internationalise AIM and this year we introduced fast-track admission to AIM from nine designated overseas markets. Companies from the Canadian, Australian and German markets are among eight who have already taken advantage of this new streamlined way to obtain a quotation on AIM.

The Exchange remains committed to the AIM success story. This year we secured agreement in principle with the European Commission, the UK Treasury and the FSA for AIM to be classified as an Exchange Regulated Market within the rules of the single European capital market, thus preserving its unique status. A new management team was also put in place in January with Martin Graham, Director of Market Services also being appointed Head of AIM, together with a new Management Board and the new position of Deputy Head of AIM.

TOTAL NUMBER OF AIM COMPANIES

Years ended 31 March

FOCUSING ON CUSTOMERS' NEEDS

Part of offering world class markets has always been to work closely with our customers and their advisers to ensure that we offer robust and appropriate market regulation. This year Issuer Services has also seen an extra, sharper focus on customers and their needs, as part of an ongoing process to re-align the business.

Dedicated relationship management for UK and international issuers and their advisers has been enhanced with the appointment of Primary Account Managers. We are turning Issuer Services from a product-led to a client-led business. We can offer more services that solve customers' problems and help their business to prosper by better understanding them and developing products to address their specific needs.

For our customers this means being able to call upon the Exchange's expertise in the capital markets and our familiarity with the expectations of the global investment community. Not only will customers use the Exchange as a bridge to the capital markets, they will also be able to benefit from a range of Exchange services, for example in the education and training and investor relations arenas, to maximise the value of their listing in London.

For the Exchange, this increased customer focus creates an opportunity: to design new services and diversify revenues; to move from a single product, towards a high quality multi-product approach that builds on our formidable client base and the powerful London brand.

Our Primary Account Managers are also working with product specialists to help customers fully utilise the Exchange's existing products including RNS, the Media Centre and Proquote, our low cost real-time data system (see Information Services, page 20).

A MARKET FOR THE WORLD

Around the world there are thousands of successful companies with the potential to grow beyond the constraints imposed by less developed domestic capital markets. More than 370 companies in 58 countries already use a London listing to gain the profile and access to capital they need to grow into truly global companies. They are drawn by the quality of our markets, their depth of liquidity and the sophistication and long-term approach of the institutional investor community in London.

The Exchange is actively pursuing a strategy to encourage international listings. We are focusing our efforts on three of the world's largest emerging markets: Russia, China and India. In each of these countries there is an abundance of successful companies with strong potential, for whom a London listing brings vital international credibility while enabling global investors to support their development.

In the year to 31 March 2004 Clara Furse visited China twice, Chris Gibson-Smith took the Exchange message to companies in Russia, while Martin Graham explained the AIM success story to audiences in Mumbai and Delhi. In January, the Exchange signed Memoranda of Understanding with both the Shanghai and Shenzhen exchanges and in March we announced plans to establish a Hong Kong office, as part of our effort to attract privatisation deals and listings of other medium to large Asian enterprises. We believe we are beginning to see the fruits of this targeted international strategy and we will continue to pursue it vigorously in the future.

sharper **focus**
on customer service

UBS: FEELING THE BENEFITS OF SETSmm

UBS, one of the world's leading financial firms, with the largest share of the global secondary cash equities market, was enthusiastic about SETSmm from the start. "It's an initiative that recognises the importance of market-maker support in mid-cap stocks while enhancing liquidity and execution for our clients" says Nick Holtby, Head of European Trading and Sales Trading at UBS Investment Bank.

Was there much work to do before SETSmm was introduced? "We played a full part in the consultation, both one-on-one with the Exchange and in the market-wide debate" Holtby remembers. "In-house and client education was important. We also restructured our mid-cap desks so our traders would better cover sectors exposed to the activity patterns of SETS, SETSmm and SEAQ. There was an eight-week intensive technology implementation."

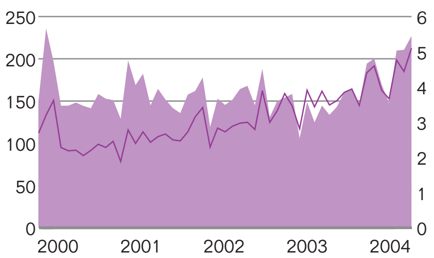
The preparation paid off: the SETSmm 'go live', on 3 November 2003, was among the smoothest platform introductions that UBS can remember. "The impact is an improved service for clients, with reduced spreads, keener price discovery and the ability to auto-execute trades in more UK mid-cap stocks. The SETSmm orderbook, allowing smoother, more discreet execution, has delivered a five-fold increase in portfolio trades in mid-cap securities, consolidating our position as the leading provider of this kind of trade."

Today UBS is the largest Committed Principal and makes more prices in more stocks on SETSmm than any other broker. "SETSmm has improved the market" says Nick Holtby. "That means a better service for our clients and stronger volumes for us."

Broker Services

Strong volume and revenue growth, driven by reliable, efficient trading platforms; innovative products that improve markets and benefit customers; opportunities to bring competition to other European markets.

MONTHLY UK EQUITY TRADING VOLUMES
Years ended 31 March



As part of a universally recognised international Exchange, our members have fast and direct access to deep pools of liquidity at low cost and with a high degree of efficiency. Broker Services provides the electronic platforms through which 303 Member Firms, in 13 countries, trade more than 15,000 securities on the London Stock Exchange making us the most liquid market for international equities in the world. In the year to 31 March, the total number of equity bargains transacted through our platforms was 59.34 million (2002/03: 54.30 million), an average of 234,000 per day (2002/03: 215,000). Throughout the year our electronic trading platforms performed well and, combined with the expertise and commitment of our people, provided participants with uninterrupted access to our markets.

Broker Services derives the majority of its income from charges on trades executed using our trading platforms. This year revenue rose by eight per cent, driven by the volume growth we have seen throughout the year. The SETS electronic order book, for the most liquid UK securities, accounted for 62 per cent of eligible market trades by turnover. With improvements to functionality such as Iceberg orders, SETS enjoyed another year of volume growth.

Our commitment to provide fast, efficient and robust trading systems, providing high standards of regulation and sound market practices, creates some of the most attractive and liquid markets in the world. We believe that this is just the starting point for what we can offer to our customers.

Improving liquidity and efficiency gives us the chance to be still more competitive: our new pricing structure was introduced for SETS users in April. We also use our position to benefit all market participants – as we did by securing fee reductions from the LCH.Clearnet merger. We will continue to promote choice and competition, with the aim of lowering costs of clearing and settlement in Europe.

revenue
£94m
+8%

Broker Services

We also work with customers to use our knowledge and technology to solve their problems. As our customers become increasingly innovative in the way they service their clients, we are responding, through understanding their business priorities and designing tailor-made services that deliver real benefits.

Finally we are aiming to export our offering, bringing the advantages of our trading platform to other markets. May 2004 sees the launch of EUROSETS, our trading service for Dutch equities and the first genuine cross-border competition between European exchanges. EUROSETS will offer all the efficiency and transparency that the Exchange is known for, along with an excellent service offering designed to reduce customers' dealing costs. Paramount to the continued internationalisation of the Exchange is our ability to adapt our technology and knowledge quickly and efficiently to new markets and revenue streams.

SETS: STILL GROWING

SETS is our electronic order book for trading the most liquid UK securities. Since being introduced in 1997 trade volumes on SETS have grown year on year. Last year SETS volumes, including international securities, grew again – to an average of 137,000 trades every day – an increase of 26 per cent. The average value of a SETS bargain fell by 12 per cent to £22,000.

Part of SETS volume growth can be attributed to our customers' continued move towards electronic trading and technical trading strategies. Direct customer research also shows that improved functionality does more than simply facilitate the market, it actually generates additional volumes. Iceberg orders, introduced in September, enable large orders to be put through the order book in an efficient manner, maintaining time priority and reducing market impact. Warmly received by the market, Iceberg orders will further contribute to the growth of SETS.

As well as generating liquidity, SETS drives market efficiency and spreads have continued to fall since SETS was launched. We have listened to market feedback in the design of new pricing for SETS, which offers volume discounts to attract incremental business onto the order book. This creates a strong mutuality of interest between the Exchange and its customer base.

SETSMM: A SUCCESSFUL EVOLUTION

SETSmm is our new platform for trading mid-cap securities. It is the world's first hybrid market, an electronic order book supported by continuous liquidity provision from committed market-makers. SETSmm combines the benefits of the world class SETS electronic order book with London's unrivalled market-making expertise.

Throughout last year the Broker Services team worked in close consultation with customers, defining the needs and balancing the interests of all market participants to design the new service.

After extensive testing and proving, we launched SETSmm in November 2003. It was an instant success: in the five months to 31 March 2004, SETSmm significantly increased the volumes in mid-cap stocks while reducing spreads by nearly 40 per cent. We reached over £900 million traded in one day just three months after launch. The order book now arrives at true market prices much faster, while growth in volumes allows many investors, including many large institutions, access to these stocks for the first time. Brokers meanwhile have seen growth in volumes matched by a reduction in dealing costs (see customer case study on page 14).

SETSmm promotes transparency and stimulates proper price formation improving market liquidity. The success of SETSmm is a model for Broker Services going forward, showing how we are able to design a service that improves the market and delivers volume growth for the Exchange.

DELIVERING FOR CUSTOMERS

A pioneering product, SETSmm is an expression of the evolution in customer service that is being felt right across the Exchange. Broker Services Primary Account Managers led the consultation process for SETSmm, as part of their work to truly understand our customers' changing businesses. By deepening our knowledge of our client base we can better align our offering to our customers' evolving and demanding requirements and define more profitable revenue streams.

Our Primary Account Managers also work with our product specialists, examining markets and developing new services. The process is about discovering ways in which we can help customers improve their own processes and make cost-savings. Once we have identified an opportunity we can then design enhanced functionality for existing products, as well as new products and processes that meet market demands.

This commercial, fast-track approach that delivers for customers, is underpinned by class-leading technology. The work being done across the Exchange is creating a simple, agile, scalable technology that can deliver tailor-made products quickly at minimal development and unit cost.

EUROSETS: REAL COMPETITION

In markets characterised by large multi-national players and significant cross-border competition, the absence of competition between Exchanges seems an anomaly. With the launch of EUROSETS, our trading service for Dutch equities in May 2004, the Exchange will lead the initiative to create real competition in European markets.

EUROSETS brings all the efficiency, transparency and low cost structure of the London market to the most liquid Dutch securities. Responding to clear market demand, we have worked with our own customers, existing Dutch market participants and the FSA to design a service that meets customers' needs, delivering substantial benefits in terms of cost and reliability.

Dutch stocks will be executed on the SETS order book and cleared through LCH.Clearnet, allowing participants to utilise their existing infrastructure and existing systems. Settlement is through Euroclear Netherlands. At the time of printing, EUROSETS has gone live and carried its first trades. Initial feedback has been favourable. Customers' response to the new service in the next year will help to determine the future shape of competition between European exchanges.

creating real competition in European markets

Information Services

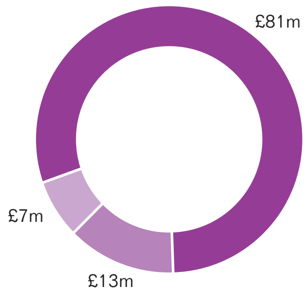
New products coming on stream, supporting revenues despite falls in terminal numbers; investment in flexible technology helping us leverage our information assets; creating services that respond to customer needs and further diversify revenues.

REVENUE SOURCES

Year ended 31 March 2004

- Data charges and other: £81m
- FTSE Joint Venture: £13m
- RNS: £7m

Total: £101m



Information Services provides market information, trading and data services to more than 90,000 direct users in 109 countries around the world. Our products, traditionally based around the information generated and recorded by the London Stock Exchange, include real-time market data and historic trade information services. Such data is a valuable commodity for financial professionals, including brokers and fund managers and the middle and back offices that support them. Private investors also use our services.

The majority of Information Services' revenue is generated by our real-time market data services, delivered either directly or via third party data distributors. In the year to 31 March 2004, the number of terminals taking our real-time market data fell from 94,000 to 90,000. This fall of four per cent is part of a wider trend in the financial information industry, reflecting job losses and cost reduction programme in the financial services market. Our terminals are down by 20 per cent over the last two years: many major data providers have seen similar falls.

Despite the significant fall in terminals, revenues in Information Services – at £101 million for the year – fell just one per cent. We have managed to achieve this thanks to a strategy to diversify revenues that was put in place in 2002. Since then we have been working with customers to identify areas where the Exchange's data and information resources can create valuable services. This was recognised at the 2004 Inside Market Data Awards where we were voted exchange 'Data Provider of the Year'. We have also invested in modern, robust technology that enables us to roll out new services quickly and efficiently.

Last year's acquisition of Proquote, our low cost trading and market data system, has further diversified revenues. Strengthened by our brand and enriched with new data and functionality, Proquote has grown from over 900 screens at acquisition, to more than 1,800 at the year end. In March we also launched SEDOL Masterfile, our global securities identifier service that is already helping to cut the costs of data error across the securities industry. SEDOL looks set to become a global standard for instrument and trade identification. RNS, our market-leading news service contributed £7.2 million to revenues (2002/03: £6.8 million), while FTSE, our joint-venture provider of indices, also performed well, delivering turnover of £13.3 million (2002/03: £11.4 million).

This has been a building year, putting in place initiatives and creating the products that both help customers and generate revenue, making Information Services' revenue streams less cyclical. This year these new products have helped make up for the decline in terminal numbers. We believe that these and other planned products create potential for growth in the coming years.

revenue

£101m

-1%

GERRARD: SEIZING THE PROQUOTE OPPORTUNITY

In 2001 private client stockbrokers Gerrard became one of Proquote's first major customers. Head of Dealing, Mark McCutcheon, recalls: "We were looking at our systems and comparing what was out there. We were told about a new web-based platform which offered compelling prices compared to other vendors, improved on existing offerings for our Investment Managers and enhanced our dealing capabilities."

Being an early mover was an advantage. "Our traders sat down with Proquote and told them what we wanted to see. Our input helped design a single screen with all the data that traders need – especially when filling large orders – rather than two or three screens that other systems might use." Such feedback is an ongoing process. "Proquote are very receptive to ideas" says McCutcheon. "At the moment we're talking about SETS displays."

Gerrard's UK traders now use Proquote screens exclusively. "There's an obvious cost advantage but it benefits our clients, too. "We deal with RSPs: Proquote Trader offers seven where other platforms might have two or three. More competition means better prices. It's fractions of pennies but it adds up. Our clients like to know we're getting the best prices for them."

Has there been a difference since the Exchange took over Proquote? "The service is as good as ever. Obviously, having the Exchange behind it does make a difference – particularly in product development. We're interested in the new international data offering."

Information Services

CUSTOMER-DRIVEN PRODUCT DEVELOPMENT

At the heart of our efforts to create winning products is a rigorous focus on our customers' needs. We know that designing compelling products is not about being prescriptive. Instead, product development has to be informed by close consultation with customers, enabling us to identify those areas where Exchange data and information can improve customers' processes. In this way we can design products to customer specification and develop appropriate pricing structures.

Level 1 Plus, the new enriched market data service, is an example of the Exchange identifying and then delivering new, valuable data to meet market demand. The new release, launched on 24 May 2004, includes named market share data, profiling sources of liquidity and improving market transparency. New content from CityWire and Argus Vickers sees the Exchange partnering with outside providers for the first time. CityWire's Brains Trust analyses the positions of top-rated fund managers – creating a virtual portfolio of stocks held by the best investors. Argus Vickers provides details of the top five holders in each security.

Such customer-led product development goes hand-in-hand with an approach that is focused on revenue generation. This year we have reorganised the Information Services sales forces creating an effective way to manage customer relationships and sell all the Exchange's products. A motivated and professional sales force is key to growing Information Services revenues.

TECHNOLOGY THAT SUPPORTS BUSINESS AIMS

May 2003 saw the completion of the Exchange's Corporate Data Warehouse. This project moved all the Exchange's historic and enhanced real-time data generation into a central system using cluster server technology – commodity hardware that is both flexible and economical. The London Stock Exchange is the first exchange to use this new generation Microsoft technology to support its services.

Flexible and scalable technology means we can deliver new products quickly and at competitive prices. Our new Corporate Action Service, due for launch in June is a good example. This real-time feed of corporate data is distributed over SWIFT (industry communications structure) and integrates with our customers' back office systems, saving them time and greatly cutting the cost of clearing, cleansing and standardising corporate actions data such as notification of rights issues.

This year we have also worked on the design of a restructured website. Carrying both advertising and subscription data services, www.londonstockexchange.com creates commercial value from the strong traffic the site attracts (more than 20,000 visits each day). Extensive range and depth of information also helps inform retail investors about our markets while further strengthening the London Stock Exchange brand.

PROQUOTE: REDEFINING DATA AND TRADING SERVICES

Proquote ended the year with over 1,800 terminals and more than 160 corporate customer installations. This has been achieved while the wider market for information terminals continued to shrink. Proquote's compelling pricing, made possible by the technology underpinning it, is one factor driving this growth (see customer case study on previous page).

The other factor is the increasing sophistication of the service. Many corporate customers now rely exclusively on Proquote for both research and trading functions: users can now link to SETS, the Exchange's electronic order book, from any desktop or laptop computer. Traders, salespeople and market makers, representing some of the biggest names in the industry, trust Proquote to help them do their jobs better. So much so that they gave Proquote the award for 'Best Information Display Services' at this year's Systems for the Securities Industry Awards.

Recent enhancements to Proquote include a new order management system and the continuing enrichment of the content: news services have been upgraded and a Dow Jones news feed added. European fund data, graphing and analytics are some of the other recent enhancements and more international data will be added soon. We are also now working to integrate Proquote with customers' middle and back offices, enabling straight-through processing of trades.

Proquote gives us a direct relationship with our market participants, bringing revenues in straight from source, rather than via distributors. Such direct relationships with customers help inform product development.

SEDOL: THE GLOBAL IDENTIFIER

In March this year, the new SEDOL Masterfile service went live, creating real-time universal alphanumeric codes for all global securities. This new service aims to cut out many of the failed trades due to incorrect instrument identification, that are estimated to cost the securities industry in the region of £125 million each year. Users can now check SEDOL codes online and create new codes free of charge, removing the cost barriers associated with instrument ID allocation. Over the coming months, SEDOL is expanding in scope to cover more than two million global securities, including OTC instruments.

In June 2003 a joint discussion paper by the Reference Data User Group and the Reference Data Coalition recognised SEDOL, combined with the Market Identification Code (MIC), as a key to meet all criteria for global instrument uniqueness. For the Exchange, commercialising SEDOL creates a new offer in the growing market for high quality reference data, which customers need if they are to make the most of their investment in automated trading and settlement systems. It also allows us to work with customers to develop a range of new, complementary products. At 31 March 2004 we had agreed contracts for SEDOL with nearly 700 customers. As a measure of the value placed on SEDOL Masterfile, industry participants voted it 'Project of the Year' at the 2004 Inside Market Data Awards.

RNS: IMPROVING CUSTOMER-FACING TECHNOLOGY

RNS, our Primary Information Provider of company news, released regulatory announcements for 90 companies in the FTSE 100 during its second year of competition with other information providers. This is due to excellent standards of service and a focus on delivering products to help companies and their advisors.

In 2003, RNS introduced further improvements to the online customer interface to give greater user control over the presentation and release of company announcements. These built on the new services that we introduced last year, such as simplified SEC regulatory filings, UK and international financial media distribution and webcasting. Future service developments will focus on extending the range of communications services offered by the Exchange and stimulating debate on important issues in RNS' quarterly magazine, RNS Reach.

Proquote
1,800+
terminals

Derivatives Services

Volume growth in EDX London's derivatives products; a new OTC derivatives clearing service successfully launched; Covered Warrants, the world's fastest growing retail market.

Derivatives Services, a new division established this year, manages the Exchange's expanding derivatives business. Derivatives Services earns its revenues from EDX London, our international derivatives exchange and the Covered Warrants market for retail investors, launched in November 2002. In the year to 31 March 2004 revenue in Derivatives Services was £6 million.

In the nine months since its launch, EDX London contributed fees for trading derivatives products from three Scandinavian countries. Volumes in this core business have shown good growth in 2004. EDX London has also been working with customers on new services for the growing OTC derivatives market in Europe. The first of these services was successfully launched in March.

A good year of growth enabled our recently launched Covered Warrants market to increase revenue derived from charges for trading instruments. At year-end there were five issuers offering more than 650 instruments in a market worth approximately £5 million every day.

EDX LONDON: CHANGING THE LANDSCAPE

In June 2003 EDX London was granted RIE (Recognised Investment Exchange) status by the FSA and commenced operations. EDX London offers trading in futures and options listed on three linked exchanges – in Sweden, Denmark and Norway. There are now 58 member firms trading over 100 listed futures and options contracts. Combined trade volume averaged over 71,000 contracts every day. There were record volumes in February 2004 and EDX London's share of the Scandinavian market rose. We are now actively exploring options for extending the linked exchange network in collaboration with other derivatives markets.

In August 2003 Nic Stuchfield joined EDX London as Managing Director. Nic brings considerable exchange experience having previously been CEO of Tradepoint (now virt-x). In January 2004 we successfully migrated all customers to LCH.Clearnet, preparing the way for our pan-European OTC clearing services. Throughout the year we have worked with customers to design this new offering. In March our platform for OTC trade clearing went live, with trade confirmation expected to follow in the autumn.

COVERED WARRANTS: MORE ISSUERS, CONTRACTS AND VOLUME

Launched in November 2002, in the depths of the bear market, the London Covered Warrants market has nevertheless grown steadily, in line with the pattern in other European countries that have established warrants markets. In 2003/04 improving underlying market conditions boosted Covered Warrants so that volume growth averaged 15 per cent every month. The year also saw DrKW joining Goldman Sachs, SG, TradingLab and JP Morgan as issuers of Covered Warrants.

The 657 warrants and certificates available at 31 March 2004 included calls and puts on indices and single stocks as well as baskets of shares, oil and gold – and on the UK housing market. Brokers meanwhile report growing interest in warrants along with increasing understanding among clients of how these instruments can help in both speculative and hedging investment strategies (see customer case study).

COMDIRECT: CAPITALISING ON COVERED WARRANTS

Execution-only broker comdirect limited began offering covered warrants the day the market opened, 28 October 2002. Neil Jamieson, comdirect limited's Head of Marketing, says, "There were two clear reasons to be in the market from the start. First, the flexibility that warrants give investors to pursue different strategies and second, the success of covered warrants in continental European and Asian markets." In Germany alone, the market is currently worth £30 billion per annum and in Italy about £8.5 billion.

What of the prospects for the UK market? Jamieson says, "It has tremendous potential. The market here is growing faster than in many other countries. However, it takes time for investors to understand what warrants can do. For many it's the first time they've been able to use a geared product, whether it be to gain from rising or falling markets, or to hedge a portfolio, which can be particularly important for individuals with Self Invested Personal Pensions. The benefits of certificates, which are ungeared, are also starting to be appreciated."

"It helps that you can trade covered warrants and shares within the same account" says Jamieson. "The Stock Exchange name, its seminars promoting the market and the blue-chip nature of the issuers together give the market credibility." So what are the most popular warrants for comdirect clients? "It varies from week to week but FTSE 100 warrants are always popular. Warrants on blue chip stocks, commodities and currencies also attract considerable interest. Covered warrants are now comdirect's second most-traded instrument after UK equities."

Technology

Delivering robust systems that support reliable markets; our Technology Roadmap, migrating to commodity IT, cutting costs and creating business agility.

As much as any business in the world, an exchange's technology has to be flexible. In the electronic era, the systems providing trading data and real-time price information effectively are the markets. This has been another year of uninterrupted service on our trading platforms, where we also introduced the new Iceberg order functionality and SETSmm. The Exchange's real-time and historic data feeds and products have also continued to perform well.

The decisions taken on technology investment are key to our business development and that of the wider market. Our technology needs to be agile, so that we can respond to volume growth, anticipate customer needs and offer new services. Markets are constantly developing. In this fast-changing environment, the provider with the most flexible and cost-effective technology will be best-placed to gain competitive advantage.

Actively managing technology and the expenditure is part of protecting shareholder value. The London Stock Exchange leads the world's major exchanges in the drive to cut IT costs. And now a new generation of technology is being implemented that adds further momentum to this drive, while creating real business advantages by being scalable and flexible.

Farms of commodity servers have lower total cost of ownership than mainframe technology. We believe the cost and business agility case for moving to commodity IT has been proven: many other areas of the financial services industry have already made the change.

THE TECHNOLOGY ROADMAP

In 2003 we laid out our Technology Roadmap, defining the steps to take and the investment necessary towards deploying commodity hardware and new generation software across our business. It was a pioneering move: the London Stock Exchange is the first major exchange to use this technology. As at 31 March 2004 we had successfully completed the first two steps of the Roadmap and are now working with our technology partners to achieve the third.

This year our internal systems, including the desktop environment used each day by the Exchange's staff, and other downstream functions such as billing, have been completely renewed.
As well as preparing us for the move to Paternoster Square, this creates infrastructure that is capable of sustaining the business into the future.

"The London Stock Exchange is one of the most forward-looking financial exchanges in the world. Partnering with Accenture and Microsoft, HP ensures the Exchange is armed with the right technologies and solutions to provide world class levels of adaptability, scalability and security."

Carly Fiorina
Chairman and CEO
Hewlett-Packard Company

The second step was the successful launch of the Corporate Data Warehouse (CDW) in June 2003 (see Information Services page 20), providing value-added market data for our customers. We can now design, build, test and deliver new products faster than before, enabling us to be more responsive to customers. The new Corporate Actions data feed, to be launched in June 2004, is one of a number of new services delivered from the CDW.

We are now actively working on the third stage of the Roadmap, moving the London Market Information Link, which broadcasts real-time information services to terminals in more than 100 countries, onto this new generation of hardware and software. This will be complete by Q1 2005. With the model proven, the next steps for the Roadmap are some of the most significant, including the migration of our trading platforms. This will remove potential future volume capacity constraints and create the flexibility to provide new services that can help deliver the Exchange's wider strategic aims.

WORLD CLASS PARTNERS

At each step of the Technology Roadmap we have brought together sector expertise and mitigated project risk by working closely with the world's best technology companies, including Microsoft, HP, Accenture and Cisco. Pioneering new generation technology for the Exchange is a flagship project for our partners, because it can demonstrate the robustness of their technology and the depth of their implementation skills.

The Exchange is one of ten global clients – and the only exchange – participating in project Yukon, Microsoft's testing programme for its latest version of SQL Server. We also have extensive use of Microsoft's testing facilities in Seattle. Access to such resource is an important first-mover advantage. Another is the growing expertise of our own teams in the new generation technology.

"The London Stock Exchange is driving business innovation and productivity at the forefront of the global economy. Together with Microsoft, the Exchange is pioneering the evolution of financial trading systems. Working with Windows Server System and .NET technologies, the Exchange builds on the most cost-effective and reliable technology possible to deliver mission critical applications that offer increased value and service to customers."

Steve Ballmer
Chief Executive Officer
Microsoft Corporation

Media Centre

15 per cent increase in live television and radio broadcasts; blue-chip corporate events delivering increased revenue; introducing the new complex at Paternoster Square.

The Media Centre, the Exchange's broadcast and presentation facility, had a busy year. In the year to 31 March 2004 we transmitted 11,132 live broadcasts on TV and radio – more than ever before. Channel Four's News at Noon now has a regular guest slot, joining BBC1 and BBC World, CNN, CNBC, Sky News and Canada's ROBTV among the international broadcasters who use our studios.

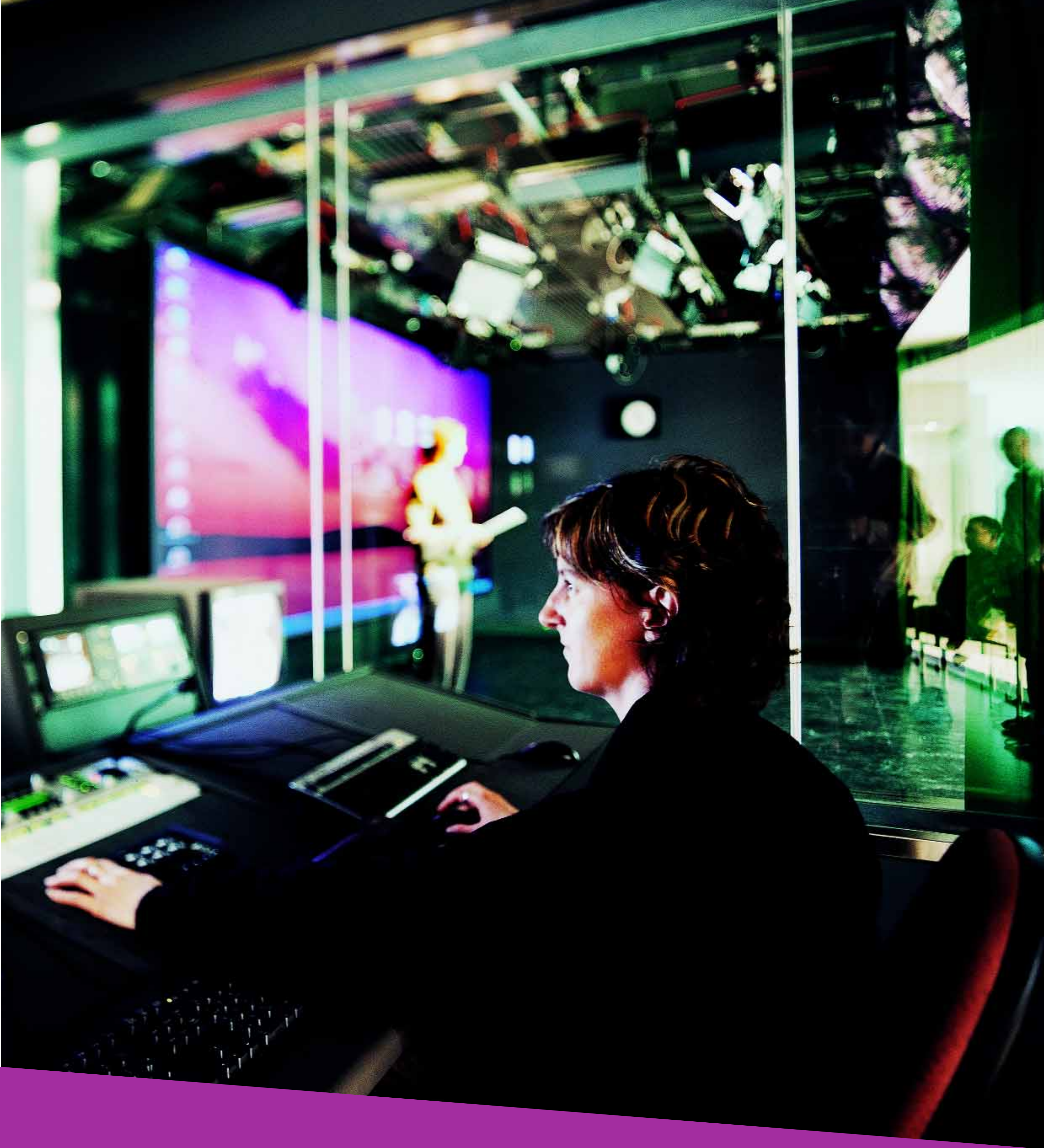
For executives seeking to boost their company's profile, the Media Centre continues to offer the best way to talk to multiple audiences in a time-efficient way and maximise the impact of their messages. Over the year, executives of FTSE 100 and AIM companies alike came here to talk to the world. In one week alone Sir Peter Davies, Sir Victor Blank and Sir Richard Branson were interviewed at the Media Centre.

Corporate events are also up this year. We delivered more than 170 events including AGMs, results presentations, dinners and receptions. Highlights included the World Gold Council's bond launch in December, the City of Glasgow's two-day promotional seminar in November and Manchester United's July investor relations workshop on turning fans into customers. Throughout the year our training courses on the City, media interviews and presentation skills also contributed to revenue.

THE NEW FACE OF THE EXCHANGE

The move to Paternoster Square and the launch of the new Media and Business Complex in June 2004 represents a major opportunity for the Exchange. The new facility includes three live studios, greatly increasing our broadcast capacity. The studios are visible through a glass wall, thus replacing the old trading floor as the public face of the Exchange and underlining the Exchange's centrality in both the City of London and the wider financial world.

The new complex has also been designed to host a wider range of corporate events. Facilities include a 120-seat theatre, with state-of-the-art presentation equipment, making it the ideal venue for investor and analyst briefings. As well as being a hub for international broadcasters, the Media and Business Complex is set to become a key destination for the events industry.



Inside our new state-of-the-art studios
at the Media and Business Complex,
Paternoster Square.

Corporate & Social Responsibility

As a publicly-listed company at the heart of the most international market in the world, integrity is central to our success and we are proud of the way in which we do business. We know that the trust of our stakeholders is critical to the achievement of our long-term growth ambitions. As such, we always strive for openness and honesty in all our business dealings and treat our customers, shareholders and employees as valued partners in our business.

We have reviewed our approach to our wider responsibilities to ensure what we do is of real relevance to our stakeholders and we have considered those activities where we have most impact. This has established two key priorities:

GOVERNANCE

We seek to deliver the highest standards in boardroom practice and financial transparency by:

> facilitating open and transparent dialogue with our investor audience
> maintaining accurate financial records which transparently and honestly reflect the financial position of our business
> striving to meet the expectations of our shareholders by maximising share holder value and providing competitive returns
> fostering an open, co-operative relationship with our regulators.

Investor relations activity includes regular presentations and meetings with key audiences, including institutional and private shareholders and analysts. These are conducted in a manner that ensures the protection of price-sensitive information which has not already been made available to all shareholders.

Over the past 12 months the Exchange met with over 80 major UK and overseas investors. As well as London-based meetings, investor contact involved visits to various financial centres, including New York, Boston, Paris, Frankfurt, Amsterdam, Milan, Edinburgh and the Nordic region. The effectiveness of the communication programme is monitored directly through feedback to the company and indirectly through periodic third party perception audits.

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

EMPLOYEES

We recognise that our competitiveness is dependent on employing and developing the best people. To do this we must create the right environment for people to do their best work by:

> creating a working environment which enables employees to develop their skills and knowledge
> maintaining healthy and safe working conditions and to operate in an environmentally-responsible manner
> encouraging a working environment in which employees feel comfortable about highlighting wrong-doing
> enabling our employees to make informed decisions about the effect of a wide range of benefits on their lifestyle, wealth and financial security
> promoting an environment of equality of opportunity which is intolerant of discrimination, harassment or victimisation

We continue to create an environment which further develops the skills and knowledge of our employees. To achieve this, we operate an appraisal system for all staff that reinforces the links between training and development; reward and performance.

Our reward package for staff is designed to provide incentives for the delivery of both short-term goals and the achievement of long-term objectives. This is performed through cash bonus eligibility for all staff and equity schemes for individuals with the clearest 'line of sight' to corporate performance.

Our share schemes continue to encourage employees to take an active stake in the success of our company, with a participation level of over 70 per cent.

In addition, we give all staff access to a comprehensive range of benefits and funding to purchase those of most relevance through our flexible benefits scheme, which includes a number of health and welfare schemes. New for 2004 is an on-line charitable giving scheme, making it easier for staff to make donations to their favourite charities.

As well as a stimulating environment, we maintain healthy and safe working conditions. Our Health and Safety Policy includes procedures for the safe handling of toxic and environmentally damaging materials. Compliance is monitored by an internal Health and Safety Group. This Group, with representation from each business area, meets on a regular basis and considers changes in legislation and related matters.

There were no reportable illnesses, dangerous occurrences, or liabilities, nor were any health and safety enforcement notices or convictions received. No accidents to staff were reported under the health and safety reporting regulations during the year.

Two further areas relating to our wider responsibility have been identified as important:

COMMUNITY

We believe that we have a responsibility towards the wider society in which we conduct our business and to support our staff in their individual and collective efforts to make a contribution to the community.

2004 was our third and last year supporting The Trident Trust as our partner charity. The Trident Trust aims to help young people between 14 and 25 prepare for life beyond the classroom. Regardless of ability and background, the Trust aims to enhance the employability and develop the individual potential of the young people it works with.

Over the period of the partnership, our contribution has allowed Trident to match-fund new developments and access funds previously out of its reach.

Trident's CEO, Paul Poulter, commented on the partnership with the Exchange: "The financial and professional impetus provided by the Exchange has helped Trident to achieve a step change in the range and extent of its programmes, which now involve in excess of 130,000 youngsters a year. The Exchange's support has helped us to increase our service provision across the UK by over 25 per cent in the last three years."

In 2003, we were delighted to receive external recognition of the success of this partnership from Business In The Community, which awarded us with the 'BIG TICK' in their Awards for Excellence 2003 in the field of corporate responsibility.

We have recently selected a new partner charity for the next two years, Brainwave. Every year in this country, 23,000 children become brain-injured or suffer from brain impairment, sometimes following an accident, sometimes as the result of a genetic condition, illness or birth trauma. Brainwave is one of the UK's leading charities supporting children who suffer developmental delay as a result of such a condition.

We look forward to working with Brainwave, which was chosen as our partner charity because of its modern, straightforward attitude. It has a very imaginative and agile outlook and we aim to ensure that our partnership becomes a milestone in the charity's growth and development.

ENVIRONMENT

We recognise that our activities inevitably have an impact on the environment. Consequently we embrace the principles of sustainable development and are committed to a process of continual environmental improvement and pollution prevention. We treat all relevant environmental legislation and regulations as the minimum standard and seek to exceed them wherever possible.

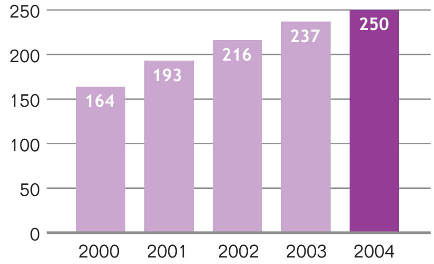
An Environmental Policy Statement which provides a framework for developing and reviewing environmental objectives and targets is set out on our website at www.londonstockexchange-ir.com. We identify opportunities to reduce and recycle the resources we consume including energy, water and other natural resources, thereby also minimising the amount of waste we produce.

Our relocation project to Paternoster Square has been a unique opportunity for us to consider our environmental impact and make significant changes through the design and fit-out stages – further details are set out in our Environmental Policy Statement.

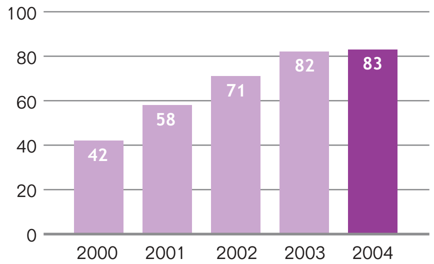
Each year, we continue to be awarded the Gold Award under the Corporation of London Clean City Awards Scheme, which recognises good practice to reduce, reuse, recycle. We have an established Energy Management Policy and monitor carbon dioxide emissions.

Financial Review

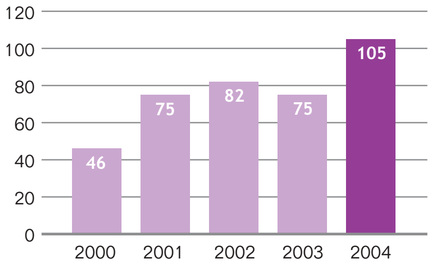
TURNOVER FROM CONTINUING OPERATIONS
Years ended 31 March (£ million)



OPERATING PROFIT FOR CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS AND GOODWILL AMORTISATION
Years ended 31 March (£ million)



CASH INFLOW FROM OPERATIONS BEFORE EXCEPTIONAL ITEMS
Years ended 31 March (£ million)



Financial performance for the year ended 31 March 2004 has been satisfactory against a backdrop of variable market conditions. Cash flow from operating activities remained strong.

Turnover increased six per cent to £250.4 million (2003: £237.3 million) and operating profit before exceptional items and goodwill amortisation rose two per cent to £83.2 million (2003: £81.7 million) with a rise of 17 per cent in operating profit. Earnings per share rose 20 per cent to 21.7p per share from 18.1p per share and adjusted earnings per share, before exceptional items and goodwill amortisation, increased two per cent to 21.3p per share (2003: 20.9p).

TURNOVER

Turnover from Issuer Services increased seven per cent from £36.0 million to £38.5 million. The number of companies on our markets as at 31 March 2004 was 2,693 (2003: 2,777) and the number of new issues on the Exchange's markets rose to 236 (2003: 202) as weak conditions in the first half of the year were offset by a stronger overall performance in the second half. The amount of new capital raised on the Exchange's markets during the year rose to a total of £21.0 billion (2003: £17.9 billion). AIM, our international market for smaller, growing companies, enjoyed a successful year and 792 companies were traded on AIM at 31 March 2004, an increase of 12 per cent (2003: 705).

Broker Services' turnover increased eight per cent to £94.1 million (2003: £87.3 million), mainly attributable to the continued growth in the number of bargains transacted on SETS, our electronic order book. The total number of equity bargains increased nine per cent to 59.3 million (2003: 54.3 million), a daily average of 234,000 (2003: 215,000). During the same period, the number of SETS bargains grew 26 per cent to a total 34.7 million (2003: 27.5 million), representing a daily average of 137,000 bargains (2003: 109,000).

Information Services' turnover fell one per cent to £101.0 million from £102.2 million reflecting the continued fall in terminals receiving real-time Exchange data which stood at 90,000 at 31 March 2004 (2003: 94,000). Proquote, the Exchange's low cost financial markets software and real-time price data company, made good progress with over 1,800 installed screens, almost doubling the number since acquisition in February 2003. RNS and FTSE, the joint venture indices business, both increased turnover during the year.

Derivatives Services, principally comprising our new 76 per cent owned equity derivatives business, EDX London, contributed £6.1 million to turnover. The business has made good progress with 13.7 million contracts traded from launch on 30 June 2003 to 31 March 2004.

turnover
+6%

EXPENDITURE

Administrative expenses (excluding exceptional items) rose eight per cent to £155.5 million (2003: £144.3 million) principally reflecting the inclusion of Proquote and EDX London, two new businesses, and costs associated with our relocation to new offices. There were no exceptional items in the year (2003: £11.6 million charge).

PROFIT FOR THE YEAR

Operating profit before exceptional items and goodwill amortisation rose two per cent to £83.2 million (2003: £81.7 million). With no exceptional items in the current year, and after net interest received, profit before taxation improved 12 per cent to £89.1 million (2003: £79.5 million). The taxation charge of £25.7 million is lower than the standard tax rate due to a one-off tax credit of £2.7 million agreed with the Inland Revenue. After tax and minority interests, the profit for the year was £63.7 million (2003: £52.7 million).

Earnings per share increased 20 per cent to 21.7p per share (2003: 18.1p per share) and adjusted earnings per share (excluding exceptional items and goodwill amortisation) rose by two per cent to 21.3p per share (2003: 20.9p per share). The Directors have proposed a final dividend of 3.4p per share which takes the total dividend for the year to 4.8p per share, representing a 12 per cent increase over 4.3p per share last year, giving a total distribution of £14.1 million (2003: £12.5 million).

CASH FLOW AND BALANCE SHEET STRENGTH

Cash flow from operating activities before exceptional items increased to £105.4 million (2003: £74.8 million) with a reduction in working capital and lower contributions to the Company's defined benefit pension scheme. After capital expenditure of £54.2 million (2003: £28.1 million) and acquisitions of £15.5 million (2003: £11.8 million), there remained a cash inflow of £10.9 million (2003: £20.9 million).

At 31 March 2004, sterling cash resources were £227.9 million (2003: £211.0 million) with debt of £4.9 million (2003: nil). The Company invests the majority of its funds in fixed term deposits with banks, for periods of up to one year.

Continuing strong cashflows and the anticipated receipt of proceeds from the disposal of the Tower results in the Exchange holding significant cash balances. Accordingly, the Board proposes to return approximately £162 million of surplus cash to shareholders by way of a special dividend of 55p per share. At the same time, the Exchange will continue to maintain the financial flexibility to pursue opportunities for growth. The return will be accompanied by a consolidation of the Company's share capital, conditional on shareholder approval at the AGM.

DISPOSAL OF THE TOWER

In April the Company announced the disposal of the Stock Exchange Tower site for total consideration of £67 million with completion expected in July 2004. An initial instalment of £33.8 million is payable on completion, with a further payment of £33.2 million due in December 2005.

ACCOUNTING POLICIES

The Exchange complies with all current UK accounting standards and there have been no policy changes during the year. The transitional disclosures required by FRS 17 on Retirement Benefits are included in the financial statements.

Jonathan Howell
Director of Finance

INTERNATIONAL ACCOUNTING STANDARDS

The Exchange will prepare its financial statements under International Financial Reporting Standards (IFRS) with effect from the 2005/06 financial year.

A project team is reviewing all aspects of the implementation, including changes in accounting policy, internal systems and controls as well as wider business issues. A preliminary assessment indicates that the main changes will be in respect of pensions, share-based payments and goodwill amortisation. Briefing for investors and users of our accounts will be arranged at a later date.

GOING CONCERN

After making appropriate enquiries, the Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The accounts are, therefore, prepared on the going concern basis.

Jonathan Howell
Director of Finance

Board of Directors

01 Chris Gibson-Smith 57 ■
Chairman
Chris is also Chairman of National Air Traffic Services Ltd, Senior Independent Non-Executive Director of British Land Company plc and Non-Executive Director of Lloyds TSB plc. Previously Group Managing Director of BP plc from 1997 to 2001. He is a Trustee of both the Institute for Public Policy Research and the arts charity Arts and Business.

02 Clara Furse 46
Chief Executive
Appointed Chief Executive in January 2001. Formerly Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. Director of LIFFE from 1991 to 1999, Deputy Chairman from 1997 to 1999. At Phillips & Drew (now UBS) from 1983 to 1998; became a Director in 1988, Executive Director in 1992, Managing Director in 1995, Global Head of Futures in 1996. She is a Non-Executive Director of Euroclear plc, LCH.Clearnet and RICS Foundation.

03 Jonathan Howell 41
Director of Finance
Director of Finance since December 1999, responsible for Finance and Business Operations. He was previously Head of Market Regulation from 1998 and Director of Regulation from March 1999. He is a Director of FTSE International Ltd. He joined the Exchange in 1996 from PricewaterhouseCoopers.

● Member of the Audit Committee
▲ Member of the Remuneration Committee
■ Member of the Nomination Committee

04 Ian Salter 61 ●
Deputy Chairman
Non-Executive Deputy Chairman since 1990. He is a Director of Tilney Investment Management London who recently took over SG Investment Management Ltd where he had been Managing Director. He is a member of the Finance Committee for the City Take Over Panel and sits on the Code Committee. He also served on the Financial Reporting Council for eight years and is a member of the UK Listing Authority Advisory Committee.

05 Michael Marks CBE 62 ●
Non-Executive Director
Partner NewSmith Capital Partners Ltd. Non-executive director Old Mutual plc. Formerly Executive Vice-president, Merrill Lynch & Co, Inc, Executive Chairman of Merrill Lynch Europe, Middle East and Africa; Chairman of Merrill Lynch Investment Managers & International Private Client and a member of the Executive Management Committee of Merrill Lynch & Co, Inc.

06 Baroness (Janet) Cohen 63 ● ▲ ■
Non-Executive Director
A Life Peer, Chairman of BPP Holdings plc. Non-Executive Director of the Defence Logistics Organisation and of MCG plc. Previously Advisory Director of HSBC Investment Bank, a Non-Executive Director of Charterhouse Management Services Ltd from 1988 to 1999 and Charterhouse Financial Services Ltd from 1989 to 1993.

07 Gary Allen CBE DL 59 ●
Non-Executive Director
Chairman IMI plc since May 2001, Chief Executive from 1986 to January 2001. Board Director of IMI plc since 1978, having joined the company in 1965. He is a Non-Executive Director of N V Bekaert SA, Belgium, The National Exhibition Centre Ltd and Temple Bar Investment Trust plc.

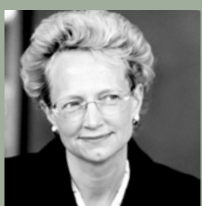
08 Peter Meinertzhagen 58 ▲
Non-Executive Director
Previously Chairman Hoare Govett Ltd since October 1999, Chairman of Hoare Govett Corporate Finance Ltd and of Hoare Govett Small Companies Index Trust plc. He joined Hoare Govett in 1965.

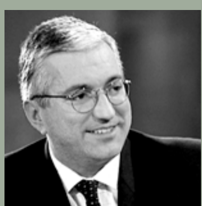
09 Robert Webb QC 55 ▲ ■
Non-Executive Director
General Counsel of British Airways plc since September 1998, responsible for government and industry affairs, safety, security, risk management and the environment. Board member of London First and Air Mauritius. Bencher, Inner Temple.

10 Oscar Fanjul 55 ● ■
Non-Executive Director
Vice-Chairman and Chief Executive of Omega Capital. Honorary Chairman and formerly Chairman and CEO of REPSOL-YPF and Chairman of Hidroeléctrica del Cantábrico. Non-Executive Director of Acerinox, Técnicas Reunidas, Marsh & Mclennan Companies and Unilever. He is also a member of the European Advisory Board of Carlyle Group.

11 Nigel Stapleton 57 ▲ ■
Non-Executive Director
Chairman Uniq plc and Chairman Postal Services Commission. Previously Chairman of Veronis Suhler International Ltd from 1999 to 2001, Chairman of Reed International plc from 1997 to 1999, Co-Chairman of Reed Elsevier plc from 1996 to 1998, Chief Financial Officer of Reed Elsevier plc from 1993 to 1996.

01


02


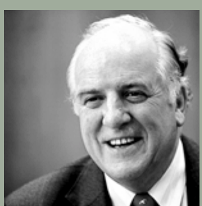
03


04


05


06


07



08

09

10

11

Corporate Governance

Subject to the comments below regarding the independence of the senior non-executive director and of a member of the Remuneration Committee, the Company's Board is satisfied that it has complied with the provisions of the 1998 Combined Code – Principles of Good Governance and Code of Best Practice issued in 1998 ('the 1998 Combined Code') during the year ended 31 March 2004. The Company's Board believes that these exceptions are justified given the wide experience and calibre of the two non-executive directors concerned.

The Financial Reporting Council adopted a revised Combined Code for reporting periods beginning on or after 1 November 2003. The Company largely complies with the new Code and is working towards further compliance with this new Code where appropriate during the next financial year.

Under the provisions of the new Code, the Board is required both to determine the independence of non-executive directors and to ensure a balance of independent non-executive directors. The Company will be seeking to recruit new directors to enable it to meet the Combined Code requirements.

BOARD OF DIRECTORS

At 31 March 2004, the Board comprised nine non-executive directors, including the Chairman and Deputy Chairman and three executive directors. However with effect from 1 April 2004 Martin Wheatley ceased to be a director and the Board now comprises two executive directors and nine non-executive directors. Of the non-executive directors, Gary Allen, Janet Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb QC are considered to have been fully independent during the year within the meaning of the 1998 Combined Code. The senior non-executive director, who is not regarded as being independent, is Ian Salter.

The Board has six scheduled meetings a year and meets more frequently as required.

The roles of Chairman and Chief Executive are distinct and separate with a clear division of responsibilities.

Directors serving on the Board's committees are identified on the 'Board of Directors' pages 32 and 33.

The Remuneration Committee is chaired by Nigel Stapleton and comprises three other non-executive directors. One member of the Committee is not regarded as being independent and, in this respect, the Company does not comply fully with the 1998 Combined Code. The Committee has written terms of reference and meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes. A separate Remuneration report is set out on pages 36 to 43.

The Audit Committee is chaired by Gary Allen and comprises four other non-executive directors. It has written terms of reference and meets at least twice a year, normally with the external auditors present, to consider the audit plan and the interim and annual results, as well as any matters raised by the auditors. It also reviews the adequacy and effectiveness of the key systems of internal control and monitors the efficiency and independence of the internal audit function. The Committee reviews the Company's financial statements and makes recommendations regarding their approval by the Board as a whole.

In order to ensure an appropriate balance between cost-effectiveness, objectivity and independence, the Audit Committee also reviews the nature of all services provided by the external auditors each year. Factors taken into consideration include: cost, appropriate use of the auditors' existing business knowledge and their procedures for ensuring compliance with professional and regulatory requirements. The Company normally expects to retain the external auditors to provide audit-related services, including work in relation to shareholder (and other) circulars and transaction related work, and certain tax and similar services. The external auditors have provided no general consulting or internal audit services during the year.

The Nomination Committee is chaired by Chris Gibson-Smith and comprises four other non-executive directors. The Committee meets as necessary to make recommendations to the Board on all new Board appointments.

INTERNAL CONTROL

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

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

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

> Delegation of authority – matters reserved for Board approval only are clearly defined. Executive directors have general responsibility for making and implementing operational decisions and for overseeing the Company's business. All directors have access to the advice and services of the Company Secretary. In addition all directors are able, if necessary to obtain independent professional advice at the Company's expense.

> Planning and reporting – the Board approves strategic decisions and the budget for the forthcoming year and receives a report on key business matters from the Chief Executive at each meeting. Monthly reports to management contain key performance indicators and compare actual financial performance with the annual budget or forecast. Management action is taken where variances arise and revised forecasts are prepared on a regular basis.

> Audit Committee – the Company's internal audit department reports to the Audit Committee on the effectiveness of key risk management and internal control procedures and appropriate action is taken where necessary. The Audit Committee also receives reports from the Company's external auditors.

> Risk management – effective risk management is the responsibility of all line managers and each business area updates and evaluates its documented key risks and controls as necessary. Periodic reports confirming the effectiveness of all significant control policies and procedures are produced by management and reviewed by the most senior executive in each business area. The Company's internal audit department reviews these reports and independently summarises any significant matters arising for the Audit Committee.

> Detailed procedures – procedures and controls for key business areas (including the Company's finance function) are set out in detailed departmental manuals. These are reviewed and kept up-to-date to meet changing business needs.

RELATIONS WITH SHAREHOLDERS

The Company conducts regular dialogue with institutional investors, holding meetings throughout the year in the UK and on overseas visits. Communication with shareholders also takes place by way of annual and interim reports, quarterly trading updates and through the presentation of preliminary and interim results, which are made accessible to all investors by webcasts available on the Investor Relations section of our website at: www.londonstockexchange-ir.com.

The Annual General Meeting (AGM) provides the opportunity for shareholders to question the Board and meet informally after the event. The procedures for the AGM are compliant with the 1998 Combined Code and the event is normally attended by all directors.

HEALTH, SAFETY AND THE ENVIRONMENT

The Company's approach to health, safety and the environment is set out in our Corporate & Social Responsibility statement on page 28.

Remuneration Report

SCOPE OF THE REPORT

The Remuneration report summarises the Company's remuneration policy and particularly, its application in connection with the directors. The report also describes how the Company applies the principles of good corporate governance in relation to directors' remuneration as defined in the 1998 Combined Code and the Directors' Remuneration report Regulations 2002.

Shareholders will be provided with an opportunity to vote on the Remuneration report as set out in this Annual Report at the forthcoming AGM. Further details will be contained in the notice of Annual General Meeting along with details of a proposed new Long-Term Incentive Plan which is discussed below.

Details of directors' remuneration and benefits are set out in the tables within this report. The tables on pages 40 to 43 have been subject to audit.

REMUNERATION COMMITTEE

The Remuneration Committee is appointed by the Board and comprises only non-executive directors.
The Committee meets regularly to determine on behalf of the Board the framework of executive remuneration (it met eight times in 2003/04 to develop a new reward framework). Its remit includes the remuneration of the executive directors and further critical roles including the awards made under the performance-related incentive schemes. The four members of the Committee are:

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

The Committee's terms of reference are reviewed regularly and approved by the Board. These are available on request and are summarised in the corporate governance report (pages 34 to 35).

The members of this Committee do not have any personal financial interests or any conflicts from cross-directorships that relate to the business of the Committee. The members do not have any day to day involvement in the running of the Company. For the purposes of the 1998 Combined Code, Peter Meinertzhagen is the sole member not regarded as being independent. Given his significant experience, the Board considers that he brings valuable knowledge and continuity to the work of the Committee.

During 2003/04, the Committee has utilised the services of New Bridge Street Consultants. They have been appointed by the Committee to provide professional advice on all matters relating to remuneration and have not supplied other services to the Company.

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

REMUNERATION POLICY

The Company is committed to the governing objective of maximising shareholder value over time. Each year the remuneration framework and the packages of the directors are reviewed to ensure this objective is being met.

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

A significant proportion of executive remuneration is variable and dependent on the achievement of challenging performance targets which align with shareholders' interests. The remuneration is predominantly performance-related, as shown in 2003/04 when at target performance 60 per cent of directors' pay would have been performance-related.

Over the past year, the Remuneration Committee has undertaken an extensive review of the Exchange's remuneration policy to ensure it continues to meet the above objectives. The conclusions of this review are set out further in this report.

Remuneration Mix

During the year, the Committee has established a revised framework for executives which has at its core a remuneration mix that governs the level of each executive director's total remuneration.

At on-target performance the desired remuneration mix for the executive directors of base salary:benefits: bonus:equity incentives has been set at 35:5:35:25. The Committee recognises that this puts a greater emphasis on annual bonus compared to a standard FTSE company, but it is significantly less than a City financial institution. This has to be balanced against the comparatively lower base salary and pension provision. A 25 per cent weighting on equity incentives is consistent with FTSE practice, balances the focus on annual bonus and promotes a longer term view.

The components of executive directors' remuneration are set out in more detail below:

Base Salary

Salaries are reviewed annually with effect from 1 April. Adjustments may be made to reflect changes in responsibilities and to ensure salary levels remain competitive.

As part of its review, the Committee confirmed base salaries should continue to be set slightly below the median of other FTSE companies with a comparable market capitalisation.

Annual Bonus Plan
Executive directors are eligible to participate in the Annual Bonus Plan. In previous years executive directors have participated in the staff bonus pool, with individual bonuses determined on personal performance against objectives. From 2003/04, following a full review by the Remuneration Committee, directors' bonuses are now determined on an individual basis having regard to:

> the performance of the Company against annual financial targets with specific targets and calibration set for adjusted operating profit and adjusted earnings per share; and

> individual performance against personal objectives.

The degree of achievement of these targets will correspond to an individual bonus expressed as a percentage of salary.

Threshold performance levels in 2003/04, below which no bonus would be payable, were set by the Remuneration Committee at higher levels of performance than those achieved in the previous year. Bonus levels for executives for achievement of stretching performance targets and objectives are typically 100 per cent of base salary, with the potential for higher awards to incentivise and reward outstanding performance up to a maximum of 200 per cent of salary.

Long-Term Incentive Schemes
Share awards and share options have been granted in previous years in accordance with the relevant scheme rules and market practice at that time. All plans, with the exception of the Executive Share Option Plan approved by shareholders at the 2002 AGM and the SAYE scheme, have now been closed in respect of new awards. Following shareholder approval of the London Stock Exchange Long-Term Incentive Plan 2004, no further awards will be made under the Executive Share Option Plan.

EXISTING LONG-TERM INCENTIVE PLANS
Executive Share Option Plan
The Executive Share Option Plan (ESOP) was approved by shareholders in July 2002.

Options under ESOP cannot be granted to a participant in any financial year over shares with a market value at the date of grant of more than 100 per cent of that individual's salary. In exceptional circumstances, the Remuneration Committee may grant an option over shares with a value of up to 200 per cent of an individual's base salary. There were no such exceptional circumstances during the 2003/04 financial year. Upon the recruitment of a senior executive, the Remuneration Committee can exceed this limit if this is necessary in order to recruit the Company's chosen candidate.

ESOP options will only become exercisable providing the Company achieves the performance criteria set by the Board during the initial three-year period. If the criteria have not been met when the options are due to vest, then the options will lapse and there will be no opportunity for re-testing. In addition, all options will expire after 10 years. The Remuneration Committee will seek independent verification of whether or not the EPS target has been achieved, by the end of the third year.

Options granted under the ESOP in the financial year 2004/05 will not normally become exercisable unless the growth in the Company's earnings per share (adjusted for certain items including exceptional items and the amortisation of goodwill 'Adjusted EPS') exceeds the retail price index over the initial three-year period after award by an average of at least four per cent per annum. The Committee is satisfied that Adjusted EPS will require significant real improvement in the Company's financial performance over the three-year period.

Deferred Share Bonus Scheme
In previous years, bonus awards over 100 per cent of salary were in part deferred as share awards, which are delivered in two tranches after 12 and 24 months of the performance period, subject to continued service. In 2003/04, no awards were made to directors which exceeded 100 per cent of salary.

Share Ownership Guidelines
To be considered for awards under the long-term incentive schemes, executive directors and other senior executives are expected to build up over three years from the first award, and then continue to hold shares with a value at least equal to their base annual salary.

THE NEW LONG-TERM INCENTIVE PLAN
The Company is seeking shareholder approval at its Annual General Meeting in July 2004 to adopt a new Long-Term Incentive Plan ('LTIP') to replace the Company's existing ESOP and the Deferred Share Bonus Scheme.

The proposed LTIP has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of annual bonus in Exchange shares. The Matching Shares element of the LTIP will only apply to the Executive Directors and selected other senior management. This senior management group will also be eligible for the Performance Shares element of the LTIP along with a wider group of executives.

The LTIP for which shareholder approval is sought will operate as follows:

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

Remuneration Report

The proportion of Matching shares which vest will be dependent on meeting its total shareholder return ('TSR') performance criteria (see below). The advantages of this approach are:

> Share purchases by executives, from annual bonus, aligns executives' interests with those of shareholders

> Unlike the present deferral arrangement where shares vest after one and two years, matching shares will vest after three years

Performance Shares

The Committee proposes that equity incentives are also delivered through Performance Share awards rather than share options, for the following reasons:

> Performance Shares provide a better link between management performance and reward

> Performance Shares encourage key executives to build and maintain a significant shareholding (reinforced through the share ownership guidelines described above)

Each year, an individual is eligible to receive an award of Performance Shares worth up to 100 per cent of base salary each year. Within this constraint, actual grant levels will be determined by the Committee having regard to an expected level of purchase of investment shares by the executives and the policy decision of providing 25 per cent of a director's on-target total remuneration as long-term equity incentives.

Vesting of Performance Shares and Matching Shares

The proportion of Performance and Matching Shares which vest will be determined by the Company's TSR performance over a single three-year period beginning on the first day of the financial year in which the award is made. TSR has been chosen as the performance measure as it clearly aligns participants and investors. For median performance in comparison to companies constituting the FTSE 51 to 200 (excluding investment trusts), then 30 per cent of the award will vest. For upper quartile performance against this group, 100 per cent of the award will vest. For performance below median, none of the award will vest.

The FTSE 51 to 200 comparator group has been chosen as it is a large enough group to give meaning to a quartile analysis, and comprises a fair balance of companies with a greater and smaller market capitalisation to that of the Company. TSR performance will be independently verified on behalf of the Committee.

Grants in 2004

The first awards under the LTIP will be made in July 2004 following the Annual General Meeting and subject to shareholder approval. In subsequent years they will normally be made following the announcement of results.

In 2004, the Committee intends to make significantly lower share awards under the LTIP to take account of the share options that are expected to be granted in May 2004 under the ESOP. The aggregate level of option grants and LTIP awards in 2004 will not exceed such amount as is necessary to deliver the desired remuneration mix of 35:5:35:25.

To be considered for awards of Matching and Performance Shares, executives must comply with the Share Ownership Guidelines described earlier.

Further details of the LTIP are contained in the Notice of AGM.

All Employee Share and Share Option Plans

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

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

At the AGM, shareholders will be asked to approve an Inland Revenue approved all employee Share Incentive Plan ('SIP'). This SIP will run alongside the SAYE arrangements and further encourage all staff to acquire an equity interest in our business.

Pensions

The Company's policy is that all new executive directors should only participate in a defined contribution pension scheme.

During the year Martin Wheatley, who was appointed prior to 1989, participated in the Company's final salary pension arrangements. This provides a core benefit, which is non-contributory, of a pension accrual rate of 1/60th of final pensionable salary for each year of service (up to a limit of two thirds of final pensionable salary) – see Note ii).

The Company's final salary pension scheme was closed to new entrants in 1999. Neither of the current executive directors participates in this final salary pension scheme. Pension provision now takes the form of a non-consolidated salary supplement, which the executives are free to invest in the Company's defined contribution pension scheme. Clara Furse receives a pension supplement of 15 per cent base salary and Jonathan Howell receives a pension supplement of 22.5 per cent base salary.

Only base salary is used to calculate pension entitlement and no other pension supplements apply.

Service Contracts
The Company has adopted the following policy on directors' service contracts:

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

Clara Furse entered into a service agreement with the Exchange on 24 January 2001.

Jonathan Howell and Martin Wheatley entered into their most recent service agreements on 25 January 2000 and both service agreements may be terminated by the Company with not more than 12 months' notice.

TERMINATION ARRANGEMENTS
The Company's current policy is that contracts should not contain a liquidated damages clause in the event of termination.

For the CEO, and consistent with best practice at the time of her recruitment, a pre-estimate of her loss upon termination was agreed and is defined within the service agreement. The severance pay is calculated by reference to the annual compensation value. This includes basic salary, benefits paid and the value of the last annual bonus awarded to the director in the 12 month period prior to termination.

For the other directors, the Company's policy has been observed and no provisions for termination payments (beyond their 12 month contractual notice period) have been agreed to. Instead, the parties will rely on common law. The compensation for loss of office paid to Martin Wheatley was consistent with, and limited to, meeting the Exchange's contractual obligations under his 12 month notice period.

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

Non-Executive Directors' Remuneration
The fees for non-executive directors have been set at a level to recognise the significant responsibilities of directors and to attract individuals with the necessary experience and ability to make an important contribution to the Company's affairs. In 2003/04, where fees are paid directly to the non-executive directors they were required to invest at least 20 per cent of their net fees in the Company's shares (calculated at the share price on the date of purchase) to strengthen the linkage to shareholder value. The fees, which are neither performance-related nor pensionable, are agreed by the Board. They are comparable with those paid by other FTSE mid 250 companies.

None of the non-executive directors are employees of the Company; they receive no benefits or entitlements other than fees, do not participate in any of the Company's Incentive Schemes, and are not entitled to any termination payments. The Board as a whole determines the fees of the non-executive directors. The Company does not make any contribution to the pension arrangements of non-executive directors.

Don Cruickshank resigned his position as non-executive chairman at the 2003 AGM. In his previous capacity as executive chairman, he received shares and options under the Initial Plan in November 2000. Upon his retirement, these awards vested in accordance with the Rules of the Plan.

All of the non-executive directors except the Chairman have letters of appointment dated 1 February 2001 for an initial period of three years, renewed for a further period of three years which will expire on 31 January 2007. The Chairman has a letter of appointment dated 7 April 2003. His appointment is for an initial period of three years until the end of the AGM in 2006, renewable for a further period of three years thereafter.

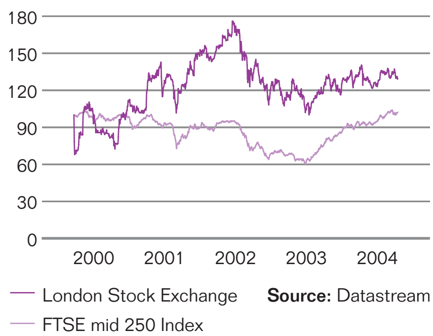
Total Shareholder Return ('TSR') Performance
The following line graph shows, for the financial year ended 31 March 2004 and for each of the previous two financial years, the total shareholder return on a holding of the Company's ordinary shares of the same kind and number as those by reference to which the FTSE mid 250 is calculated.

TOTAL SHAREHOLDER RETURN (£)
Years ended 31 March

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

An additional graph below, looks at the value at 31 March 2004 of £100 invested in London Stock Exchange on 24 July 2000 compared with the value of £100 invested in the FTSE mid 250 Index over the same period. The graph illustrates daily movements over the period.

TOTAL SHAREHOLDER RETURN (£)
Years ended 31 March



Remuneration Report

Table A — Directors' remuneration

	2004				2003				2004	2003
	Salary £000	Performance Bonus £000	Benefits (note i) £000	**Total £000**	Salary £000	Performance Bonus £000	Benefits (note i) £000	Total £000	**Pensions (note ii) £000**	Pensions (note ii) £000
Chairman										
C Gibson-Smith from 16 July 2003	229	–	–	**229**	–	–	–	–	**–**	–
D G Cruickshank until 16 July 2003	104	–	1	**105**	350	–	1	351	**–**	–
Chief Executive										
C H F Furse	351	186	3	**540**	351	515	3	869	**29**	29
Executive directors										
J A G Howell	242	178	1	**421**	237	310	2	549	**22**	23
M Wheatley (note ii)	230	–	9	**239**	224	318*	12	554	**–**	–
	1,156	364	14	**1,534**	1,162	1,143	18	2,323	**51**	52

* of which £250,000 is payable directly to the senior executive defined contribution pension plan.

M Wheatley ceased to be a director on 1 April 2004 and his compensation for loss of office amounted to £362,000 with an increase in the transfer value of his accrued pension amounting to £41,000.

	2004	2003	2004	2003
Non-executive directors' fees				
Directors in office throughout both years				
I G Salter – deputy Chairman	**50**	50		
G J Allen	**43**	30		
Baroness Cohen	**33**	30		
O Fanjul	**33**	30		
M J P Marks (note iii)	**33**	30		
P R Meinertzhagen (note iii)	**33**	30		
N J Stapleton	**38**	30		
R S Webb QC	**33**	30		
Total non-executive directors' fees (note iii)	**296**	260		
Total directors' emoluments	**1,830**	2,583	**51**	52

Notes

i) Benefits

Benefits represent the cash value of health and life insurance, travel and for M Wheatley a Company match of voluntary pension contributions.

ii) Pensions

M Wheatley is a member of the Company's defined benefit scheme. Details of his pension benefit for the year ended 31 March 2004 are:

	£000
Accrued annual pension at year end	64
Increase in accrued pension during the year	4
Increase in accrued pension during the year, excluding inflation	2
Transfer value of increase in accrued pension excluding inflation	23
Transfer value of accrued pension at beginning of year	670
Transfer value of accrued pension at end of year	771
Increase in transfer value of accrued pension during the year	101

The Company contributed to the senior executive defined contribution pension plan for C H F Furse of £29,000 (2003: £29,000), for J A G Howell of £22,000 (2003: £23,000) and for M Wheatley of nil (2003: £250,000) as shown in the table above.

iii) Non-executive directors' fees

Fees paid directly to the employer company of one (2003: three) non-executive director were £32,500 (2003: £102,500). A further £32,500 (2003: £7,500) was paid to charity.

iv) Waiver of emoluments

None of the directors waived emoluments during 2003 and 2004.

Table B – Directors' share interests

Current Share Schemes for 2002 onwards

Annual Bonus Plan

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

	Number of shares								
Share awards	At start of year	Awarded during year	Vested during year	At end of year	Price at award date (£)	Price at vesting date (£)	Value at vesting date (£)	Date of award	Final vesting date
C H F Furse	1,720	–	1,720	–	3.65	3.39	5,831	25/06/01	25/06/03
	40,793	–	20,397	20,396	3.90	2.80	57,112	15/07/02	01/04/04
	–	62,712	–	62,712	3.23	–	–	16/05/03	01/04/05
	42,513	62,712	22,117	83,108			62,943		
J A G Howell	6,180	–	6,180	–	3.65	3.39	20,950	25/06/01	25/06/03
	32,635	–	16,318	16,317	3.90	2.80	45,690	15/07/02	01/04/04
	–	37,288	–	37,288	3.23	–	–	16/05/03	01/04/05
	38,815	37,288	22,498	53,605			66,640		
M Wheatley	6,860	–	6,860	–	3.65	3.39	23,255	25/06/01	25/06/03
	23,311	–	11,656	11,655	3.90	2.80	32,637	15/07/02	01/04/04
	–	36,441	–	36,441	3.23	–	–	16/05/03	01/04/05
	30,171	36,441	18,516	48,096			55,892		

Shares awarded under the Annual Bonus Plan vest in two equal tranches 12 months prior to final vesting date and on final vesting date. The aggregate value of shares vesting for the above awards during the year to directors was £185,475.

Executive Share Option Plan

Shareholders approved a new long term incentive scheme at the AGM in 2002, under which all future long-term incentives are made up entirely of share options. The performance condition attaching to options granted in 2002 and 2003 is average Adjusted EPS growth of RPI plus four per cent per annum over the initial three-year period.

	Number of Options						
Share option grants	At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
C H F Furse	76,924	–	–	76,924	3.90	15/07/02	15/07/12
	–	102,168	–	102,168	3.23	16/05/03	16/05/13
	76,924	102,168	–	179,092			
J A G Howell	47,436	–	–	47,436	3.90	15/07/02	15/07/12
	–	61,920	–	61,920	3.23	16/05/03	16/05/13
	47,436	61,920	–	109,356			
M Wheatley	51,283	–	–	51,283	3.90	15/07/02	15/07/12
	–	65,016	–	65,016	3.23	16/05/03	16/05/13
	51,283	65,016	–	116,299			

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

Remuneration Report

Table B – Directors' share interests (continued)

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

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

The options granted become exercisable from 1 October 2006.

Share option grants and Share awards in 2001 and prior

The following grants and awards were made under the long-term incentive scheme (comprising the Initial and Annual Share Plans) approved by shareholders in March 2000. These plans are now closed and no further grants or awards will be made under them. No performance conditions apply to the exercise of these options, although options priced at £2.97 and £3.15 are premium priced.

Share option grants	At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
	Number of Options						
D G Cruickshank – period to 16 July 2003†	181,950	–	–	181,950	2.37	16/11/00	16/05/04
	134,750	–	–	134,750	2.97	16/11/00	16/05/04
	316,700	–	–	316,700			
C H F Furse	285,450	–	–	285,450	2.52	25/01/01	25/01/11
	211,450	–	–	211,450	3.15	25/01/01	25/01/11
	3,430	–	–	3,430	3.65	25/06/01	25/06/11
	500,330	–	–	500,330			
J A G Howell	242,600	–	–	242,600	2.37	16/11/00	16/11/10
	179,700	–	–	179,700	2.97	16/11/00	16/11/10
	12,350	–	–	12,350	3.65	25/06/01	25/06/11
	434,650	–	–	434,650			
M Wheatley	272,950	–	7,560	265,390	2.37	16/11/00	16/11/10
	202,150	–	–	202,150	2.97	16/11/00	16/11/10
	13,720	–	–	13,720	3.65	25/06/01	25/06/11
	488,820	–	7,560	481,260			

The options granted above normally become exercisable between one and five years from the date of grant, at 20 per cent in each year.

† In accordance with the rules of the scheme, the Remuneration Committee exercised its discretion to allow D G Cruickshank, following his retirement on 16 July 2003, to exercise in full his vested and unvested options granted under that plan until 16 May 2004.

The gain on share options exercised during the year to directors was £8,920.

Share awards	At start of year	Awarded during year	Vested during year	At end of year	Price at award date (£)	Price at vesting date (£)	Value at vesting date (£)	Date of award	Final vesting date
	Number of shares								
D G Cruickshank – period to 16 July 2003[††]	50,550	–	50,550	–	2.37	3.40	171,870	16/11/00	16/07/03
	50,550	–	50,550	–			171,870		
C H F Furse	79,300	–	79,300	–	2.52	3.65	289,445	25/01/01	25/01/04
	1,720	–	–	1,720	3.65			25/06/01	25/06/04
	81,020	–	79,300	1,720			289,445		
J A G Howell	67,400	–	67,400	–	2.37	3.50	235,900	16/11/00	16/11/03
	6,180	–	–	6,180	3.65			25/06/01	25/06/04
	73,580	–	67,400	6,180			235,900		
M Wheatley	75,820	–	75,820	–	2.37	3.50	265,370	16/11/00	16/11/03
	6,860	–	–	6,860	3.65			25/06/01	25/06/04
	82,680	–	75,820	6,860			265,370		

[††] In accordance with the rules of the scheme, the Remuneration Committee exercised its discretion to allow D G Cruickshank's share awards to vest in full on his retirement.

The aggregate value of shares vesting for the above awards during the year to directors was £962,585.

The market price of the shares on 31 March 2004 was £3.51 and the range during the year was £2.80 to £3.83.

Directors' interests in shares
The directors who held office at 31 March 2004 had the following other beneficial interests in the shares of the Company:

	Ordinary shares 20 May 2004	Ordinary shares 31 March 2004	Ordinary shares 31 March 2003
C Gibson-Smith	**7,557**	**7,557**	–
C H F Furse	**333,670**	**303,137**	201,720
J A G Howell	**101,570**	**80,944**	18,680
M Wheatley	**N/A**	**87,609**	24,360
G Allen	**1,423**	**1,423**	–
J Cohen	**1,102**	**1,102**	–
O Fanjul	**29,509**	**29,509**	28,000
I Salter	**16,925**	**16,925**	15,400
N Stapleton	**1,255**	**1,255**	–
R Webb	**1,086**	**1,086**	–

C H F Furse, J A G Howell and M Wheatley (to 1 April 2004), as potential beneficiaries, are also deemed to be interested in the London Stock Exchange Employee Benefit Trust, the trustees of which held 2,971,209 shares in London Stock Exchange plc on 31 March 2004 and 2,774,453 on 20 May 2004.

Signed by and approved on behalf of the Board

Nigel Stapleton
Chairman of the Remuneration Committee

Directors' Report

The directors of the London Stock Exchange plc ('the Company') are pleased to present their annual report to shareholders, together with the financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES AND RESULTS

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

The profit of the Group on ordinary activities before taxation for the year ended 31 March 2004 was £89.1 million (2003: £79.5 million) and profit after taxation and minority interests was £63.7 million (2003: £52.7 million).

The strategic developments and operations of the business are described in the Chairman's statement, the Chief Executive's review and the operating and financial reviews on pages 4 to 31.

DIVIDEND

The directors are recommending a final dividend of 3.4 pence (2003: 3.0 pence) per share for the year which, together with the interim dividend of 1.4 pence (2003: 1.3 pence) per share paid in January 2004, produces a total dividend of 4.8 pence (2003: 4.3 pence) per share amounting to £14.1 million (2003: £12.5 million). If approved by shareholders, the final dividend will be paid on 16 August 2004 to shareholders on the register on 23 July 2004. Shareholder approval will be sought at the AGM for the payment of a special dividend of 55 pence per share amounting to approximately £162 million together with a consolidation of the share capital of the Company, with six new shares being issued for every seven currently held.

SHARE CAPITAL

Details of the Company's share capital are set out in note 19 to the accounts on page 60.

SUBSTANTIAL SHAREHOLDING

As at 20 May 2004 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Fidelity International Limited	8.87%
Threadneedle Investments	6.07%
UBS AG	3.89%
Legal & General Group plc	3.29%
Scottish Widows Investment Partnership	3.18%

DIRECTORS

Chris Gibson-Smith was appointed to the Board on 1 May 2003 and became Chairman on 16 July 2003 on the retirement from the Board of Don Cruickshank. All other directors set out on pages 32 and 33 served throughout the year. In addition, Martin Wheatley served throughout the year and ceased to be a director with effect from 1 April 2004.

Jonathan Howell will, in accordance with the Company's Articles of Association, retire at the forthcoming AGM and, being eligible, offer himself for reappointment. The unexpired term of the service contract for Jonathan Howell is 12 months. The other directors seeking reappointment do not have a service contract with the Company.

DIRECTORS' INTERESTS
Directors' interests in the shares of the Company as at 31 March 2004 according to the register maintained under the Companies Act 1985 are set out in the Remuneration report on pages 36 to 43. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

CORPORATE GOVERNANCE
The Company's corporate governance statement is set out on pages 34 and 35.

LAND AND BUILDINGS
All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts less depreciation. Following the implementation of FRS 15, no further revaluations of freehold properties will be made in the financial statements. In the opinion of the directors, there is no significant difference between market value and book value of freehold properties.

EMPLOYEES
Information on the Company's employment policies is given on pages 28 and 29. The Company also provides an induction programme for new employees, including training on health and safety, and a range of development programmes for all staff to develop their skills and knowledge. The Company encourages and assists the employment, training and retention of disabled people. Where changes to working practices or structure affect staff, they are consulted and given the appropriate support.

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

DONATIONS
During the year the Company gave £101,000 (2003: £108,000) to charitable organisations. No donations were made to political parties.

SUPPLIER PAYMENT POLICY
It is the Company's policy to agree payment terms with suppliers when business transactions are negotiated and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2004 trade creditors represented 10 days of annual purchases by the Company.

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

By Order of the Board
L M Condron

Secretary
20 May 2004

Directors' Responsibility for the Financial Statements

The following statement, which should be read in conjunction with the independent auditors' report on page 47, is made with a view to distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

ANNUAL REPORT AND ACCOUNTS

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

ACCOUNTING POLICIES

The directors consider that in preparing the financial statements 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.

ACCOUNTING RECORDS

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.

SAFEGUARDING ASSETS

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. The maintenance and integrity of the Group's website is the responsibility of the directors. Information published on the internet is accessible in many countries; the legal requirements relating to the preparation and dissemination of financial statements in those countries are different from those applying in the United Kingdom.

Independent Auditors' Report

TO THE MEMBERS OF LONDON STOCK EXCHANGE PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration report ('the auditable part').

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the Remuneration report. Our responsibility is to audit the financial statements and the auditable part of the Remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, the unaudited part of the Remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT 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 and the auditable part of the Remuneration report. 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 and the auditable part of the Remuneration report 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 2004 and of the profit and cash flows of the Group for the year then ended

> the financial statements have been properly prepared in accordance with the Companies Act 1985

> those parts of the Remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 May 2004

Consolidated Profit and Loss Account

Year ended 31 March 2004

Continuing operations		Notes	Existing operations 2004 £m	Acquisition 2004 £m	Total 2004 £m	2003 £m
Turnover						
Group and share of joint venture			244.5	5.9	**250.4**	237.3
Less: share of joint venture's turnover			(13.3)	–	**(13.3)**	(11.4)
Net turnover		2	231.2	5.9	**237.1**	225.9
Administrative expenses	– Operating costs		(148.4)	(7.1)	**(155.5)**	(144.3)
	– Exceptional items	3	–	–	**–**	(11.6)
			(148.4)	(7.1)	**(155.5)**	(155.9)
Operating profit	– Before exceptional items and goodwill amortisation		83.8	(0.6)	**83.2**	81.7
	– Before exceptional items		82.8	(1.2)	**81.6**	81.6
	– After exceptional items and goodwiil amortisation		82.8	(1.2)	**81.6**	70.0
Share of operating profit of joint venture and income from other fixed asset investments					**1.4**	1.1
Net interest receivable		7			**6.1**	8.4
Profit on ordinary activities before taxation					**89.1**	79.5
Taxation on profit on ordinary activities		8			**(25.7)**	(26.8)
Profit on ordinary activities after taxation					**63.4**	52.7
Minority interests					**0.3**	–
Profit for the financial year		20			**63.7**	52.7
Dividends		9			**(14.1)**	(12.5)
Retained profit for the financial year					**49.6**	40.2
Earnings per share		10			**21.7p**	18.1p
Diluted earnings per share		10			**21.5p**	17.9p
Adjusted earnings per share		10			**21.3p**	20.9p
Dividend per share					**4.8p**	4.3p

There were no other recognised gains and losses during the two years ended 31 March 2004.

Note of historical cost profits and losses

	Notes	2004	2003
Profit on ordinary activities before taxation		**89.1**	79.5
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	**1.9**	1.8
Historical cost profit on ordinary activities before taxation		**91.0**	81.3
Historical cost profit retained after taxation		**65.3**	54.5

Balance Sheets

31 March 2004

	Notes	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	11	**24.3**	14.1	**–**	–
Tangible assets	12	**168.3**	126.3	**111.9**	126.1
		192.6	140.4	**111.9**	126.1
Investments					
Investments in joint venture:					
Share of gross assets		**10.5**	9.9	**–**	–
Share of gross liabilities		**(9.0)**	(8.4)	**–**	–
	13	**1.5**	1.5	**1.5**	1.5
Other investments	13	**6.8**	10.1	**96.5**	26.3
		8.3	11.6	**98.0**	27.8
		200.9	152.0	**209.9**	153.9
Current assets					
Debtors	14	**61.1**	64.3	**68.4**	62.4
Investments – term deposits		**223.0**	207.0	**219.0**	207.0
Cash at bank		**4.9**	4.0	**2.9**	3.4
		289.0	275.3	**290.3**	272.8
Creditors – amounts falling due within one year	15 & 16	**78.9**	64.0	**73.5**	63.0
Net current assets		**210.1**	211.3	**216.8**	209.8
Total assets less current liabilities		**411.0**	363.3	**426.7**	363.7
Creditors – amounts falling due after more than one year	17	**0.5**	–	**–**	–
Provisions for liabilities and charges	18	**38.4**	41.6	**38.4**	41.6
Net assets		**372.1**	321.7	**388.3**	322.1
Capital and reserves					
Called up share capital	19	**14.9**	14.9	**14.9**	14.9
Reserves					
Revaluation reserve	20	**42.1**	44.0	**2.3**	44.0
Profit and loss account	20	**314.1**	262.6	**371.1**	263.2
Equity shareholders' funds		**371.1**	321.5	**388.3**	322.1
Equity minority interest	21	**1.0**	0.2	**–**	–
Total shareholders' funds		**372.1**	321.7	**388.3**	322.1

The financial statements on pages 48 to 66 were approved by the Board on 20 May 2004 and signed on its behalf by:

Clara Furse, Chief Executive
Jonathan Howell, Director of Finance

Consolidated Cash Flow Statement

Year ended 31 March 2004

	Notes	2004 £m	2003 £m
Net cash inflow from continuing operations:			
– Ongoing operating activities	23(i)	**105.4**	74.8
– Exceptional items	23(i)	**–**	10.4
Net cash inflow from operating activities		**105.4**	85.2
Dividends from joint venture		**0.7**	1.2
Returns on investments and servicing of finance			
Interest received		**7.3**	9.5
Dividends received		**0.1**	–
Net cash inflow from returns on investments and servicing of finance		**7.4**	9.5
Taxation			
Corporation tax paid		**(22.2)**	(25.2)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		**(54.2)**	(28.1)
Receipts from sale of fixed asset investments		**2.2**	0.7
Net cash outflow from capital expenditure and financial investments		**(52.0)**	(27.4)
Acquisitions			
Acquisition of subsidiary undertaking	23(ii)	**(15.5)**	(11.8)
Net cash acquired with subsidiary undertaking	23(ii)	**–**	0.5
Net cash outflow for acquisitions		**(15.5)**	(11.3)
Dividends paid		**(12.9)**	(11.1)
Net cash inflow before use of liquid resources and financing		**10.9**	20.9
Management of liquid resources			
Increase in term deposits	23(iii)	**(16.0)**	(21.0)
Financing			
Issue of ordinary share capital to minority interest		**1.1**	0.2
Loans received from minority shareholder			
due within one year		**2.9**	–
due after one year		**0.5**	–
Issue of loan notes		**1.5**	–
Increase in cash in the year	**23(iii)**	**0.9**	0.1

Notes to the Financial Statements

1. Accounting policies

Basis of accounting and consolidation
The financial statements are prepared in accordance with applicable UK accounting standards, applied on a consistent basis, 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 profit and loss account has not been included in these financial statements.

Turnover
Turnover represents the total amount receivable for the provision of goods and services, excluding value added tax.
Turnover is recognised in the period when the service or supply is provided:
a) annual fees are recognised over the 12 month period to which the fee relates
b) admission fees are recognised at the time of admission to trading
c) data, transaction and Exchange charges are recognised in the month in which the data is provided or the transaction is effected.

Foreign currencies
Transactions in foreign currencies and currency balances at the year end are converted at the rate ruling at the transaction date or year end date respectively, except where covered by an open foreign exchange contract when the contract rate is used.

Intangible assets
Intangible assets represent goodwill arising on the acquisition of subsidiaries, being the excess of consideration paid over the fair value of net assets acquired. Goodwill is amortised on a straight line basis over a period not exceeding 20 years.

Tangible assets and depreciation
a) Freehold properties, including related fixed plant, have been revalued by external chartered surveyors and are included in the financial statements at the revalued amounts. Following the implementation of FRS 15 no revaluations of freehold properties after March 1997 have been made. Freehold buildings and related fixed plant are depreciated, based on cost or valuation at the beginning of the year plus subsequent additions, over their estimated economic lives. The economic lives of properties range from 15 to 50 years, the estimated useful lives of fixed plant range from five to 20 years.
b) Leasehold properties and improvements are included at cost and depreciated over the shorter of the period of the lease or the economic life of the property.
c) Plant and equipment is stated at cost and is depreciated on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from three to five years. Third party software costs for the development and implementation of systems which enhance the services provided by the Company are capitalised and amortised over their estimated useful lives, which is an average of three years.
d) The Group selects its depreciation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances.

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

Fixed asset investments
Shares in the Company held under Employee Share Ownership Plans are stated at cost less amortisation. The cost of these shares is written down to realisable value over the periods of service in respect of which options and awards are granted.
Other fixed asset investments are stated at cost less any provision required for impairment in value.

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

Operating leases
Rental costs for operating leases are charged to the profit and loss account when incurred. Provision is made in the accounts for lease commitments, less income from sub-letting, for property space which is surplus to business requirements.

Notes to the Financial Statements

1. Accounting policies (continued)

Pension costs
Pension costs for the defined benefit plan are assessed in accordance with the advice of an independent actuary. The accounting cost for providing defined benefit pensions is charged over the period during which the 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. Pension costs under the defined contribution plan are charged as incurred. Further details of the Company's pension schemes and the basis upon which the charge to the profit and loss account is determined are set out in note 25 to the financial statements.

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

Employee Share Ownership Plan (ESOP)
Details of the Company's Employee Share Ownership Plan are set out in note 28 to the financial statements. Costs for the Initial Share Plan have been charged to the profit and loss account over three years from the date of award. Share awards under the Annual Bonus Plan are charged in the year to which the awards relate.

2. Turnover

	2004 £m	2003 £m
Continuing operations		
Issuer Services	**38.5**	36.0
Broker Services	**94.1**	87.3
Information Services	**101.0**	102.2
Derivatives Services	**6.1**	–
Other income	**10.7**	11.8
Gross turnover	**250.4**	237.3
Less: share of joint venture's turnover	**(13.3)**	(11.4)
Net turnover	**237.1**	225.9

Principal operations of the Group are in the United Kingdom.

3. Exceptional items

	2004 £m	2003 £m
VAT repayment	**–**	10.4
Provision in respect of leasehold properties	**–**	(22.0)
	–	(11.6)
Taxation effect	**–**	3.5

The VAT repayment represents a recovery of VAT paid between 1990 and 2001. Following successful negotiation with Customs and Excise, a retrospective change in the method for calculating VAT recoverable on expenditure was agreed, resulting in this repayment.
The increase in provision for leasehold properties was in respect of space for sublet in new headquarters at Paternoster Square.

4. Operating profit

Operating profit is stated after charging the following amounts:	2004 £m	2003 £m
Depreciation of tangible assets	**21.9**	19.0
Amortisation of goodwill	**1.6**	0.1
Operating lease rentals – properties	**8.1**	3.9
Auditors remuneration for:		
Audit	**0.2**	0.2
Other services (see below)	**1.3**	1.2

Other fees paid to PricewaterhouseCoopers LLP during the year were £1.3m (2003: £1.2m). These fees are primarily in respect of pensions, taxation, actuarial and transaction-related services.

5. Employees

Employees of the Group and their employment costs are summarised below:	2004	2003
The number of employees was:		
At the year end	**522**	501
Average for the year	**517**	513
	£m	£m
Staff costs, included within administrative expenses, amounted to:		
Wages and salaries	**33.2**	34.0
Social security costs	**4.5**	4.3
Other pension costs	**6.8**	2.8
Total	**44.5**	41.1

6. Directors' emoluments

	2004 £000	2003 £000
Emoluments:		
Salary and fees	**1,452**	1,422
Performance bonus, including Nil (2003: £250,000) payable to defined contribution pension scheme	**364**	1,143
Gains on the exercise of share options	**1,157**	61
Benefits	**14**	18
	2,987	2,644
Contributions to defined contribution pension schemes	**51**	52
Total	**3,038**	2,696

During the year two directors (2003: two) had retirement benefits accruing under defined contribution schemes and one director (2003: one) had retirement benefits accruing under a defined benefit scheme.

Further details of directors' emoluments are included in the Remuneration report on pages 36 to 43.

7. Net interest receivable

	2004 £m	2003 £m
Interest receivable		
Bank deposit and other interest	**8.0**	9.3
Interest payable		
Interest on discounted provision for leasehold properties (see note 18)	**(1.7)**	(0.9)
Interest payable on other loans	**(0.2)**	–
Total	**(1.9)**	(0.9)
Net interest receivable	**6.1**	8.4

Surplus funds are deposited for periods of less than one year. No trading of financial instruments takes place.

Notes to the Financial Statements

8. Taxation

	2004 £m	2003 £m
Current tax:		
Corporation tax for the year at 30% (2003: 30%)	**25.7**	23.9
Adjustments in respect of previous years	**(3.6)**	–
Joint venture	**0.4**	0.4
	22.5	24.3
Deferred taxation (see note 14)	**3.2**	2.5
Taxation charge	**25.7**	26.8

The adjustments for previous years' corporation tax are mainly in respect of assessments now agreed with the Inland Revenue, including £2.7m for the allowance of expenditure reported as exceptional items in prior years (see note 10).

Factors affecting the current tax charge for the year
The current tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The variations are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**89.1**	79.5
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**26.7**	23.9
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	**2.8**	3.0
Accounting deduction less than taxation allowance – timing differences	**(3.4)**	(2.6)
Adjustments to tax charge in respect of previous periods	**(3.6)**	–
Corporation tax charge	**22.5**	24.3

Factors that may affect future tax charges
The disposal of properties at their revalued amount would not give rise to a tax liability.

9. Dividends

	2004 £m	2003 £m
Interim paid: 1.4p (2003: 1.3p) per Ordinary share	**4.1**	3.7
Final proposed: 3.4p (2003: 3.0p) per Ordinary share	**10.0**	8.8
	14.1	12.5

10. Earnings per share

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

	2004	2003
Earnings per share	**21.7p**	18.1p
Diluted earnings per share	**21.5p**	17.9p
Adjusted earnings per share	**21.3p**	20.9p

	£m	£m
Profit for the financial year	**63.7**	52.7
Adjustments:		
Exceptional items	**–**	11.6
Amortisation of goodwill	**1.6**	0.1
Tax effect of exceptional items and amortisation of goodwill	**(2.9)**	(3.5)
Minority interest of exceptional items, goodwill and taxation	**(0.1)**	–
Adjusted profit for the financial year	**62.3**	60.9
Weighted average number of shares – million	**293.0**	291.9
Effect of dilutive share options and awards – million	**2.7**	3.0
Diluted weighted average number of shares – million	**295.7**	294.9

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 293.0 million (2003: 291.9 million).

The tax effect of exceptional items and amortisation of goodwill for 2004 includes an exceptional tax credit of £2.7m in respect of previous years – see note 8.

11. Intangible assets

	Group Goodwill £m
Cost:	
1 April 2003	14.2
Additions during the year (see note 29)	13.9
Reduction due to revised estimate of consideration payable (see note 18)	(2.1)
31 March 2004	**26.0**
Amortisation:	
1 April 2003	0.1
Charge for the year	1.6
31 March 2004	**1.7**
Net book values:	
31 March 2004	**24.3**
1 April 2003	14.1

Goodwill arising on the acquisition of subsidiaries is being amortised on a straight line basis over 15 years from date of acquisition.

Notes to the Financial Statements

12. Tangible assets

Group	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 2003	157.1	8.1	88.3	253.5
Additions	8.2	27.6	28.0	63.8
Acquisition	–	–	0.1	0.1
Disposals	–	–	(1.7)	(1.7)
31 March 2004	**165.3**	**35.7**	**114.7**	**315.7**
Depreciation:				
1 April 2003	79.2	1.3	46.7	127.2
Provision for the year	3.2	0.2	18.5	21.9
Disposals	–	–	(1.7)	(1.7)
31 March 2004	**82.4**	**1.5**	**63.5**	**147.4**
Net book values:				
31 March 2004	**82.9**	**34.2**	**51.2**	**168.3**
1 April 2003	77.9	6.8	41.6	126.3
Net book values at 31 March 2004 are analysed as follows:				
Assets at valuation less depreciation	65.0	–	–	65.0
Assets at cost less depreciation	17.9	34.2	51.2	103.3
	82.9	**34.2**	**51.2**	**168.3**

Company	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 2003	157.1	8.1	88.0	253.2
Additions	8.2	27.6	27.9	63.7
Disposals	(97.0)	–	(1.7)	(98.7)
31 March 2004	**68.3**	**35.7**	**114.2**	**218.2**
Depreciation:				
1 April 2003	79.2	1.3	46.6	127.1
Provision for the year	3.2	0.2	18.4	21.8
Disposals	(40.9)	–	(1.7)	(42.6)
31 March 2004	**41.5**	**1.5**	**63.3**	**106.3**
Net book values:				
31 March 2004	**26.8**	**34.2**	**50.9**	**111.9**
1 April 2003	77.9	6.8	41.4	126.1
Net book values at 31 March 2004 are analysed as follows:				
Assets at valuation less depreciation	17.2	–	–	17.2
Assets at cost less depreciation	9.6	34.2	50.9	94.7
	26.8	**34.2**	**50.9**	**111.9**

(i) Freehold land and buildings includes freehold properties and associated fixed plant. All freehold properties were revalued as at 31 March 1997 by DTZ Debenham Thorpe, International Property Advisors, in accordance with the RICS Appraisal and Valuation Manual. At that time, the Directors reviewed the valuations and were of the opinion that the total value of freehold properties amounted to £92.0m based on the Existing Use Value or Open Market Value as appropriate.
(ii) Based on historical cost at 31 March 2004, the aggregate cost of tangible assets was £277.7m (2003: £215.5m), the aggregate depreciation was £151.5m (2003: £133.2m) and the aggregate net book value was £126.2m (2003: £82.3m).
(iii) Plant and equipment includes capitalised software with a net book value at 31 March 2004 of £34.7m (2003: £25.4m).

13. Fixed asset investments

These represent investments in joint venture undertakings and other investments made by the Company.

	Joint venture (i) £m	Shares held in the Company (ii) £m	Shares in Group undertakings (iii) £m	Loans to Group undertakings £m	Other (iv) £m	Total £m
Group						
1 April 2003	1.5	9.7	–	–	0.4	11.6
Shares awarded and charge to the profit and loss account	–	(1.1)	–	–	–	(1.1)
Disposal of shares on vesting	–	(2.2)	–	–	–	(2.2)
31 March 2004	**1.5**	**6.4**	**–**	**–**	**0.4**	**8.3**
Company						
1 April 2003	1.5	9.7	16.2	–	0.4	27.8
Investments during the year	–	–	74.2	1.4	–	75.6
Deferred consideration reduced (see note 18)	–	–	(2.1)	–	–	(2.1)
Shares awarded and charge to the profit and loss account	–	(1.1)	–	–	–	(1.1)
Disposal of shares on vesting	–	(2.2)	–	–	–	(2.2)
31 March 2004	**1.5**	**6.4**	**88.3**	**1.4**	**0.4**	**98.0**

(i) Joint venture

The Company owns 50 per cent of the 1,000 £1 issued equity shares in FTSE International Ltd, a company incorporated in Great Britain which distributes financial information. FTSE International Ltd is a joint venture owned together with The Financial Times Ltd, a subsidiary of Pearson plc. The Group investment of £1.5m shown above represents the Company's share of the joint venture's net assets as at 31 December 2003, their accounting reference date.

The Company is entitled, under a shareholders' agreement, to receive royalties from FTSE International Ltd.

The following amounts were receivable from FTSE International during the year:

	2004 £m	2003 £m
Royalties	**3.1**	3.4

At 31 March 2004, there was £0.9m indebtedness by FTSE International Ltd to the Company representing the dividend declared for the year to 31 December 2003 (2003: £0.7m).

(ii) Shares held in the Company

Shares held in the Company are in a separately administered trust for the purposes of the ESOP. The difference between the purchase price of shares and the exercise price of awards/grants is charged to the profit and loss account over the period of service for which the awards and options are granted. Details of the ESOP are set out in note 28 to the financial statements.

Notes to the Financial Statements

13. Fixed asset investments (continued)

(iii) Subsidiary undertakings

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

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

During the year The Stock Exchange (Properties) Ltd acquired the Stock Exchange tower property from the parent company for a consideration of £69.4m. This was funded by the issue of 999,900 Ordinary shares to the Company.

(iv) Other investment
The other investment of £0.4m represents the cost of the Company's 0.6 per cent interest in ordinary shares of Euroclear plc.

14. Debtors

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Trade debtors	**16.4**	18.6	**15.9**	18.4
Amounts owed by group undertakings	**–**	–	**10.6**	–
Amounts owed by joint venture	**0.9**	0.7	**0.9**	0.7
Other debtors	**1.9**	2.9	**1.9**	2.9
Prepayments and accrued income	**38.5**	35.5	**36.9**	35.0
Deferred taxation (see below)	**3.4**	6.6	**2.2**	5.4
	61.1	64.3	**68.4**	62.4

Deferred taxation – amounts falling due after more than one year

	2004 £m	2003 £m
1 April 2003	**6.6**	7.9
Acquisition	**–**	1.2
Transfer to the profit and loss account during the year	**(3.2)**	(2.5)
31 March 2004	**3.4**	6.6
The deferred taxation balance comprises:		
Tax allowances available in excess of related depreciation	**1.9**	3.9
Provisions and other timing differences	**1.5**	2.7
	3.4	6.6

The deferred tax asset is recoverable against future taxable profits.

15. Creditors – amounts falling due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loans (see note 16)	**4.4**	–	**1.5**	–
Trade creditors	**3.0**	6.1	**2.7**	5.7
Corporation tax	**12.2**	12.3	**13.1**	12.5
Other taxation and social security	**1.5**	1.3	**1.1**	1.1
Other creditors	**3.9**	4.5	**3.9**	4.5
Accruals and deferred income	**43.9**	31.0	**41.2**	30.4
Proposed dividend	**10.0**	8.8	**10.0**	8.8
	78.9	64.0	**73.5**	63.0

16. Loans due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loan from minority shareholder – repayable on demand, following approval of subsidiary borrowing Board Interest payable during the year at 5.9% p.a.	**2.9**	–	**–**	–
Loan notes issued on acquisition of Proquote Ltd – repayable on demand, half yearly Interest payable during the year at 4.1% p.a.	**1.5**	–	**1.5**	–
	4.4	–	**1.5**	–

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

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loan from minority shareholder – wholly repayable after June 2013 Interest payable during the year at 5.9% p.a.	**0.5**	–	**–**	–

18. Provisions for liabilities and charges

	Property £m	Deferred consideration £m	Total £m
1 April 2003	38.0	3.6	41.6
Utilised during the year	(1.3)	–	(1.3)
Interest on discounted provision	1.7	–	1.7
Deferred consideration reduced	–	(2.1)	(2.1)
Consideration met by issue of loan notes	–	(1.5)	(1.5)
31 March 2004	**38.4**	–	**38.4**

Property
The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting space which is surplus to business requirements. The leases have between 10 and 24 years to expiry.

Deferred consideration
Deferred consideration relates to amounts payable for the acquisition of Proquote Ltd and the equity derivatives business of OM London Exchange. The amounts payable to former shareholders of Proquote Ltd are contingent upon Proquote Ltd achieving certain revenue targets. Following the issue of £1.5m of loan notes during the year, no further consideration is estimated to be payable, although it could be up to a maximum of £9.5m, payable by May 2005.

For the acquisition of the equity derivatives business, no further consideration is estimated to be payable, although it could be up to a maximum of £11.2m, payable by March 2006, see note 29.

Notes to the Financial Statements

19. Share capital

		2004	2003
Authorised			
Ordinary shares of 5p each	– number	**500,000,000**	500,000,000
	– £	**25,000,000**	25,000,000
Issued, called up and fully paid			
Ordinary shares of 5p each	– number	**297,000,000**	297,000,000
	– £	**14,850,000**	14,850,000

20. Reserves

	Group		Company	
	Revaluation £m	Profit and loss account £m	Revaluation £m	Profit and loss account £m
1 April 2003	44.0	262.6	44.0	263.2
Profit for the financial year	–	63.7	–	80.3
Dividends	–	(14.1)	–	(14.1)
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(1.9)	1.9	(1.9)	1.9
Transfer, representing the revaluation reserve for the Stock Exchange tower on disposal to a subsidiary undertaking	–	–	(39.8)	39.8
31 March 2004	**42.1**	**314.1**	**2.3**	**371.1**

All reserves are classified as equity shareholders' funds, as they are all attributable to Ordinary shareholders.
The profit and loss account for the Company of £371.1m includes £53.7m which is not yet realised, following an inter-group disposal of the Stock Exchange tower.

21. Equity minority interest

	Group 2004 £m
1 April 2003	0.2
Issue of ordinary share capital in subsidiary undertaking	1.1
Share of losses of subsidiary undertaking	(0.3)
31 March 2004	**1.0**

22. Reconciliation of movements in shareholders' funds

	2004 £m	2003 £m
Profit for the financial year	**63.7**	52.7
Dividends	**(14.1)**	(12.5)
Net addition to shareholders' funds	**49.6**	40.2
Opening equity shareholders' funds	**321.5**	281.3
Closing equity shareholders' funds	**371.1**	321.5

23. Notes to the consolidated cash flow statement

	2004 £m	2003 £m
(i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**81.6**	70.0
Depreciation of tangible assets	**21.9**	19.0
Amortisation of goodwill	**1.6**	0.1
Decrease/(increase) in debtors	**0.7**	(19.2)
Increase/(decrease) in creditors	**0.4**	(1.6)
Increase in property provision	**–**	22.0
Provisions utilised during the year	**(1.3)**	(5.9)
Amortisation of own shares	**0.5**	0.8
Net cash inflow from operating activities	**105.4**	85.2
Comprising:		
Ongoing operating activities	**105.4**	74.8
Exceptional items (see note 3)	**–**	10.4
Net cash inflow	**105.4**	85.2

	2004 £m	2003 £m
(ii) Analysis of the net cash outflow for acquisitions		
Cash consideration (including expenses)	**(15.5)**	(11.8)
Net cash acquired	**–**	0.5
Net cash outflow for acquisitions	**(15.5)**	(11.3)

	2004 £m	2003 £m
(iii) Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	**0.9**	0.1
Increase in debt financing	**(4.9)**	–
Increase in liquid resources	**16.0**	21.0
Change in net funds	**12.0**	21.1
Net funds at 1 April 2003	**211.0**	189.9
Net funds at 31 March 2004	**223.0**	211.0

	At 1 April 2003 £m	Cash flows £m	At 31 March 2004 £m
(iv) Analysis of changes in net funds			
Cash in hand and at bank	4.0	0.9	**4.9**
Debt due within one year	–	(4.4)	**(4.4)**
Debt due after more than one year	–	(0.5)	**(0.5)**
Current asset investments	207.0	16.0	**223.0**
Total net funds	211.0	12.0	**223.0**

Notes to the Financial Statements

24. Commitments

	2004 £m	2003 £m
There were no contracted capital commitments not provided for in the financial statements at 31 March 2003 or 2004.		
Financial commitments under property operating leases at 31 March 2004 for payments in the year to 31 March 2005 are as follows:		
Leases expiring – between two and five years	**0.8**	0.1
– in five years or more	**15.2**	15.3
	16.0	15.4

25. Pension costs

The Company operates one pension plan which includes separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes are held separately from those of the Company and the funds are managed by Schroder Investment Management Limited and Legal & General Investment Management Limited respectively.

Defined benefit scheme

The defined benefit scheme is non-contributory and provides benefits based on final pensionable pay. Pension costs are determined by an independent qualified actuary on the basis of regular valuations using the projected unit method and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

A full actuarial valuation of the scheme was carried out at 31 March 2003 by an independent qualified actuary. The market value of the plan's assets for the scheme was £159m, representing 88 per cent of the value of benefits that had accrued to members, after allowing for expected future increases in salaries. 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 salaries and pensions. The main assumptions for the 31 March 2003 valuation were an investment return of 5 per cent per annum for pension payments in the next 30 years and 7.5 per cent per annum for pension payments thereafter, salary increases of 4.5 per cent per annum and pension increases of 3.7 per cent per annum.

Defined contribution scheme

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

Pension contributions

The contribution rate for the defined benefit scheme for 2004 was 23 per cent of pensionable salaries (2003: 31.2 per cent of pensionable salaries less £1.1m amortisation of the actuarial surplus at 31 March 2000). As the defined benefit scheme is closed to new members, under the projected unit method the current service cost will increase as a percentage of pensionable salaries as members approach retirement.

In addition to the normal contributions to the defined benefit scheme, the Company made additional contributions of £3.2m (2003: £15.0m) during the year. These additional contributions are treated as a prepayment in the accounts and are charged to the profit and loss account over the expected remaining service lives of scheme members.

The pension charge for the year ended 31 March 2004 was:

	2004 £m	2003 £m
Defined benefit contribution	**1.3**	1.0
Release of pension provision	**–**	(0.2)
Amortisation of additional contributions	**3.1**	–
Defined contribution costs	**2.4**	2.0
Total pension charge	**6.8**	2.8

Financial Reporting Standard (FRS) 17 – Retirement Benefits
The Company continues to account for pension costs in accordance with SSAP 24 – Accounting for Pension Costs. The following information is provided under the disclosure requirements of FRS 17 – Retirement Benefits. The Accounting Standards Board has deferred the full adoption of FRS 17 until implementation of International Accounting Standards in 2005.

The costs for the defined contribution scheme are unchanged by FRS 17 and are as set out above.

Defined benefit valuation
An actuarial review was carried out at 31 March 2002, 2003 and 2004 by an independent qualified actuary to provide the information required by FRS 17.
The main assumptions used for this review are set out below:

	31 March 2004	31 March 2003	31 March 2002
Inflation assumption	**2.7%**	2.5%	2.5%
Rate of increase in salaries	**4.7%**	4.5%	4.5%
Rate of increase in pensions in payment	**3.5%**	3.5%	3.7%
Discount rate	**5.5%**	5.4%	6.0%

Defined benefit assets and liabilities
The fair value of the assets and net position in the defined benefit scheme, with the assumed expected rates of return at 31 March 2004, 2003 and 2002, are as follows:

	31 March 2004 £m	Long-term expected rate of return	31 March 2003 £m	Long-term expected rate of return	31 March 2002 £m	Long-term expected rate of return
Equities	**47.1**	8.20%	35.9	8.00%	40.8	7.75%
Bonds	**130.7**	4.86%	123.1	4.82%	107.3	5.57%
Total market value of assets	**177.8**		159.0		148.1	
Present value of liabilities	**196.0**		187.0		167.0	
Deficit in the plan	**(18.2)**		(28.0)		(18.9)	
Related deferred tax asset	**5.5**		8.4		5.7	
Net pension liability	**(12.7)**		(19.6)		(13.2)	

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2004 would have been reduced by £22.8m (2003: £29.6m), being the deficit of the pension scheme based on assumptions at that date of £12.7m (2003: £19.6m) plus the prepaid pension contribution of £14.4m (2003: £14.3m) and related deferred tax adjustment of £4.3m (2003: £4.3m). The plan's assets are invested approximately 26 per cent in equities and 74 per cent in bonds at 31 March 2004 and the trustees of the plan intend to move gradually to 100 per cent investment in bonds over the longer term.

Defined benefit charges to the profit and loss account
On the basis required by FRS 17, the charges would be as follows:

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Current service cost	**(1.7)**	(1.9)
Other service costs	**–**	–
Total costs	**(1.7)**	(1.9)
Finance income and costs		
Interest cost, being the expected increase in the present value of scheme liabilities	**(10.0)**	(10.0)
Expected return on assets in the scheme	**8.8**	9.0
Net finance cost	**(1.2)**	(1.0)

Notes to the Financial Statements

25. Pension costs (continued)

Defined benefit other recognised gains and losses
The following items reflect movements between the net assets/liabilities of the pension scheme during the year and would be recognised in the Statement of Total Recognised Gains and Losses.

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m
Difference between the expected and actual return on assets	**10.7**	(9.5)	(8.5)
Percentage of scheme assets	***6.0%***	*(6.0%)*	*(5.7%)*
Experience gains and losses arising on the scheme liabilities	**(1.5)**	4.5	3.6
Percentage of scheme liabilities	***(0.8%)***	*2.4%*	*2.2%*
Effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(0.9)**	(17.0)	(0.3)
Total	**8.3**	(22.0)	(5.2)
Percentage of scheme liabilities	***4.2%***	*(11.8%)*	*(3.1%)*

Movement in defined benefit liability during the year

	2004 £m	2003 £m
Deficit in scheme at 1 April 2003	**(28.0)**	(18.9)
Current service cost	**(1.7)**	(1.9)
Contributions	**4.4**	15.8
Net finance cost	**(1.2)**	(1.0)
Actuarial gain/(loss)	**8.3**	(22.0)
Deficit in scheme at 31 March 2004	**(18.2)**	(28.0)

26. Transactions with related parties

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

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

27. Financial assets and liabilities
The Company has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash, investments and borrowings. Short-term debtors and creditors are excluded. The majority of the Company's financial assets and liabilities are based in sterling with some exposure to Scandinavian currencies in Derivatives Services, which are mainly hedged by forward exchange contracts. The main risks arising from the Company's financial instruments are in respect of interest rate, credit, liquidity and exchange rate.

Interest rate management
There are no floating rate financial assets or liabilities. Term deposits with banks are for fixed rates for the period of the deposit.

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

Exchange rate management
The only derivative contracts used during the year were to hedge forecast cash inflows in Scandinavian currencies. All contracts were closed out on or before the final contract dates and fully matched with equivalent currency cash holdings. At the year end, forward contracts were held for forecast currency cashflows in the coming year. The fair value of these contracts at 31 March 2004 amounted to £0.1m.

	2004 £m	2003 £m
Financial assets		
Other fixed asset investments (excluding own shares)	**0.4**	0.4
Investments – term deposits	**223.0**	207.0
Cash at bank	**4.9**	4.0
	228.3	211.4
Maturing in:		
One year or less, or on demand	**227.9**	211.0
Weighted average period of fixed interest rates	**135 days**	98 days
Weighted average interest rate	**4.1%**	3.7%

	Book value 31 March 2004 £m	Fair value 31 March 2004 £m	Book value 31 March 2003 £m	Fair value 31 March 2003 £m
Fair values of financial assets and liabilities				
Other fixed asset investments (excluding own shares)	**0.4**	**0.4**	0.4	0.4
Investments – term deposits and cash	**227.9**	**227.9**	211.0	211.0
Loan from minority shareholder – within one year	**(2.9)**	**(2.9)**	–	–
– after more than one year	**(0.5)**	**(0.5)**	–	–
Loan notes	**(1.5)**	**(1.5)**	–	–
	223.4	**223.4**	211.4	211.4

Borrowing facilities

At 31 March 2004, the Company had in place a multicurrency revolving loan facility for £300m. The facility is not drawn down and is available up to 13 January 2007.

28. Employee Share Ownership Plans (ESOP)

The Company's share option plan was approved by shareholders at the Company's AGM in July 2002. Under this plan, the maximum value of shares placed under option to an individual is equivalent to 100% of their annual salary. Full details of the scheme are provided in the Remuneration report on pages 36 to 43.

Under the previous long-term incentive scheme (comprising the Initial and Annual Share Plans), option grants and share awards were made based on approvals prior to the Company's listing in July 2001. No further option grants or share awards will be made under this scheme apart from the SAYE scheme available to all staff. The Company established an ESOP discretionary trust to administer the share plans and to acquire the Company's shares to meet commitments to employees.

Under both the Initial and Annual Share Plan, share awards have a vesting period of three years and share options become exercisable at 20% per annum over five years.

The SAYE scheme provides for grants of options to employees who enter into a SAYE savings contract. As provided under UITF 17, no charge is made in the accounts in respect of the SAYE scheme except where the exercise price on vesting differs from the cost of shares purchased by the Company when the difference is charged to the profit and loss account.

Share awards were granted at nil cost to employees and share options were granted at fair market value or above. Options under the SAYE scheme were granted at 20% below fair market value. Costs for the Initial Share Plan have been charged to the profit and loss account over three years from the date of award and share awards under the Annual Bonus Plan in the year to which the awards relate.

At the balance sheet date, 2,971,209 shares (2003: 4,870,808 shares) were held by the trust, at an initial cost of £8.3m. This was funded by an interest free loan from the Company. At the balance sheet date, the market value of these shares was £10.4m (2003: £13.6m). Dividends on shares held in respect of share awards have not been waived by the trust, dividends on shares held in respect of share options have been waived by the trust amounting to £0.1m (2003: £0.2m). In accordance with UITF 13, the assets, liabilities, income and costs of the ESOP trust have been included in the Company's financial statements.

Notes to the Financial Statements

28. Employee Share Ownership Plans (ESOP) (continued)

As at 31 March 2004 outstanding awards of shares and grants of options were:

	Date granted	Subscription/ option price per share	Exercisable from	Number of shares for which right is exercisable 2004	2003
Share awards	16/11/00	–	16/11/03	**–**	756,740
	25/1/01	–	25/1/04	**–**	79,300
	25/6/01	–	25/6/03	**–**	28,500
	25/6/01	–	25/6/04	**282,400**	347,140
	8/11/01	–	8/11/04	**–**	31,992
	15/7/02	–	15/7/05	**–**	25,642
	15/7/02	–	1/4/03	**–**	84,154
	15/7/02	–	1/4/04	**77,158**	84,154
	16/5/03	–	1/4/04	**116,017**	–
	16/5/03	–	1/4/05	**116,017**	–
	16/5/03	–	16/5/06	**34,056**	–
Share options	16/11/00	2.37	16/11/01	**2,053,180**	2,530,210
	16/11/00	2.97	16/11/01	**1,309,470**	1,603,990
	25/1/01	2.52	25/1/02	**285,450**	285,450
	25/1/01	3.15	25/1/02	**211,450**	211,450
	25/6/01	3.65	25/6/02	**677,230**	835,070
	25/6/01	4.56	25/6/02	**155,240**	155,240
	8/11/01	3.72	8/11/02	**114,919**	114,919
	8/11/01	4.65	8/11/02	**85,125**	85,125
	15/7/02	3.90	15/7/05	**1,165,031**	1,448,752
	15/7/02	3.90	15/7/03	**25,642**	25,642
	16/5/03	3.23	16/5/06	**1,738,699**	–
SAYE scheme – share options	7/12/00	1.90	1/1/06	**888,600**	1,143,140
	16/8/01	2.79	1/10/06	**293,219**	380,057
	1/10/02	3.09	1/10/07	**161,179**	209,372
	1/8/03	2.73	1/8/08	**176,951**	–
Total share awards and options				**9,967,033**	10,466,039

29. Acquisition

EDX London Ltd

On 30 June 2003, following approval as a Recognised Investment Exchange by the Financial Services Authority, EDX London Ltd, a 76% subsidiary of the Company, acquired the Scandinavian equity derivatives business of OM London Exchange. The initial consideration was £12.8m with an additional payment of up to £11.2m payable dependent on the business achieving certain revenue targets by 31 December 2005. The book value of the assets acquired and cost of acquisition are set out below; no fair value adjustments were required.

	Fair value at acquisition £m
Fixed assets acquired	**0.1**
Purchase consideration	
Cash	**12.8**
Costs of acquisition	**1.2**
Total	**14.0**
Goodwill arising	**13.9**

Net assets of EDX London Ltd at 31 March 2004 amounted to £4.3m.

30. Post balance sheet event

On 2 April 2004, the Company announced that Hammerson plc had agreed to acquire the Stock Exchange Tower site for total consideration of £67 million. The expected profit is a minimum of £5 million and completion is expected in July 2004.

Financial Record

Profit and loss account	**Year ended 31 March 2004 £m**	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m	Year ended 31 March 2001 £m	Year ended 31 March 2000 £m
Turnover – Continuing operations					
– Issuer Services	**38.5**	36.0	26.9	31.9	25.7
– Broker Services	**94.1**	87.3	81.2	64.2	54.1
– Information Services	**101.0**	102.2	94.9	87.0	72.9
– Derivatives Services	**6.1**	–	–	–	–
– Other income	**10.7**	11.8	12.6	10.3	11.3
Gross turnover	**250.4**	237.3	215.6	193.4	164.0
Administrative expenses					
– operating costs for continuing operations	**(153.9)**	(144.2)	(136.1)	(129.3)	(117.7)
– goodwill amortisation	**(1.6)**	(0.1)	–	–	–
– exceptional items	**–**	(11.6)	(3.6)	(18.9)	(5.1)
Operating profit for continuing operations before exceptional items and goodwill amortisation	**83.2**	81.7	70.5	57.9	41.8
Profit on ordinary activities before taxation	**89.1**	79.5	75.2	30.4	48.5
Profit for the financial year	**63.7**	52.7	49.9	15.2	32.1
Earnings per share	**21.7p**	18.1p	17.1p	5.1p	10.8p
Diluted earnings per share	**21.5p**	17.9p	17.0p	5.1p	10.8p
Adjusted earnings per share	**21.3p**	20.9p	18.3p	15.2p	11.3p
Balance sheet					
Fixed assets	**200.9**	152.0	129.0	129.5	116.9
Net current assets	**210.1**	211.3	174.0	137.1	189.2
Creditors – amounts falling due after more than one year	**(0.5)**	–	–	–	(30.0)
Provisions for liabilities and charges	**(38.4)**	(41.6)	(21.7)	(24.6)	(31.0)
Net assets	**372.1**	321.7	281.3	242.0	245.1
Cash flow					
Net cash inflow from operating activities before exceptional items	**105.4**	74.8	82.4	74.5	46.4
Other information					
Operating margin for continuing operations excluding joint ventures, goodwill amortisation and exceptional items	**35.0%**	36.2%	34.1%	30.9%	26.2%
Share price – high	**£3.83**	£5.03	£4.35	£3.15	–
Share price – low	**£2.80**	£2.70	£2.81	£1.93	–
Total dividend per share	**4.8p**	4.3p	3.6p	3.2p	–

Investor Relations

Shareholder Services

LLOYDS TSB REGISTRARS SHAREVIEW SERVICE

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

> direct access to information held for you on the share register including share movements;

> a daily valuation of all investments held in your portfolio; and

> a range of information and practical help for shareholders.

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

EXCHANGE'S SHARE PRICE SERVICE

To obtain share price information for the Exchange, please see our website at: http://www.londonstockexchange-ir.com/lse/services/sharetools/. This link will provide you with the Exchange's share price, historical closing prices and volumes and an interactive share price graph.

ALERTING SERVICE

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

Substantial shareholders

(notified of 3% holding or more)

As at 20 May 2004 the Company had been notified of the following substantial interests in accordance with Sections 198 to 208 of the Companies Act 1985:

Fidelity International Limited	8.87%
Threadneedle Investments	6.07%
UBS AG	3.89%
Legal & General Group plc	3.29%
Scottish Widows Investment Partnership	3.18%

Financial Calendar

AGM	14 July 2004
Q1 Trading Statement (revenues only)	14 July 2004
Ex-dividend date for final dividend	21 July 2004
Final and special dividend record date (and last day of trading before share consolidation)	23 July 2004
Ex-special dividend and share consolidation date	26 July 2004
Final and special dividend payment	16 August 2004
Half year end	30 September 2004
Interim Results	November 2004
Q3 Trading Statement (revenues only)	January 2005
Financial year end	31 March 2005
Preliminary Results	May 2005

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

Investor Relations Contacts

MAILING ADDRESS
Attn: Investor Relations
London Stock Exchange plc
10 Paternoster Square
London EC4M 7LS

Shareholder helpline:
+44 (0)20 7797 3322
Website
www.londonstockexchange-ir.com
Email:
irinfo@londonstockexchange.com

REGISTERED OFFICE
London Stock Exchange plc
10 Paternoster Square
London EC4M 7LS

REGISTERED COMPANY NUMBER
2075721

REGISTRAR INFORMATION
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Telephone: 0870 600 3964 or
+44 (0)121 415 7047
Website: www.lloydstsb-registrars.co.uk

REPORTING ACCOUNTANTS
AND AUDITORS
PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

CORPORATE BROKERS
Cazenove & Co Ltd
20 Moorgate
London EC2R 6DA

Telephone: +44 (0)20 7588 2828
Website: www.cazenove.com

Lehman Brothers Europe Ltd
25 Bank Street
London E14 5LE

Telephone: +44 (0)20 7102 1000
Website: www.lehman.com

London
STOCK EXCHANGE

Registered in England and Wales No 2075721

Design by Dragon
Photography by Igor Emmerich and David Oliver
Portraits by Michael Heffernan and Martin Levenson
Printed by First Impression

London Stock Exchange plc
10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000

www.londonstockexchange.com