London
STOCK EXCHANGE

ANNUAL REPORT 2005

Contents

Cover photograph: view of Paternoster Square
Inside front cover: inside the London Stock Exchange atrium

The London Stock Exchange stands at the heart of the most international capital market in the world. Our markets are central to future economic growth and prosperity. We attract companies and investors from all over the world to do business in Europe's thriving financial centre. Our success is founded on:

A market structure that caters for companies large and small, from start-ups to global brands;

A liquidity pool derived from the greatest concentration of international financial institutions in the world;

A leading edge infrastructure and technology platform geared to capitalise on the changing market environment;

A rigorous regulatory approach which promotes trust and integrity for all market participants, generating confidence and innovation.

For issuers our markets give access to a European listing venue of choice – a proven way to gain profile and raise capital.

For market users we drive cost efficiency across the market and deliver the best infrastructure for liquidity to flourish.

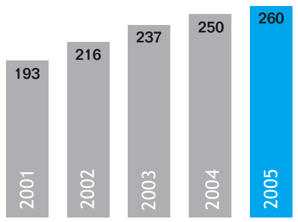
For our shareholders our strategy of broadening and deepening our markets by aligning our interests with investors, issuers and market participants is aimed at delivering long term growth.

For the City of London the London Stock Exchange reinforces and improves London's position as the world's most dynamic and international financial centre.

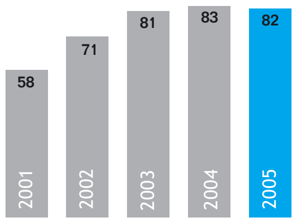
The London Stock Exchange remains by far the largest equity market in Europe and the most international of all the world's stock exchanges. Our world class offering and the power of our brand deliver increasing value to the market and our shareholders.

	2004/05	2003/04	Growth
Turnover	£260m	£250m	4%
Operating profit before exceptional items and goodwill amortisation	£82m	£83m	(1%)
Operating profit	£73m	£81m	(10%)
Profit before tax	£89m	£89m	–
Basic earnings per share	23.1p	21.6p	7%
Adjusted basic earnings per share	23.5p	21.2p	11%

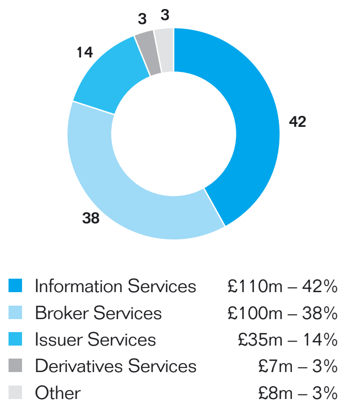
Turnover (£million)
Years ended 31 March



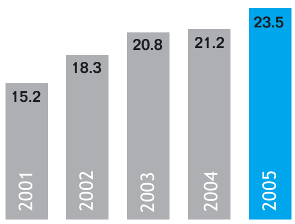
Operating profit before exceptional items and goodwill amortisation (£million)
Years ended 31 March



Total revenue (%)
Year ended 31 March 2005

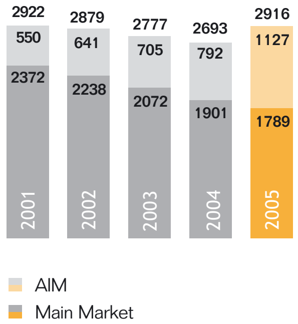


Adjusted basic earnings per share (pence per share)
Years ended 31 March

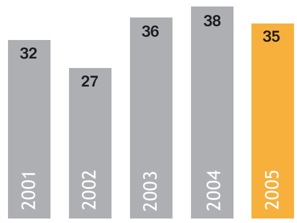


Issuer Services
receives revenue from fees for admission to trading and from annual fees.

Total number of companies
As at 31 March

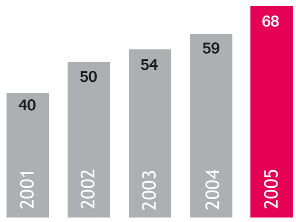


Revenue (£million)
Years ended 31 March

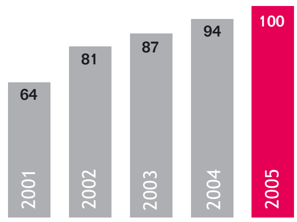


Broker Services
derives its revenue principally from charges levied on trades.

Number of equity bargains (million)
Years ended 31 March

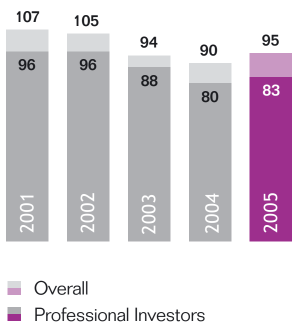


Revenue (£million)
Years ended 31 March

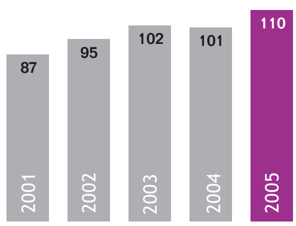


Information Services
receives revenue principally from charges levied on terminals with access to Exchange trade and price data.

Number of terminals (thousand)
As at 31 March



Revenue (£million)
Years ended 31 March



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

The unique attributes of the London market and the investment made by the London Stock Exchange since listing continue to create opportunities for the business to grow profitably in a changing global capital market, bringing benefits to all our stakeholders.

Turnover increased by four per cent and adjusted basic earnings per share rose by 11 per cent, reflecting improvements in market trends for our key business areas. The Board has recommended a final dividend of 5 pence per share, an increase of 47 per cent on the previous year's final dividend. Together with the interim dividend of 2 pence per share, the total dividend for the year rises to 7 pence per share.

Our role

The London Stock Exchange plays a central role in the economic well being of society, providing the essential apparatus by which companies can come together with investors in open and well-regulated market conditions. As equity finance continues to be one of the most important sources of investment around the globe, companies' ability to raise capital efficiently depends on being listed on a deep, liquid central equity market. Without the choice of the cost effective capital available on the London Stock Exchange's markets, companies from the UK, Europe and elsewhere would not be able to invest as efficiently to grow their businesses and make their contribution to economic growth and prosperity.

The changing landscape

The world in which the Exchange operates has been changing rapidly over recent years. Initiatives to break down barriers across European and global capital markets are making progress in providing investors with access to an ever wider range of investment opportunities across countries and continents. Technology has driven down execution costs and enabled new investment strategies to develop alongside existing ones.

Nevertheless, significant barriers remain to truly unfettered cross-border equity investment within Europe, burdening investors with unnecessary cost, and pension and savings portfolios with still too much national bias. This means that the cost of capital for EU companies remains unnecessarily high in global terms, holding back growth and restricting Europe's ability to create the jobs that its economies badly need. Without an efficient capital market Europe's companies will not have access to investment funds at the right price; and their ability to deliver growth in the face of the unremitting challenge of global competition will be compromised.

The ongoing debate in Europe about the relative merits of different financial market structures is of significant importance for the Exchange's business. The consideration that the European Commission is currently giving to a directive on Clearing and Settlement will help break down barriers to cross border exchange business. As Europe's leading equity market, based on a horizontal business model untied to any single post trade service provider, the London Stock Exchange is in a strong position to capitalise on the outcome.

In London, our market model has been developed to create a partnership with our customers to our mutual advantage. The speed with which the London market has been able to adapt to and benefit from developments in global markets and from the advent of new technology demonstrates the power and success of this model. As we continue to innovate in our business so we offer increasing value to market participants who, together with us, are creating a more efficient equity market for the benefit of investors and companies.

The integration of European financial markets through the convergence of market rules presents a unique opportunity to cement London's position as the "Wall Street" of Europe and gateway to global capital. Growing numbers of companies from emerging markets are choosing London as the venue to raise capital in Europe.

Potential offers for the Company

In December we received two proposals, from Deutsche Börse AG and Euronext NV, for a possible combination. Whilst we did not solicit these approaches, we nevertheless committed ourselves to exploring whether sufficient real value could be achieved for the benefit of shareholders and market users through a potential combination, on the right terms, with another exchange. Currently both proposals are being considered by the UK Competition Commission and we await the outcome of this review. In the meantime, we remain fully focused on driving our business forward and capitalising on opportunities for growth in the future.

Paternoster Square

The visit by Her Majesty The Queen and HRH The Duke of Edinburgh to open our new building in July 2004 marked an important new phase in the life of the London Stock Exchange. The move to Paternoster Square represented for us a substantial shift not just in location but also in culture. Unlike the Stock Exchange Tower, the working environment in the new building was specifically designed to reflect the way in which our customers do business and enable them to interact better with our staff. Our investment in new media studios and a market opening event has also created a public face to the equity markets in which all market users can participate and through which London's markets can be promoted abroad.

Staff

I would like to extend my thanks to all of the staff for their commitment and continued hard work during the year.

Community

The Exchange's partnership with Brainwave, the charity that offers therapy to children with developmental delay resulting from brain injury or impairment, is now entering its second year. The Exchange's staff have been active in raising funds for Brainwave. During the second year of the partnership we will be looking for new ways of working together to enable more children and their families to benefit from Brainwave's innovative approach to therapy.

C. S. Gibson-Smith.

Chris Gibson-Smith
Chairman

This year marked a large step towards our goal of facilitating an increasingly innovative environment through leadership in technology and market services. Our customer led product development and pricing model has become a big driver of our success. Our global brand, increasingly liquid markets and trusted regulatory environment are powerful commercial advantages which continue to support our growth.

Financial performance
Turnover increased four per cent to £259.7 million while costs rose six per cent mainly due to expected increases in depreciation. Operating profits before exceptional items and goodwill amortisation fell one per cent to £82.0 million while operating profits declined ten per cent, due to exceptional costs of £6.8 million. Reflecting, in part, the effects of the special dividend and share consolidation in 2004, basic earnings per share increased seven per cent to 23.1 pence. Adjusted basic earnings per share (excluding exceptional items and goodwill amortisation) rose 11 per cent to 23.5 pence per share.

Operating performance
The performance of our core business this year illustrates the success of the Exchange's strategy in positioning itself as the premier source of liquidity, benchmark prices and data for equity markets in the European time zone. London's qualities of high liquidity, robust governance and trusted regulation attracted record numbers of companies to our markets, while a gradually improving environment helped us achieve record trading volumes. Demand for equity market data generated an increase in professional terminal numbers for the first time in over three years.

Market activity
UK equity market volumes continued their upward trajectory on last year, reaching 68 million bargains, with the average daily number of trades increasing 16 per cent. SETS, our electronic order book, enhanced its impressive growth profile. The average number of order book trades per day reached 170,000, an increase of 24 per cent. Primary market conditions showed a definite improvement as we admitted 514 companies to our markets, including 366 IPOs, while real-time data terminal numbers ticked up over the year, increasing by 5,000.

Issuer Services
The Main Market finally appeared to shake off the effects of a three year downturn, posting 82 new issues and raising £6.0 billion in new capital. The Main Market's leadership in international listings in Europe is without peer, as demonstrated by the listings of Air China and Kumho Tire, the first Korean dual listing, and

Sistema, the largest ever Russian IPO. In all, we outstripped all other European exchanges with 80 per cent of IPOs in Western Europe.

The extension of our business into new markets was boosted with the opening of our Asia-Pacific office in Hong Kong in October. Companies from that region now have direct support as they seek to raise their profile and access London's international investment funds. Our international strategy remains focused on the growth economies of India, Russia and China, where London's deep pools of capital are needed to help fund the growth of these thriving economies. AIM in particular attracted a significant number of international companies, a total of 134 at the end of the year.

This year was the first year of the full impact of the settlement with the OFT over our annual and admission fees. This inevitably reduced fee income in what otherwise was a good performance, underlining the resilience of the business.

AIM

AIM extended its lead over its rivals and again demonstrated why the flexible choice of markets that we offer provides the Exchange with a significant advantage. Reaching the milestone of over 1,000 companies in December, AIM saw 432 new issues this year raising a total of £2.8 billion. With growing research coverage and institutional investment, AIM has made the leap towards becoming a mainstream asset class.

Broker Services

This was a strong year on our markets. Several initiatives were responsible for stimulating the growth in trading volumes. Towards the end of the financial year we saw a series of record days on SETS, our automated order book for more liquid securities.

In January there was an average of 298,284 total trades per day – a short-lived record before February achieved an average of 308,932 total trades per day, and then March with 323,152 total trades per day. This was the first time that the total average daily number of trades topped 300,000. The average daily value traded was £18.7 billion, up 17 per cent on last year.

This was also the first full year for SETSmm, the hybrid platform that brings an automated order book to midcap securities, with support from committed market makers. In its first full year, trading in SETSmm securities saw a 14 per cent increase in the value of midcap stocks traded. But SETSmm has done more than simply grow the market; by centralising liquidity and increasing transparency SETSmm has reduced headline spreads by more than 40 per cent.

Global financial markets are in constant flux as new instruments, vehicles, strategies and investment trends emerge and our focus on customers is key to our continued success. This year our Primary Account Managers and Product Specialists continued to develop stronger relationships with our clients. This client partnership approach is critical to the evolution of existing products and to the creation of new products that are relevant to our clients' changing priorities. Such intense customer focus helps us design and deliver products that solve problems or create opportunities for our customers and so maximise revenue generating opportunities for the Exchange.

Information Services

The delivery of information services and products is crucial to the integrity and success of the market. Having transformed our internal databases last year, the roll out of our new flexible and scalable technology continues with core information applications next in line. Shortly we will launch Infolect, the enhanced replacement for the link that carries the Exchange's real-time data to customers. The new technology will be faster, with improved bandwidth and, importantly, the capacity to provide for increases in market demand, making it easier for us to develop new products. By designing products that anticipate market demand we have increased product penetration and expanded our customer base.

The recovery in professional terminal numbers this year appears to mark a welcome end to the more than three year decline in the data vendor market, reflecting the improved performance of the global securities market.

As well as the improvements in our core Information Services business, the new products that have diversified our revenue base have had a good year. Additional services added to Proquote, our low-cost trading and market data supplier, have helped to drive screen numbers upwards. Proquote now has an international version and we are adding new data sets that will increase its attractiveness, particularly for the buy-side. We are a year into the SEDOL Masterfile service and the level of customer support has more than met expectations. Our global securities identifier, launched in March 2004, has attracted more than 1,000 customers, almost a third of whom are first time customers to the Exchange. As with many of our new initiatives, the benefit to the market – in this case the reduction of cross-border trade failures – is matched by the positive impact on our business. With growing customer support and plans to extend the service to new instruments and further geographical regions, the prospects for SEDOL Masterfile are good.

Derivatives Services
EDX London has put in a steady performance thanks to the core Scandinavian derivatives business. Finnish derivatives were added to the products offered by three exchanges in Sweden, Denmark and Norway linked to EDX. As market conditions have improved the covered warrants market has grown, with an increase in the number of brokers offering to trade them for their clients, and our OTC clearing service saw its first trades.

Technology Roadmap
Leadership in technology will continue to drive change in the market place, facilitating easier, cheaper and much quicker access to our market. We are currently engaged in rolling out a programme of technology renewal that has already successfully migrated many of our internal systems onto commoditised hardware and more flexible software. The next step will see the real-time data link to the market replaced with a faster, more flexible service. The final stage will be the migration of our trading system onto next generation applications – the most significant advance to exchange technology this decade. The completion of our technology roadmap programme will enable us to increase capacity at marginal cost and diversify our product range more simply. We aim to maintain our exceptional reliability record, while significantly reducing the cost of operating our market on new .NET technology.

Outlook
Trading conditions in the new financial year have remained positive; new issue activity on both the Main Market and AIM remains good; trading volumes on SETS have continued strongly; and, professional terminals have increased since the financial year end. This momentum is encouraging.

As we await the outcome of the current Competition Commission review of the possible approaches for the Exchange, we continue to focus on the good and improving operational performance of the business.

We are confident that our technology roadmap programme will lay the foundation for a new period of growth for our markets. This, together with more positive trading conditions and our successful focus on customers and opportunities in the increasingly international marketplace, underpin our confidence that the Exchange is well positioned for growth.

Clara Furse
Chief Executive

Air China lands in London
Air China is the country's main international carrier with ambitions to become one of the world's leading airlines. On 15 December 2004 Air China raised £558 million through a dual listing on the Hong Kong Stock Exchange and the Main Market of the London Stock Exchange. The issue was 83 times oversubscribed by retail investors (37 times by institutions). For Mr Li Jiaxiang, Chairman of Air China, London was "a natural choice", helped by the fact that a single prospectus could be used for both listings.

Mr Shixiang Wang, Vice Chairman of Air China, opened the markets, accompanied by Mr Zha Peixin, Chinese Ambassador to London and Clara Furse.

Issuer Services

A strong year for new issues on the Main Market and a record year for AIM; more international companies joining our markets than ever before; the launch of services to support quoted companies.

REVENUE

£35m

-9%

Issuer Services is the division responsible for managing both of these primary markets. The main sources of revenue for this division are admission, further issue and annual fees. Following settlement with the Office of Fair Trading (OFT) in November 2003, the Exchange reduced annual fees for Main Market issuers and admission and annual fees for AIM issuers, with effect from 1 April 2004. In the first full year of this new price regime, the strong performance of our markets has partly offset the revenue impact of the fee reductions.

The London Stock Exchange is unique among major world exchanges in offering issuers a choice of successful primary markets. The Main Market offers a high-profile listing that helps larger, more established companies gain access to the deep pools of institutional investment capital that are managed in London. AIM, our market for smaller, growing companies is the most successful market of its type in the world. By providing these efficient, transparent and well-regulated markets we attract companies from all over the world to London and support them before, during and following admission.

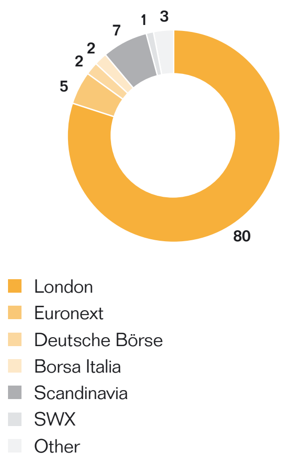
At 31 March 2005 there were 2,916 companies on our markets, up eight per cent on the previous year's number of 2,693. 1,789 of these companies were listed on the Main Market and 1,127 were quoted on AIM. The combined market capitalisation of our markets was £3.5 trillion, up seven per cent on the previous year. In a notable year for new issues, 514 companies joined our markets, 366 of them IPOs, raising a total of £8.8 billion.

One of the most successful aspects of this performance was the increasing internationalisation of our markets. During the year, 13 international companies joined the Main Market and 74 joined AIM, a combined increase of 181 per cent on 2003/04. This growth further emphasises both the Exchange's leading position in European equity markets – IPOs on our markets accounted for 80 per cent of all those in Western Europe – as well as our position as the world's most international exchange.

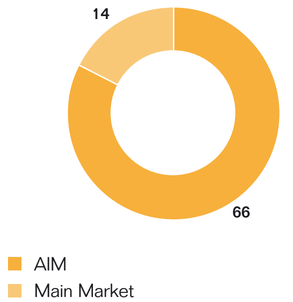
The concentration of capital and expertise in London and our experience of running dynamic and well regulated public markets, has enabled us to launch the IR Solutions business. This offers a range of services for companies in the UK and internationally to maximise the effectiveness of their financial communications. We have also developed a training and consultancy offering, which draws upon our capital markets expertise and the strength of the London Stock Exchange brand.

Percentage of Western European IPOs (%)

Year ended 31 March 2005



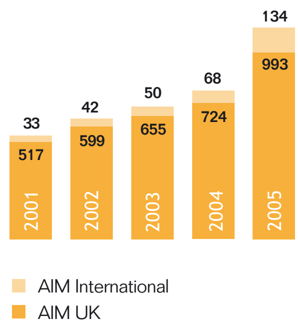
Breakdown of London's share of Western European IPOs (%)



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

Total number of AIM companies

As at 31 March



The Main Market

The Main Market, our market for well-established companies, continues to be among the most widely followed, analysed and investable markets in the world. Its indices, including the FTSE 100 index and FTSE 250 index are some of the world's most referenced. techMARK and techMARK mediscience offer additional profile for technology and healthcare issuers. Increasing numbers of derivatives also focus on the indices and equities of the Main Market. For international profile and access to capital, the Main Market remains one of the world's blue-chip markets.

With 69 new UK issues and 13 international new issues, raising a total of £6.0 billion, this has been the busiest year on the Main Market since 2002. Among the highlights were Air China's listing (see case study), Kumho Tire becoming the first company to simultaneously dual list in London and Seoul, and Sistema, the Russian consumer services company that raised $1.56 billion in February 2005 – the largest ever IPO by a Russian company. Admiral Group was the largest UK company to list, raising over £250 million and joining with a market capitalisation of over £710 million. Virgin Mobile was one of the most high profile IPOs of the year, joining with a market capitalisation of £500 million and raising over £137 million.

On the regulatory front, we continued to champion the high standards and best practices of the London market model, which ensure efficient, transparent and attractive markets for issuers and world-class regulation for investors. We successfully lobbied against a proposed European requirement for mandatory financial quarterly reporting which would have undermined London's regime of immediate disclosure. We also helped to negotiate an exemption from International Financial Reporting Standards (IFRS) for issuers of debt, convertibles and depository receipts on the Main Market (see professional securities market, below).

AIM comes of age

June 2005 sees the 10th anniversary of the launch of AIM, now firmly established as the pre-eminent international growth market. During the year we celebrated two significant milestones in the development of the market in welcoming our 1,000th company currently quoted and our 100th international company.

In terms of new admissions and the amount of money raised on AIM, last year was the most successful on record, with 432 companies joining the market (302 of which were IPOs) and a total of £4.7 billion raised through a combination of new and further issues.

Since the market's launch in 1995, a total of £15.9 billion has been raised demonstrating the level of investor support for the market and the fact that AIM is now established as a mainstream asset class.

In light of the introduction of the Prospectus Directive on 1 July 2005 and following discussions with HM Treasury, the FSA and the AIM community, AIM's regulatory status changed on 12 October 2004 to an exchange regulated market. This change preserves the unique structure of AIM and the Exchange's flexibility to choose which regulatory standards to apply to AIM companies.

Our ambitions for AIM include further expanding AIM's international reach with a focus on the Asia-Pacific region and also across continental Europe. The introduction of a new family of AIM indices in 2005 will attract new investors to the market and provide existing investors with greater transparency. The new indices will also help us to promote AIM internationally.

The Professional Securities Market

The Exchange has been working with the FSA on the development of a new professional securities market, to be launched on 1 July 2005 to coincide with the implementation of the Prospectus Directive in the UK. This initiative will ensure that issuers of debt, convertibles and depository receipts of any denomination can continue to list in London by following a flexible listing regime, aimed at satisfying the needs of professional or institutional investors. The professional securities market will be particularly attractive for non-EU issuers who do not produce financial information to IFRS or an equivalent standard, as other accounting standards will be acceptable without the requirement to re-state accounts.

International strategy

It has been a significant year for our international strategy, which focuses on the emerging markets of China, India and Russia. In October we opened our new Asia-Pacific office in Hong Kong, giving the Exchange a permanent presence in the region and helping us target, among others, Chinese privatisation deals and the flotations of medium to large enterprises.

We remain committed to the strategy of focusing on areas of high GDP growth and on international companies aspiring to both the profile and access to capital that London can provide, as well as to the high standards of UK regulation and corporate governance. This approach has been strongly supported with the involvement of senior management in our major international business development activities. We also continue to encourage and attract other international listings: companies from Finland, Israel and Ukraine were among those joining our markets this year.

A Royal Debut
Her Majesty The Queen, accompanied by His Royal Highness the Duke of Edinburgh, opened the Exchange's new building in Paternoster Square on 27 July 2004, thirty-two years after she had opened our previous home, the Stock Exchange Tower. The Queen also became the first person to activate The Source, the seven-storey kinetic sculpture that dominates the new building's atrium. The Source not only represents the Exchange's centrality in world markets, it is powered by market data. Its 729 spheres move at the promptings of real-time data feeds. Each morning at Market Open The Source begins moving and is only still again when the market closes at 4:30pm.

Lord Coe, EU Commissioner Charlie McCreevy, Indian Finance Minister Palaniappan Chidambaram and the directors of companies making their market debuts are among those who have activated The Source to mark the opening of the London markets.

Delivering for customers

In 2004, we established a new business group to provide services that help companies to make the most of opportunities for capital raising provided by the London Market. IR Solutions brings together the existing RNS service with new initiatives to provide a comprehensive suite of financial communications and investor relations services designed to help companies plan and implement an effective investor relations programme. Our aim in offering these services is to provide the same high standards of performance and customer service at affordable prices that are the hallmark of RNS.

The Corporate Responsibility Exchange (CRE) is an easy to use and innovative online tool which helps companies to disclose corporate responsibility information to their shareholders. The system allows companies to save time by disclosing only once rather than completing several questionnaires and provides fund managers with a better tool for researching companies' policies and practices. Launched in October 2004, CRE has close to 100 corporate clients in its first few months. A new fund manager reporting tool is under development.

IR Solutions has also launched a new range of Active Investor Relations (ACT) services meeting the needs of investor relations officers in UK and international companies. These cover the complete lifecycle of investor relations activities from identifying shareholders and targeting new investors to meeting fund managers and researching investor perceptions. Our Capital Markets Day in December 2004 for Icelandic companies to meet London fund managers in the Media and Business Complex at the Exchange was a successful illustration of our role in bringing together and facilitating communications between companies and investors.

Training and Consultancy

Our new Training Services Division has expanded over the last year, offering a suite of 12 courses and a range of workshops and conferences, covering topical areas of the capital markets. These include preparing companies for life on AIM, our second annual Corporate Governance conference and programmes on investor relations and board effectiveness. The high quality of training offered by the Exchange is derived from our position at the heart of the world's capital markets and the expertise of our staff and trainers. This has led to increasing international demand for our courses while our audience has diversified across Chairmen, Chief Executives and Finance Directors to professionals from the broking, legal and fund management communities. We have also reached out to schools and universities to help explain how equity markets work.

Broker Services

Record volumes on our trading platforms; an intense focus on customer needs feeding into new product design and enhancements to existing services; identifying services that build on the Exchange's expertise and technology to improve markets.

REVENUE

£100m
+6%

Broker Services manages the secondary markets in securities traded on the London Stock Exchange. We provide and maintain the underlying electronic platforms on which shares, bonds, and other products are traded by 322 Member Firms in 29 countries worldwide. By providing efficient, competitive access to trading, combined with an increasingly efficient market structure, we draw liquidity to our markets, attracting traders, investors and further issuers.

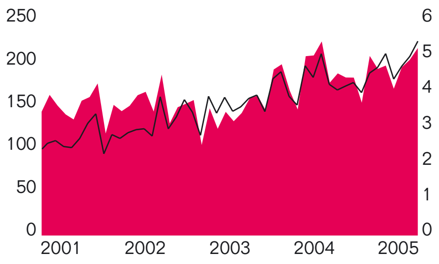
It was a strong year on our markets. Several initiatives were responsible for stimulating the growth in trading volumes. Towards the end of the financial year we saw a series of record days on SETS, our automated order book for the more liquid securities, which drove up the daily average equity trades across our markets.

In January there was an average of 298,284 total trades per day – a short-lived record before February achieved an average of 308,932 total trades per day, and then March with 323,152 total trades per day. This is the first time that the total average daily number of trades has topped 300,000. In total over the year we saw a 16 per cent increase in the average daily number of trades. The average daily value traded was £18.7 billion, up 17 per cent on last year. Revenues in Broker Services, at £100 million, grew by six per cent.

This strong trading performance was well supported by our ongoing commitment to provide and further enhance our fast, efficient and robust trading systems. For the fifth year running our platforms provided customers with uninterrupted access to our markets (see Technology, page 16). The reliability of the Exchange's trading platforms is unmatched by any other major global exchange.

During the year the Exchange responded to the Committee of European Securities Regulators (CESR) proposals in relation to the Markets in

Monthly UK equity trading volume



■ Value £ billion (left axis)
— Bargains million (right axis)

Financial Instruments Directive (MiFID), now expected to come into force in April 2007. MiFID aims to remove the barriers to an efficient European single market in securities dealing. We lobbied in support of the high standards of post-trade transparency, broadly liberal regime and proportionate rules that are already part of the London model. MiFID will further encourage customers to examine the way in which they conduct their business and represents an opportunity for the Exchange to continue to develop services that deliver efficient trade execution on liquid markets at compelling cost.

SETS: delivering for customers

Since its introduction in 1997, volumes on SETS have grown every year and this year was no exception. The average daily number of trades on SETS was 170,000, up 24 per cent on the previous year. The average daily value traded on SETS was £3.5 billion, up 15 per cent. Over the past five years we have seen compound annual growth in bargains of 47 per cent. 23 March 2005 was a record day for SETS when over 254,000 trades went through the order book. The efficiency, value and ease of trading offered by SETS continues to improve market liquidity and drive trade volume growth.

The average value of a SETS bargain this year was £21,000, a fall of five per cent. That volumes and total values are up while bargain size shrinks is evidence of customers' increasing reliance upon automated, algorithmic trading. It is important for our business and the quality of the market that the Exchange responds to these changes in market participants' priorities and behaviour. In April 2004 we introduced a discount scheme for volume trading on SETS, which has been well received by the market and, we believe, has further incentivised greater trading volumes.

This pricing initiative is a demonstration of how we have enhanced our product. SETS, as well as offering efficient automated trading, continues to draw liquidity onto the order book. Iceberg orders, introduced last year and welcomed by the market, are another, enabling traders to execute large orders through the order book, while maintaining time priority and avoiding market impact.

SETSmm improves the markets

This was the first full year for SETSmm, the innovative hybrid platform that brings an automated order book to midcap securities, with support from committed market makers (see case study). In the year to 31 March, trading in SETSmm securities totalled £152.9 billion, an average daily value of £609 million. In its first 12 months SETSmm oversaw a 14 per cent increase in the value of midcap stocks traded – far outstripping the growth in other sectors of the markets.

The SETSmm success story

When SETSmm was launched in November 2003 many predicted narrower spreads and improved volumes. Few, however, could have foreseen the extent to which SETSmm has transformed the market for midcap securities. 18 months on and many international institutions are active in this market for the first time, helping to make midcap investing one of this year's major themes. Transaction costs for private investors are also down as Retail Service Providers (RSPs) compete at the 'touch' price – often regardless of bargain size. The lower cost of trading has stimulated volumes, benefiting the institutional brokers too.

SETSmm is a blueprint for how the Exchange can improve markets. Making trading easy and cost-effective does more than facilitate markets – it attracts liquidity and so helps to create them.

But SETSmm has done more than simply grow the market; by centralising liquidity and increasing transparency SETSmm has reduced headline spreads by more than 40 per cent and increased volumes. We expect this virtuous circle of increased transparency, improved spreads and growing trading volumes to continue, especially as Market Maker stock coverage has increased by 20 per cent since the move from SEAQ.

We are continuing to build on the success of SETSmm. Earlier this year, we announced the addition of Irish dual-listed stocks to SETSmm and we initiated a market-wide consultation to determine how we could extend the coverage of SETSmm into Small Cap stocks, more Irish dual-listed stocks, and also to review the current AIM trading platform.

Working closely with customers

Our revised pricing structure for SETS and the launch of SETSmm are two examples of how we use our understanding of the markets and our customers' priorities to deliver innovative services that improve our markets. Both of these initiatives grew out of close consultation with customers and market demand.

Global financial markets are in constant flux as new instruments, vehicles, strategies and investment trends emerge. This year our Primary Account Managers and Product Specialists continued to develop stronger relationships with our clients. This partnership approach is critical to the evolution of existing products and to the creation of new products that are relevant to our clients' changing priorities. Such intense customer focus helps us design and deliver products that solve problems or create opportunities for our customers and so maximise revenue generating opportunities for the Exchange.

EUROSETS, the trading service for Dutch securities, is another initiative that was designed in this way and launched last year. Despite some encouraging signs, we will need to see increased levels of trading in the medium term to meet our expectations.

We know that the success of our markets depends upon our customers' success. This insight is a key part of our strategy, to use the centrality of our markets and the power of the London Stock Exchange brand to drive down industry costs. In all, over the past two years, Broker Services alone can point to initiatives that have removed up to £43 million from our customers' annual costs. By doing this we can attract still more trading to our markets and encourage more take-up of our supporting services.

Information Services

Terminal numbers growing as market conditions improve; delivering new products that answer customers' needs while diversifying revenues; cementing the Exchange's position as one of the world's leading sources of high-quality data and information.

REVENUE

£110m

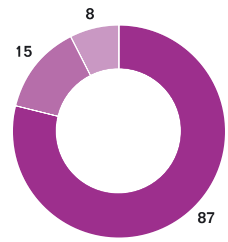
+9%

Information Services is responsible for delivering Exchange data, information and trading services to customers in 106 countries around the world. At the heart of our services is the real-time data generated by our markets, core information that fuels the global securities and investment industry. This data, carried on our own terminals or via third party information vendors, generates the majority of the division's revenue. Having been in decline since 2001, professional terminal numbers grew this year.

It was the first full year for important initiatives such as SEDOL, our global securities identifier service and the second year for Proquote, our trading and information system. Both have performed encouragingly with SEDOL delivering approximately 1,000 licences and Proquote 2,700 screens. We have also continued to expand the scope of our offering, especially in reference data. Our resources – high-quality data, world-class technology and the power of the London Stock Exchange brand – enable us to design and deliver new services that answer customers' needs. FTSE, the joint venture indices business, increased turnover by 15 per cent to £15.3 million, continuing an unbroken record of growth since launch nine years ago. This result reflects strong sales of Global and UK Equity Index Series products and contributions from new asset classes such as FTSE Hedge and FTSE Global Bonds.

A dynamic sales force is focusing efforts on increasing product penetration within our existing customer base and widening that base. Of the customers signed up by 31 March to the SEDOL Masterfile service, 30 per cent were first time customers to the Exchange. It is a trend we are seeing across our entire product offering. Hedge funds, information providers and professional services companies are among new customers this year. Marketing campaigns for our products won a number of awards this year, reflecting our effort to engage with customers and deliver winning products.

Revenue sources



Data charges and others	£87m
FTSE	£15m
RNS	£8m
Total	£110m

Technology underpins everything we offer. The Exchange's corporate data warehouse allows us easily to mine data and create services that are tailored to customers' requirements. This year we have also been consulting with customers on the roll-out of Infolect, the replacement for LMIL (the London Market Information Link), due to go live in the summer of 2005 and set to improve both the speed and capacity of our delivery systems (see Technology, page 16).

Terminal numbers pick up

We began the year with terminal numbers at 90,000, of which 80,000 were professional users. The steady declines of the last three years continued over the summer. In all, between May 2001 and December 2004 we saw a 17 per cent decline in our terminal numbers. Other market data suppliers experienced similar falls, reflecting the performance of global securities markets over this period.

In the autumn however terminal declines had slowed to a rate that made it possible to anticipate the return of growth. By December this was underway. Hiring in the City of London and other global financial centres began to feed through to terminal numbers. By the year end our combined terminal numbers had recovered to 95,000, a six per cent rise in the year.

Level One Plus, launched in June 2004, completed our offering to customers, adding rich content including named market share statistics showing which brokers trade most, and risk and performance measures. We continue to consult with customers to develop our real-time data offerings.

SEDOL makes gains

The SEDOL Masterfile service, launched in March 2004, ended the year with more than 1,000 customers, many of them taking advantage of multiple entity enterprise licenses (see case study). SEDOL helps customers address cross-border trade failure that has been estimated to cost the global securities industry $4 billion every year. In the era of automated algorithmic trading, the risks of sub-optimal trading caused by inaccurate data are real. Customers have recognised in SEDOL a high-quality identifier from a trusted source that can help their systems work more efficiently.

SEDOL launched with 250,000 instruments which by the year end had risen to 450,000. By 2007 we estimate that more than 1.5 million instruments will be on the SEDOL Masterfile. The SEDOL Masterfile will also carry other codes, enabling customers to cross-reference data. We are currently examining expanding SEDOL's coverage and penetration in Asia where there is no single identifier.

The source of quality, trusted data and information

Regulatory change is one of the factors making high-quality reference data such as SEDOL a priority in the securities industry. In June 2004 we became the first exchange to supply corporate actions data in near real-time over the SWIFT network. The service helps customers improve antiquated, often paper-based processes in this area. This year we will pilot a new counterparty data service, with the goal of offering customers accurate and up-to-date information on their business and trade partners.

We are continuing to develop new information services wherever they can help our customers. In April 2004 we launched a version of our Market Share service for Member Firms, enabling investors to see which brokers are most active in trading particular stocks, indices or sectors. The Market Reports Service, launched in January, gives executives of listed companies a daily email report on shareholder data, including trading activity in their company's stock and that of their peers. Company Fundamental Data, launched in December and available via a raw data feed or the Exchange's website, offers a complete picture of past, present and forecasted financial performance of all UK listed and AIM companies.

Proquote growth continues

Proquote, the Exchange's low-cost trading and market data system, remains the UK's fastest growing market data vendor. Proquote ended the year with 2,700 terminals, up by 50 per cent. New volume customers this year included Quilters and Charles Stanley, while Panmure Gordon, Shore Capital, Arbuthnot, Jefferies and Collins Stewart joined the service as RSPs.

As well as growth, the service has seen significant enhancements. The international version of Proquote was launched in April 2005, part of creating a compelling offer for buy-side firms. The addition of new data sets improved Proquote's content which is due to be further enriched in May 2005 by the introduction of Clearview pre-trade analytics. An order management system for retail and institutional clients is another enhancement for Proquote that we plan to deliver in 2005/06.

RNS

RNS has continued to provide the UK's leading Primary Information Provider for regulatory news disclosure and capital markets focused news distribution. 129,000 announcements were released in total during 2004/05 including 90 per cent of important news and results announcements by listed companies. 92 of the FTSE 100 are clients as are all major financial PR agencies. As the longest established service in the UK and with our unique focus on efficient capital markets, RNS provides the certainty our customers demand in delivering their

SEDOL: accounting for success

Banks and brokers, fund managers and administrators are some of the organisations that might be expected to use a global identifier service to help power fast, accurate trading and portfolio reconciliation. Yet SEDOL is also gaining customers from other sectors including professional services such as accountancy. International audit is increasingly complex as new financial instruments and strategies proliferate and the pressures of regulation continue to grow. In this environment SEDOL can provide a trusted source to help identify, reconcile and value company holdings.

communications to meet regulatory disclosure requirements. Our enhanced services are designed to meet the same standards, whether providing regulatory filings to companies registered with the SEC, news distribution to key financial media in Europe or non-financial communications such as product launches to London market professionals and retail investors through RNS Reach.

Effective capital markets depend on effective disclosure and we have been influential in helping to shape the European Commission's proposals for shareholder transparency in the Financial Services Action Plan. Our vision is for a European capital market in which no company or investor is disadvantaged through incomplete disclosure. A growing number of companies in continental Europe are anticipating these changes and are already using RNS Reach and complementary services which are increasingly attractive to companies looking to improve the effectiveness of their financial communications.

www.londonstockexchange.com
The Exchange's website, re-launched in June 2004, quickly established itself as one of the most popular sites for private investors, receiving nearly eight million page impressions per month and over 800,000 unique users. News, data, tools and other information come together on the site, creating a unique educational and informative resource.
The website is now generating revenue from advertising while playing an important role in delivering free and subscription services.

In order to promote the site and web-based services such as Fundamental Data, as well as to foster wider engagement with capital markets, in March we launched InvestaQUEST, a national stock picking competition in association with Barclays Stockbrokers. More than 10,000 people are now competing to pick the best performing shares on the London Stock Exchange and win the title of Britain's best investor – and the £40,000 grand prize. ●

Derivatives Services

Core Scandinavian derivatives steady; OTC clearing service signs its first customers; Covered Warrants making progress.

REVENUE

£6.8m

+11%

Derivatives Services is responsible for the Exchange's derivatives businesses – EDX London and the Covered Warrants market for retail investors. EDX London completed its first full year of trading after commencing in June 2003.

This year EDX added Finnish derivatives to the products offered by three exchanges – Sweden, Denmark and Norway linked to EDX. We also expanded our fixed income coverage. There are now 61 members of EDX London who are able to trade more than 100 listed futures and options. The most significant by volume are the contracts on the Swedish OMXS30 index and Ericsson. Total trade volume averaged 73,000 contracts every day.

OTC clearing

Part of EDX London's strategy is to support the OTC derivatives trading of our members. The market as a whole is focused on improving operational efficiency in processing these trades. It is, however, a complex industry-wide effort with a number of initiatives to be implemented over time. Following extensive consultation with customers during 2004, EDX London has developed a unique OTC clearing service that supports the International Swaps and Derivatives Association industry-wide plans.

The new service offers customers central counterparty clearing of negotiated trades under EDX London and LCH.Clearnet membership rules. Members can enter pan-European OTC options, futures and forwards, with the flexibility offered by OTC trading, in addition to the reduced risk and processing benefits of a cleared service. Implementation has been slower than expected but these are early stages in the development of the service. Post-trade processing in OTC equity derivatives remains inefficient and we are focused on delivering a successful solution that the market requires.

Making OTC derivatives easier
Tailored design to meet an investment strategy and few or no disclosure requirements are two of the advantages of OTC derivatives. Drawbacks include slow, paper-based and expensive settlement: without a central counterparty, OTC positions must also appear on a firm's balance sheet. EDX London worked closely with customers to design our new OTC clearing service. Even the most complicated instruments can now be fully automated, disclosure requirements are minimal and pricing is competitive.

Covered Warrants

The market for covered warrants continues to grow steadily, supported by improving conditions in underlying markets. At 31 March there were 755 covered warrants and certificates available, a rise of 13 per cent in the year. There was an average of 3,864 bargains a month, worth an average of £25 million. Call warrants – on indices, stocks and commodities – are the most popular instruments but there are increasing numbers of eye-catching products being offered by the five issuers in the market. Over 80 stockbrokers have now traded covered warrants.

Technology

Delivering the Technology Roadmap and keeping the Exchange ahead of the technology curve; introducing Infolect, the new delivery system for our real-time information services; preparing to move our trading services onto the next-generation platform.

The Exchange's technology strategy is central to our aim of being the most efficient equities exchange in the world. Having the right technology does more than simply run our existing services, it also creates strategic opportunities – for new products and future moves into different business areas.

Our current technology platform has been successfully running trading and information services for more than a decade. During this time the systems have undergone a number of upgrades to ensure we continue to provide a world-class level of service to our customers. We are however constantly looking at new technologies which can make our services more efficient, scalable and functionally richer.

The Technology Roadmap, laid out in 2003 after extensive customer consultation, is an initiative to refresh the Exchange's technology and to move services onto the most functional, agile and cost-effective technology. That means deploying commodity hardware and next-generation software across our business.

The goal is to improve existing services, enhance capability to operate additional markets and increase our product range. Overall profit and loss technology costs for existing services can also be reduced, with a target 20 per cent in financial year 2007/08 – while still guaranteeing the reliability record of our services. This year we took important steps along the Roadmap, keeping the Exchange ahead of the technology curve. We estimate that much of the work of the Roadmap will be completed by the end of 2006, with the last and most critical element – the migration of trading services – occurring in the following year.

Introducing Infolect, the new delivery system for our information services

Having refreshed our internal systems using the data warehouse that is powering so many of our new products, this year the Technology Roadmap arrived at our core trading applications. Infolect, due for live launch in the summer, is the rebuilt and enhanced replacement for LMIL (the London Market Information Link) and carries the Exchange's real-time market data to customers faster and with much improved bandwidth capacity.

Infolect can carry flexible services to customers through 2 MB or 10 MB connections, delivering a significant improvement in performance and a reduction in end-to-end latency. Infolect's faster delivery is especially useful to automated trading applications because it cuts down 'order slippage'. This can lead to an improved order to trade ratio, and a reduction in missed executions that are due to 'out of date' market data.

Infolect offers a reliable, high performance information service with the capacity to support future market growth and handle increased message volumes. The agility and flexibility of the new technology also makes it easier for the Exchange to design and introduce new products and services, in response to customer demand.

The electronic orderbooks

In a year of fast growing trade volumes, including several new record days (see Broker Services, page 11) our trading platforms continued to perform well. The automated order books SETS and SETSmm saw no outages for the fifth successive year as average daily number of trades rose 24 per cent. Over the summer of 2005 we are investing in upgrading the existing technology currently underpinning these systems, to ensure the order books can handle greater trading volumes.

"The work that you are doing in conjunction with Accenture has the highest level of visibility and support inside of Microsoft. We believe that the proposal – including plans, solution, and design – are well founded, and that the underlying Microsoft technology will support your requirements in terms of performance and resilience. We look forward to continuing our successful working relationship and ensuring the success of your Technology Roadmap."

Steve Ballmer
Chief Executive Officer
Microsoft Corporation

Microsoft®

Cisco Systems

accenture

High performance. Delivered.

hp® invent

MCI

Volumes look set to continue to grow as we respond to the increase in automated, algorithmic trading. The longer-term response, part of our Technology Roadmap, involves migrating all trading on the Exchange to commodity-based hardware and next-generation applications. Such a move will dramatically increase capacity of our trading platforms, scalability and performance – while maintaining the robustness that an exchange business depends upon.

The design and prototype of the new platform is now underway. It is the biggest change to the Exchange's technology since the creation of the Sequence Programme and SETS between 1994 and 1997. We estimate completing the testing phase by the end of 2006 and, after running the new platform in parallel with the old, phasing it in during 2007.

Working with world-class partners

No ambitious technology implementation project can proceed without the close collaboration of technology partners. This year we have continued to work closely with Microsoft, whose .NET architecture is at the heart of our Technology Roadmap. HP hardware, Cisco Systems and Accenture's implementation skills all play their part in sustaining the London Stock Exchange's position as one of the world's most advanced and forward-thinking exchanges. In the day-to-day running of our systems our valued network partner MCI continues to deliver a high-quality service.

Media and Business Complex

The new state-of-the-art facility for broadcasting and events; corporate and other events booking into 2007; international broadcasters using our studios.

The move to Paternoster Square in June 2004 transformed the Exchange's media and events business. The new facility provides four studios for broadcasters to go out live from the City of London to the world. A ten square metre video wall provides the backdrop in Studio One. State-of-the-art media capability is also one of the factors now making our event spaces a key destination in the events industry. Together The Source (see case study, page 11), the studios and our event spaces are maintaining the Exchange's position as the focal point of the City.

Growing demand for events

At the heart of the new event spaces is the 120-seat theatre, designed with webcast and simultaneous translation facilities in mind. This year we've seen growing demand for results presentations, product launches and other blue chip events (see Siemens case study). Manchester United announced their results here in September; the University of Pennsylvania held a dinner in December, while in August Rexam filmed their results presentation for broadcast over the web.

No other event venue has this unique cross-over of convenience and landmark centrality with rich media capability. At the announcement of WPP's annual results in August, Sir Martin Sorrell gave interviews to seven different broadcasters in a single morning, working around his schedule. Our event spaces are heavily booked through 2005 and we're taking enquiries as far ahead as 2007.

Broadcast news

Every day, global broadcasters including the BBC and BBC News 24, CNN, Sky News and CNBC report on the day's business and market news from one of four studios. We've seen growth in overseas broadcasters using our facilities, such as Al-Arabiya (UAE), New Delhi TV (India), Report on Business TV (Canada) and NTV (Germany), contributing to the impressive 11,522 broadcasts delivered this year.

Siemens launches a world first

To launch the SK65, the first mobile with BlackBerry built in, Siemens needed a venue that chimed with their phones' capabilities. Oliver Schrott Kommunikation in Cologne, one of Germany's top PR agencies, suggested the London Stock Exchange. On 2 August 2004, 125 business, trade and lifestyle journalists from 23 countries attended presentations and a press conference, interviews with Siemens executives and lunch at the Exchange. To see what the phones could do, journalists used them while on a tour of the City of London.

The unique buzz of live broadcasts and cutting edge technology at the heart of Europe's financial markets made the Exchange the right place to introduce this business phone to an international audience.

Financial Review

Overall financial performance for the year ended 31 March 2005 showed further growth in turnover and earnings per share and cash flows remaining strong.

Turnover increased four per cent to £259.7 million (2004: £250.4 million) but operating profit before exceptional items and goodwill amortisation reduced one per cent to £82.0 million (2004: £82.9 million), with a ten per cent decrease in operating profit after exceptional costs of £6.8 million and goodwill amortisation. Basic earnings per share increased seven per cent to 23.1p per share from 21.6p per share and adjusted basic earnings per share, before exceptional items and goodwill amortisation, increased 11 per cent to 23.5p per share (2004: 21.2p). Following the share consolidation in July 2004 associated with the special dividend paid in August 2004, the weighted average number of shares decreased in the year from 293.0 million to 269.0 million.

Turnover

Issuer Services' turnover decreased nine per cent to £35.2 million (2004: £38.5 million) reflecting the effects of tariff reductions (following the OFT's review of our Main Market and AIM), partly offset by significant increases in new issue activity on both markets. Total new issues on the Exchange's markets more than doubled to 514 (2004: 236), with new and further issues together raising £18.0 billion (2004: £21.0 billion). Growth in Main Market new issues was strong, increasing over 90 per cent to 82 (2004: 43), including high profile listings from China, Russia, India and Korea. AIM, our international market for smaller, growing companies, enjoyed a record year with 432 new issues. As at 31 March 2005, the total number of companies on our markets increased to 2,916 (2004: 2,693). Of these, 1,127 companies were traded on AIM, an increase of 42 per cent (2004: 792), including 134 international companies.

Turnover for the Broker Services division increased six per cent to £99.8 million (2004: £94.1 million), reflecting in particular another year of strong performance for SETS, our electronic order book. The total number of equity bargains for the year ended 31 March 2005 rose 15 per cent to 67.9 million (2004: 59.3 million), a daily average of 271,000 bargains (2004: 234,000). Over the same period, the number of SETS bargains rose to a total of 42.8 million (2004: 34.7 million), reflecting a 24 per cent increase to an average of 170,000 bargains per day (2004: 137,000). The continued strong growth on SETS was partly attributable to the success of SETSmm which trades mid-cap securities on a hybrid market structure, with an average 16,000 bargains per day (five months ended 31 March 2004: 9,000).

Information Services' turnover rose nine per cent to £110.3 million (2004: £101.0 million). This good growth was primarily attributable to the new SEDOL Masterfile service and rising turnover from Proquote and FTSE. As at 31 March 2005, the number of terminals taking the Exchange's real-time market data stood at 95,000 (2004: 90,000), an increase of six per cent. Of this total, 83,000 terminals (2004: 80,000) were attributable to professional users, the first increase for over three years. Proquote, the Exchange's provider of financial market software and data increased the number of installed screens at year end by 50 per cent to 2,700 (2004: 1,800).

Derivatives Services contributed £6.8 million to turnover (2004: £6.1 million for the nine months ended 31 March 2004). EDX London, our 76 per cent owned equity derivatives business, traded a total of 18.3 million contracts (2004: 13.7 million for the nine months ended 31 March 2004).

Other income, primarily from property subletting, declined from £10.7 million to £7.6 million following disposal of the Stock Exchange Tower.

Expenditure

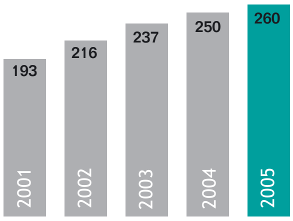
Administrative expenses (excluding exceptional items) rose six per cent to £164.4 million (2004: £155.8 million) mainly reflecting the expected cost increases from higher depreciation. In addition, exceptional costs of £6.8 million were incurred for advisors' fees in respect of potential offers for the Company received in the second half of the year.

Profit for the year

Operating profit before exceptional items and goodwill amortisation reduced one per cent to £82.0 million (2004: £82.9 million); including exceptional costs in respect of potential offers for the Company of £6.8 million and goodwill amortisation, operating profit decreased ten per cent to £73.2 million (2004: £81.3 million). With profit on disposal of the Stock Exchange Tower of £7.2 million and after net interest received, profit before taxation at £89.1 million was slightly above last year (2004: £88.8 million). The taxation charge of £27.6 million is higher than the standard tax rate due to certain expenses, mainly goodwill and property depreciation, being disallowed. After tax and minority interests, profit for the year was £62.2 million (2004: £63.4 million).

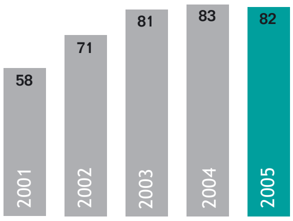
Turnover from continuing operations (£million)

Years ended 31 March



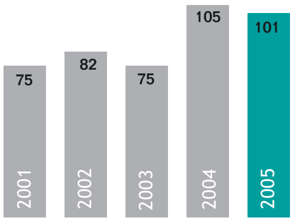
Operating profit for continuing operations before exceptional items and goodwill amortisation (£million)

Years ended 31 March



Cash inflow from operations before exceptional items (£million)

Years ended 31 March



Adjusted basic earnings per share (pence per share)

Years ended 31 March

Basic earnings per share increased seven per cent to 23.1p per share (2004: 21.6p per share) and adjusted basic earnings per share (excluding exceptional items and goodwill amortisation) rose by 11 per cent to 23.5p per share (2004: 21.2p per share). The Board remains committed to a progressive dividend policy and, reflecting confidence in the business, the Directors propose a final dividend of 5.0p per share which takes the total dividend for the year to 7.0p per share (excluding the special interim dividend paid in August 2004) representing a 46 per cent increase over 4.8p per share last year and giving a total distribution of £17.7 million (2004: £14.1 million).

Cash flow and balance sheet strength

Cash flow from operating activities before exceptional items was £100.9 million (2004: £105.4 million) reflecting a small increase in working capital. After capital expenditure of £40.8 million (2004: £54.2 million), initial proceeds from the sale of Stock Exchange Tower of £32.3 million and the payment of the special dividend of £162.5 million in August 2004, there was a cash outflow of £105.7 million (2004: inflow £8.7 million).

At 31 March 2005, sterling cash resources were £124.4 million (2004: £227.9 million) with debt of £3.3 million (2004: £4.9 million). The Company invests the majority of its funds in fixed term deposits with banks, for periods of up to one year.

Accounting policies

The Exchange complies with all current UK accounting standards. The transitional disclosures required by FRS 17 on Retirement Benefits are included in the financial statements. During the year the Exchange adopted UITF 38 Accounting for ESOP Trusts and UITF 17 (revised) Employee Share Schemes and the prior year figures have been restated accordingly. As a result, as a prior year adjustment, the Company's shares held by the ESOP trust are now deducted from shareholders' funds until they vest unconditionally in employees and the profit and loss account charge for share options and awards is determined with reference to the fair value of shares at the date of grant. The effect has been to reduce shareholders' funds at 31 March 2004 by £6.4 million and reduce profit for the financial year ended 31 March 2005 by £0.7 million (2004: reduced by £0.3 million) (further details are included in note 1 to the financial statements).

International Financial Reporting Standards (IFRS)

The key changes arising from the introduction of IFRS, which takes effect from the 2005/06 financial year, are in respect of goodwill amortisation, pensions, share-based payments, lease rentals, property depreciation and dividends. In April we disclosed a restatement of our 2003/04 results under IFRS in order to give an indication of the impact of IFRS on the Exchange.

An indication of the unaudited impact of IFRS on our 2004/05 results, is as follows:

- profit before tax under IFRS would have been £92.2 million, three per cent higher than £89.1 million under UK GAAP;
- IFRS basic earnings per share would have been 24.2 pence, compared with UK GAAP basic earnings per share of 23.1 pence, five per cent higher; and
- adjusted basic earnings per share, before goodwill amortisation and exceptional items, would have been 24.2 pence under IFRS, three per cent higher than 23.5 pence per share under UK GAAP.

Net assets as at 31 March 2005 would have been £236.3 million under IFRS, six per cent lower compared with £251.6 million under UK GAAP, in part reflecting the Company's decision on transition to IFRS to fully recognise the defined benefit pension deficit in reserves and restate retained freehold properties to fair value.

A restatement of the 2004/05 results on an IFRS basis will be provided at a later date, before the Interim Results announcement, in order to provide comparative financial information for the 2005/06 financial year.

The IFRS financial information provided has been prepared on the basis of current IFRS standards and interpretations issued by the IASB. These are subject to ongoing amendment by the IASB and subsequent endorsement by the EU and could therefore change. As a result, the comparative amounts reported for 2004/05 in the 2005/06 financial statements may vary from those included above.

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

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.

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

Communities

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. We do this by:

- making a positive contribution to the community by adopting a partner charity;
- committing to a process of continual environmental improvement and pollution prevention to minimise adverse environmental impact on the communities in which we operate;
- encouraging employee involvement in supported community projects and initiatives; and
- endeavouring to be sensitive to the cultural, social and moral principles of the communities in which we conduct our activities.

We aspire to be good citizens in a variety of ways, not least, by encouraging our staff to share their skills, experience and enthusiasm through active participation in our Community Programme.

Our partner charity for 2004/06 is 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. Its work is achieving remarkable transformations in the physical and cognitive states of children across the UK through a tailored programme where rehabilitation exercises are taught to the child's parents or carers.

Our financial support has already provided Brainwave with the funding to establish a regional family support network and, by the end of the two year partnership, around half the families on the programme will be enjoying the support of a local officer responsible for meeting their needs.

We are proud of our staff matching programme, which matches funds raised by staff for any UK registered charity, pound for pound. This year saw a significant increase of over 50 per cent in staff matching applications on the preceding year, demonstrating how our people value this programme. We also make 'community awards' to charities to recognise the time spent by members of staff performing voluntary work with them in their own time.

Five year old Charlotte Palfreeman from Swindon is pictured here with her mother Rachel, presenting a bouquet of flowers to HRH The Queen when she officially opened the Exchange's new headquarters last July. Charlotte, diagnosed with Cerebral Palsy, started a programme with Brainwave in July 2003.

BRAINWAVE
Therapy for Brain Injured Children

This year we were also able to support a number of charities by giving them the use of our event facilities and in-house catering so they could hold business development events at the London Stock Exchange, at zero cost.

Our move to Paternoster Square provided the Community Programme Group with the opportunity to demonstrate the commercial benefits of large scale recycling. A technology refresh that coincided with our move enabled us to donate around 800 PCs and screens to Tools For Schools, a charity that matches redundant computers from the business community with schools across the UK who need them most. The donation proved far less expensive than more traditional forms of IT decommissioning and disposal.

Similarly, we sold much of the office furniture left behind in the move to staff, small business start-ups and charities, donating the £43,000 raised to the Trident Trust and Brainwave.

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 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 to Paternoster Square has enabled us to make changes to our environmental impact. Whilst we are not a significant energy and resource user, early indications are that we are making resource savings from the new building.

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 and recycle. We have an established Energy Management Policy which aims to minimise our impact from carbon dioxide emissions.

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; and
- striving to meet the expectations of our shareholders by maximising shareholder value and providing competitive returns.

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

Over the past year the Exchange has held over 100 meetings and calls with major UK and overseas investors. As well as London based meetings and events, investor contact involved visits to other financial centres, including Paris, Amsterdam, Milan, Stockholm, Edinburgh and various US cities. The effectiveness of the communication programme is monitored directly through feedback to the company and indirectly through feedback to our brokers and periodic third party perception audits.

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

Employees

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

- creating a working environment which enables employees to develop their skills and knowledge;
- maintaining healthy and safe working conditions and operating in an environmentally-responsible manner;
- encouraging a working environment in which employees feel comfortable about highlighting wrongdoing;
- enabling our employees to make informed decisions about the effect of a wide range of benefits on their lifestyle, wealth and financial security; and
- 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 have redesigned the appraisal system for all staff to establish stronger links between corporate objectives, team performance, individual performance, reward and training and development.

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.

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. Health and Safety is monitored by a group made up of representatives from each business area which meets on a regular basis and considers changes in legislation and related matters. This group is augmented with external consultancy who review Health and Safety standards and opportunities for improvement on a weekly basis. There were no reportable illnesses, dangerous occurrences, or liabilities, nor were any health and safety enforcement notices or convictions received. Two accidents to staff were reported under the health and safety reporting regulations during the year.

1 Chris Gibson-Smith 59 [3]
Chairman
Chris is also Chairman of National Air Traffic Services Ltd and Senior Independent Non-Executive Director of British Land Company plc. Previously Group Managing Director of BP plc from 1997 to 2001 and Non-Executive Director of Lloyds TSB plc from 1999 to 2005. He is a Trustee of both the Institute for Public Policy Research and the arts charity Arts and Business.

2 Clara Furse 47
Chief Executive
Appointed Chief Executive in January 2001. Group Chief Executive of Credit Lyonnais Rouse from 1998 to 2000. At Phillips & Drew (now UBS) from 1983 to 1998; became a Director in 1988, Executive Director in 1992, Managing Director in 1995 and Global Head of Futures in 1996. Director of LIFFE from 1991 to 1999. Deputy Chairman from 1997 to 1999. She is a Non-Executive Director of Euroclear plc and LCH.Clearnet.

3 Jonathan Howell 42
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 Non-Executive Chairman of FTSE International Ltd. He joined the Exchange in 1996 from PricewaterhouseCoopers.

4 Baroness (Janet) Cohen 64 [1 2 3]
Non-Executive Director

A Life Peer, Non-Executive Chairman of BPP Holdings plc and non-executive Director 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.

5 Gary Allen CBE DL 60 [1]
Non-Executive Director

Chairman IMI plc from May 2001 until December 2004, Chief Executive from 1986 to January 2001. Board Director of IMI plc from 1978 until 2004, 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.

6 Peter Meinertzhagen 59 [2]
Non-Executive Director

From 1999 to 2004 Chairman Hoare Govett Ltd, Hoare Govett Corporate Finance Ltd and of Hoare Govett Small Companies Index Trust plc. He joined Hoare Govett in 1965.

7 Robert Webb QC 56 [2 3]
Non-Executive Director

General Counsel of British Airways plc since September 1998, responsible for government and industry affairs, safety, security, risk management and the environment. Board member of London First and Air Mauritius. Bencher, Inner Temple.

8 Oscar Fanjul 56 [1 3]
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, Marsh & McLennan Companies and Unilever. Member of the European Advisory Board of Carlyle Group and Sviluppo Italia. He is also Trustee of the International Accounting Standards Committee (IASC) Foundation.

9 Nigel Stapleton 58 [1 2 3]
Non-Executive Director

Chairman Uniq plc and Chairman Postal Services Commission. Previously Chairman of Reed International plc from 1997 to 1999, Co-Chairman of Reed Elsevier plc from 1996 to 1998, Chief Financial Officer of Reed Elsevier plc from 1993 to 1996.

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

London Stock Exchange plc is committed to the highest standards of corporate governance and the Company has complied with all provisions of the Combined Code 2003 ("Combined Code") except as explained in the Report below.

The Board took steps during 2004/05 to seek further compliance with the 2003 Combined Code. Ian Salter and Michael Marks who were not considered independent under the Combined Code because they were, or had been in the previous three years, employed by one of the Exchange's customers, stepped down from the Board following the AGM in 2004 and at least half the Board excluding the Chairman are determined independent under the Combined Code. The Board sought to recruit additional independent non-executive directors during the year. This process was well advanced when the Company entered an Offer Period under the rules of the City Code on 13 December 2004, at which point the process was suspended.

The Audit and Remuneration Committees have not been comprised of fully independent directors in that Gary Allen and Peter Meinertzhagen, who sit on the Audit and Remuneration Committee respectively, are not determined to be independent in accordance with the revised Combined Code. Until they stood down from the Board in July 2004 Ian Salter and Michael Marks were also members of the Audit Committee and Ian Salter was also Senior Director. The Board has not appointed a Senior Director who is independent under the Combined Code.

Gary Allen was appointed Senior Director in 2004 and is also Chairman of the Audit Committee. The Board considers that it is appropriate for Gary Allen to continue to act as Senior Director and to chair the Audit Committee given his wide experience and long term perspective on the Exchange's business which he brings to both roles and which the Board has found particularly helpful during the Offer Period. Given his length of service, Gary Allen will stand for re-election on an annual basis as required by the Combined Code.

The Board considers that it continues to be appropriate for Peter Meinertzhagen to sit on the Remuneration Committee given his knowledge and experience of the specialist nature of the market in which the Company operates, which is considered to be helpful to the Committee in developing its remuneration strategy for the London Stock Exchange.

Board of Directors

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

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

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

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

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

The Board has six scheduled meetings in addition to two offsite strategy meetings a year. In 2004/05 the Board held 12 meetings. The Chairman has met non-executive directors without the presence of executive directors on a number of occasions throughout the year.

Directors have the benefit of indemnity arrangements from the Company in respect of liabilities incurred as a result of their office. In respect of those liabilities for which directors may not be indemnified, the Company purchased and obtained a directors' and officers' liability insurance policy throughout 2004/05. This insurance cover was renewed at the beginning of 2005/06. Neither the Company's indemnity nor insurance provides cover in the event that the director is proved to have acted fraudulently or dishonestly.

Meetings

	Board	Audit	Remuneration	Nomination	Board Committee[1]
Total Number of Meetings	12	3	4	2	12
Number of Meetings attended in 2004/05					
Dr Chris Gibson-Smith	12			2	11
Mrs Clara Furse	12				11
Mr Jonathan Howell	12				12
Mr Gary Allen	10	3			12
Baroness Janet Cohen	12	3	4	2	
Mr Oscar Fanjul	10	3		2	
Mr Peter Meinertzhagen	10		3		9
Mr Nigel Stapleton	10	1[2]	4	2	10
Mr Robert Webb	11		4	0	

[1] Established when the Company entered an Offer Period
[2] Appointed to Audit Committee in October 2004

Board balance and independence
The Board comprises nine directors, the Chairman (who was independent on appointment), two executive directors and six non-executive directors. The Board considers that the Board is of the appropriate size and with the right mix of skills and experience given the size of the Company. The Board considers all non-executive directors to be independent in character and there are no relationships or circumstances which are likely to affect their character or independent judgement. However the Board believes that neither Gary Allen nor Peter Meinertzhagen can be determined to be independent under the revised Combined Code. In the case of Gary Allen this is because of his length of service on the Board, having been appointed in1994 and, in the case of Peter Meinertzhagen, because he is engaged by one of the Company's major customers, ABN Amro.

Directors serving on the Board's committees together with biographical details are identified on the Board of Directors pages 22 and 23.

Performance evaluation
The annual performance evaluation of the Board and its Committees was undertaken in the summer of 2004 and was conducted by the Company Secretary using a detailed questionnaire and included consideration of interaction with management; balance of Board time spent on consideration of strategic matters; understanding of the business; composition of the Board; and the administrative arrangements for the work of the Board. The report on the Board evaluation was considered and discussed by the Board and specific actions were agreed. The Senior Director has met separately with non-executive directors without the Chairman present to discuss the Chairman's performance.

Board Committees
Offer Period – Board Committee
When the Company entered an Offer Period on 13 December 2004 it appointed a Board Committee to consider all matters relating to potential offers for the Company on behalf of the Board. The Committee comprises Chris Gibson-Smith, Clara Furse, Jonathan Howell, Gary Allen, Nigel Stapleton and Peter Meinertzhagen. It has met 12 times between 13 December 2004 and 31 March 2005.

Remuneration Committee
The Committee members as at 31 March 2005 were: Nigel Stapleton (Chairman), Janet Cohen, Peter Meinertzhagen and Robert Webb. The Committee normally invites the Chief Executive, Head of Human Resources and Director of Finance to attend part of the meeting and the Chairman to attend throughout. The Committee has written terms of reference and meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes. A separate Remuneration report is set out on pages 27 to 33.

Audit Committee
The Committee members as at 31 March 2005 were: Gary Allen (Chairman), Janet Cohen, Oscar Fanjul and Nigel Stapleton. Nigel Stapleton was appointed to the Committee on 18 October 2004. Michael Marks and Ian Salter were members until their retirement from the Board on 14 July 2004.

As explained above, with the exception of Gary Allen and Ian Salter and Michael Marks until their retirement from the Board in July 2004, all members of the Committee are considered to be independent non-executive directors as defined by the Combined Code.

The Board is satisfied that various members of the Committee have recent and relevant financial experience.

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

Meetings
The Committee meets at least three times a year and has an agenda linked to events in the Company's financial calendar.

The Committee normally invites the Director of Finance, Head of Finance, Head of Internal Audit and senior representatives from the external auditors to attend its meetings. Other senior managers are invited to present such reports as are required by the Committee.

The Committee meets privately with the PricewaterhouseCoopers partner on an annual basis. It has the opportunity at each meeting to review any issues with the external auditors and with the Head of Internal Audit without any other members of executive management being present.

Main activities of the Audit Committee in the year to 31 March 2005

During the year, the Committee reviewed the following:

- annual report and interim results;
- implementation of International Financial Reporting Standards;
- reports from the Company's internal audit department on the effectiveness of the Company's risk management procedures, details of key audit findings and actions taken by management;
- effectiveness of the Company's system of internal control;
- internal audit plan;
- the performance of the Company's internal audit department;
- reports from external auditors on their audit, proposed audit scope and fees and auditor independence;
- the Company's insurance programme;
- the Company's 'whistleblowing' procedures; and
- the Company's business continuity and security procedures.

Independence of external auditors

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

Nomination Committee

The Nomination Committee members as at 31 March 2005 were: Chris Gibson-Smith (Chairman), Janet Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb. The Committee normally invites the Chief Executive to attend. The Committee meets as necessary to make recommendations to the Board on all new Board appointments and to consider executive and Board succession planning. The principal task of the Committee in 2004/05 was to consider the appointment of additional independent directors supported by external search consultants. However as explained above, this process was suspended when the Company entered an Offer Period. The Committee has written terms of reference which are available on the Company's website.

Internal control

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

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

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

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

Relations with shareholders

The Company, including the Chairman, conducts regular dialogue with institutional investors, holding meetings throughout the year in the UK and on overseas visits. Despite restrictions on normal investor contact arising from potential offers for the Company, senior management held over 100 meetings during the year. Communication with shareholders also takes place by way of annual and interim reports, quarterly trading updates and through the presentation of preliminary and interim results, which are made accessible to all investors by webcasts available on the Investor Relations section of our website at www.londonstockexchange-ir.com.

During the year directors received a report from the investor relations team at each of its scheduled meetings, including an analysis of share price movements, share register composition, feedback from key institutional shareholders and views from brokers on major issues. The Senior Director, Gary Allen, is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive and Director of Finance has not resolved or for which such contact is inappropriate. No such meetings have been held since Gary Allen's appointment.

The Annual General Meeting (AGM) provides the opportunity for shareholders to question the Board and meet directors informally after the event. The Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions. The procedures for the AGM are compliant with the Combined Code and the event is normally attended by all directors.

Health, safety and environment

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

Scope of the report

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

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

Details of directors' remuneration and benefits are set out in the tables within this report. The tables on pages 31 to 33 have been subject to audit.

Remuneration Committee

The Remuneration Committee is appointed by the Board and comprises only non-executive directors. The Committee meets regularly to determine, on behalf of the Board, the framework of executive remuneration. During 2004/05, the Committee met on four separate occasions. Its remit includes the remuneration of the Chairman, executive directors and further critical roles including the awards made under the performance related incentive schemes. The four members of the Committee remain:

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

The Committee's terms of reference, which are reviewed regularly and approved by the Board, are available on the Company's website and are summarised in the Corporate Governance Report (pages 24 to 26).

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 Combined Code 2003, Peter Meinertzhagen is the sole member not regarded as being independent for the reasons explained on pages 24 to 25.

During 2004/05, the Committee have utilised the services of New Bridge Street Consultants LLP. They have been appointed by the Committee to provide professional advice on all matters relating to remuneration and have not supplied other services to the Company.

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

Remuneration policy

The 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 they continue to achieve this objective. There have been no material changes to the policy which was approved by shareholders at the Company's Annual General Meeting in 2004.

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. Remuneration is predominantly performance-related, as shown in 2004/05 when 60 per cent of executive directors' target pay continues to be performance related.

Remuneration mix

During the year, the Committee has operated a framework for executives that it established in 2003/04. At its core is a remuneration mix that governs the level of each executive director's total remuneration.

At on-target performance the desired remuneration mix of base salary:benefits:bonus: equity incentives for the executive directors 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.

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
Base salaries continue to be set below the median of FTSE 51 to 200 companies.

Salaries are reviewed annually with effect from 1 April. Adjustments may be made to reflect changes in responsibilities and to ensure total remuneration levels remain competitive. With effect from 1 April 2005, Clara Furse's base salary was increased to £381,500 per annum and Jonathan Howell's to £246,000 per annum.

Flexible benefits
All Company staff participate in a flexible benefit plan whereby they receive an allowance from which they can purchase additional benefits or receive all or a proportion as a cash supplement. This allowance is not used to calculate bonus payments or pension contributions.

From 1 April 2005, Clara Furse, who has not previously participated in the flexible benefit plan, will receive a flexible benefit allowance of £20,000 per annum and participate in the same arrangements as all other employees. Jonathan Howell's flexible benefit allowance of £19,520 per annum has not been increased for 2005/06.

Annual Bonus Plan
Executive directors are eligible to participate in the Annual Bonus Plan. 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.

From 2003/04, following a full review by the Remuneration Committee, directors' bonuses are now determined on an individual basis having regard to:

- annual financial targets with specific targets and calibration set for Adjusted Operating Profit and Adjusted Earnings Per Share (EPS). Target opportunity is 70 per cent of salary with a maximum of 140 per cent of salary for significant over achievement of pre-set targets; and

- individual performance – against personal objectives. For target performance the bonus payable is 30 per cent of salary with a maximum of 60 per cent for outstanding achievement.

For 2004/05, performance was as follows:

- Adjusted EPS performance was ahead of the target set by the Committee and below the level for which maximum bonuses are paid;

- Adjusted Operating Profit performance was between threshold and target;

- Both Directors were assessed by the Committee as having exceeded their personal objectives.

Before confirming bonus awards the Remuneration Committee reviews the quality of earnings achieved to satisfy itself that the bonus relating to the financial objectives has been achieved through the appropriate actions of the executive management.

Equity incentives
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 established prior to 2004, with the exception of the SAYE scheme, have now been closed in respect of new awards.

Executive Share Option Plan
During 2004, grants were made to executives under the Executive Share Option Plan (ESOP) prior to shareholders approving to the introduction of the LTIP. The ESOP was approved by shareholders in July 2002 and has been closed to further grants.

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) 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.

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 from New Bridge Street Consultants LLP of whether or not the EPS target has been achieved, at the end of the third year.

The performance conditions will require re-statement to take account of the adoption of International Financial Reporting Standards. The Remuneration Committee will ensure that the adjustments made are fair and equitable.

In 2004/05, options under the ESOP were not granted at more than 100 per cent of an individual's salary, except in the instance of the recruitment of a senior executive, where the Remuneration Committee exceeded this amount in order to recruit the chosen candidate.

The Executive Share Option Plan has now been closed and no further grants will be made under this plan.

Long Term Incentive Plan
In July 2004, shareholder approval was given to adopt a new Long-Term Incentive Plan ("LTIP") to replace the Company's existing ESOP and the Deferred Share Bonus Plan.

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

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

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

The proportion of Matching Shares which vest will be dependant on the Company meeting specified total shareholder return ("TSR") performance criteria (see below).

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 is the chosen performance measure as the Committee considers that it provides a clear link to the creation of shareholder value. For median performance, in comparison to companies constituting the FTSE 51 to 200 (excluding investment trusts), 30 per cent of the award will vest. For upper quartile performance against this group, 100 per cent of the award will vest. For performance below median, none of the award will vest.

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

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

Grants in 2004

The first awards under the LTIP were made in July 2004 following the Annual General Meeting. In subsequent years they will normally be made following the announcements of final results.

In 2004, the Committee made significantly lower Performance Share awards under the LTIP to take account of the share options that were granted in May 2004 under the ESOP. The aggregate level of option grants and LTIP awards to executive directors in 2004 did not exceed such amount as is necessary to deliver the desired remuneration mix of 35:5:35:25.

Share ownership guidelines

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

All Employee Share and Share Option Plans

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

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

Pensions

The Company's final salary pension scheme was closed to new entrants in 1999. Neither of the current executive directors participates in this final salary pension scheme. Only base salary is used to calculate pension entitlement and no other pension supplements apply.

Pension provision takes the form of a non-consolidated salary supplement, which is invested in the defined contribution pension scheme up to Inland Revenue limits. Executives may request that any amount in excess of Inland Revenue limits is received as non-consolidated salary. In the year ending 31 March 2005, Clara Furse received a pension supplement of 15 per cent of base salary and Jonathan Howell received a pension supplement of 22.5 per cent of base salary.

Having taken independent advice on the market position of the Chief Executive's pension arrangements in comparison to other companies in the FTSE 51 to 200 comparator group, the Remuneration Committee increased Clara Furse's pension supplement from 15 per cent of salary to 25 per cent from 1 April 2005.

Service contracts

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

Notice periods

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

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

Termination arrangements

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

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

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

Outside appointments

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

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

Non-Executive directors' remuneration

The fees for non-executive directors 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. Since 2003/04, non-executive directors in direct receipt of their fees have been required to invest at least 20 per cent of their fees in the Company's shares to strengthen the linkage to shareholder value. However, see page 30, Remuneration policy during an Offer Period. The fees, which are neither performance related nor pensionable are agreed by the Board. The Company considers the fees to be comparable with those paid by other FTSE mid 250 companies.

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

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

All of the non-executive directors except the Chairman have letters of appointment reflecting their responsibilities and commitments dated 1 February 2001. The appointments were for an initial period of three years which has been renewed and, provided each non-executive director is re-elected, the letters of appointment 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, is terminable on six months notice and renewable for a further period of three years thereafter.

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

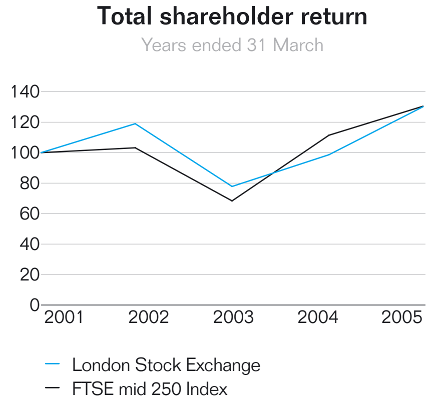
Remuneration policy during an Offer Period

Following approaches from Deutsche Börse AG and Euronext NV which may or may not result in either acquiring the Company, adjustments have been made to the remuneration policy to recognise these circumstances. Specifically, whilst the Company and its directors and employees have been subject to restrictions on dealings in the Company's shares due to the Takeover Code and the UKLA's Listing Rules it has not been considered appropriate for non-executive directors to receive a proportion of their fee in shares. Since December 2004, non-executive fees have been paid entirely in cash and this will continue until such time as the Company is no longer subject to share dealing restrictions, whereupon the policy of investing 20 per cent of fees in London Stock Exchange shares will be re-established.

Similarly, it has not been considered appropriate to make awards of Performance and Matching Shares during this period or launch the Share Incentive Plan approved by shareholders in 2004. It is intended that awards will be made at the earliest opportunity once the Company is no longer subject to sharedealing restrictions.

Total Shareholder Return ("TSR") Performance

The following line graph shows, for the financial year ended 31 March 2005 and for each of the previous three 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.



Source: Datastream

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

Table A – Directors' remuneration – auditable

	2005 Salary (Note i) £000	2005 Performance Bonus £000	2005 Benefits (Note ii) £000	2005 Total £000	2004 Salary (Note i) £000	2004 Performance Bonus £000	2004 Benefits (Note ii) £000	2004 Total £000	2005 Pensions (Note iii) £000	2004 Pensions (Note iii) £000
Chairman										
C Gibson-Smith, director from 1 May 2003	250	–	–	**250**	229	–	–	229	**–**	–
Chief Executive										
C H F Furse	374	460	2	**836**	351	186	3	540	**29**	29
Executive director										
J A G Howell	279	315	1	**595**	242	178	1	421	**22**	22
Previous directors										
D G Cruickshank until 16 July 2003	–	–	–	**–**	104	–	1	105	**–**	–
M Wheatley until 31 March 2004	–	–	–	**–**	230	–	9	239	**–**	–
	903	775	3	**1,681**	1,156	364	14	1,534	**51**	51
Compensation for termination of contract M Wheatley				**362***				–	**–**	–
				2,043				1,534	**51**	51

* M Wheatley also received an increase in the transfer value of his accrued pension amounting to £41,000. In accordance with the share scheme rules, on ceasing employment M Wheatley's outstanding share awards vested and outstanding share options could be exercised. 25,080 shares vested at a market value of £89,097 and for share options, 265,390 were available for exercise at £2.37 per share, 202,150 were available at £2.97 per share, 65,016 were available at £3.23 per share, 13,720 were available at £3.65 per share and 51,283 were available at £3.90 per share.

	2005 Total £000	2004 Total £000	2005 Pensions £000	2004 Pensions £000
Non-executive directors' fees				
Directors in office throughout both years				
G J Allen (Senior Director, Chairman of Audit Committee)	**43**	43		
Baroness Cohen	**33**	33		
O Fanjul	**33**	33		
P R Meinertzhagen (note iv)	**33**	33		
N J Stapleton (Chairman of Remuneration Committee)	**38**	38		
R S Webb QC	**33**	33		
Directors who did not hold office for the whole of the two financial years				
I G Salter until 14 July 2004	**14**	50		
M J P Marks until 14 July 2004 (note iv)	**9**	33		
Total non-executive directors' fees (note iv)	**236**	296		
Total directors' emoluments	**2,279**	1,830	**51**	51

Notes

i) Salary

Salary includes base salary, on which bonus and benefits allowance are based, benefit allowances paid in cash and any amount of pension supplement not invested in the defined contribution pension scheme. Base salary for C H F Furse was £350,000 (2004: £330,000) and for J A G Howell was £230,000 (2004: £200,000).

ii) Benefits

Benefits represent the cash value of health insurance cover and, in 2004, included travel and for M Wheatley, a Company match of voluntary pension contributions.

iii) Pensions

The Company contributed to the senior executive defined contribution pension plan for C H F Furse of £29,000 (2004: £29,000) and for J A G Howell of £22,000 (2004: £22,000) as shown in the table above.

iv) Non-executive directors' fees

Fees paid directly to the employer company of one (2004: one) non-executive director were £32,500 (2004: £32,500). A further £9,400 (2004: £32,500) was paid to charity.

v) Waiver of emoluments

None of the directors waived emoluments during 2004 and 2005.

Table B – Directors' share interests – auditable

Current Share Schemes

Long-Term Incentive Plan

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

Share awards	Number of shares: At start of year	Awarded during year	Vested during year	At end of year	Price at award date (£)	Price at vesting date (£)	Value at vesting date (£)	Date of award	Final Vesting Date
C H F Furse	–	27,687	–	27,687	3.63	–	–	15/07/04	15/07/07
J A G Howell	–	18,194	–	18,194	3.63	–	–	15/07/04	15/07/07

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

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

The options granted become exercisable from 1 October 2006.

Previous Share Schemes – all now closed and no awards granted after August 2004

Executive Share Option Plan

The following grants were made under the Executive Share Option Plan approved by shareholders in July 2002. The performance condition attaching to options granted is average earnings per share growth of RPI plus four per cent per annum over the initial three year period.

Share option grants	Number of options: At start of year	Granted during year	Exercised during year	At end of year	Option price (£)	Date of grant	Expiry date
C H F Furse	76,924	–	–	76,924	3.90	15/07/02	15/07/12
	102,168	–	–	102,168	3.23	16/05/03	16/05/13
	–	87,072	–	87,072	3.79	20/05/04	20/05/14
	179,092	87,072	–	266,164			
J A G Howell	47,436	–	–	47,436	3.90	15/07/02	15/07/12
	61,920	–	–	61,920	3.23	16/05/03	16/05/13
	–	52,771	–	52,771	3.79	20/05/04	20/05/14
	109,356	52,771	–	162,127			

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

Annual Bonus Plan

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

Share awards	Number of shares: 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	20,396	–	20,396	–	3.90	3.55	72,406	15/07/02	01/04/04
	62,712	–	31,356	31,356	3.23	3.55	111,314	16/05/03	01/04/05
	83,108	–	51,752	31,356			183,720		
J A G Howell	16,317	–	16,317	–	3.90	3.55	57,925	15/07/02	01/04/04
	37,288	–	18,644	18,644	3.23	3.55	66,186	16/05/03	01/04/05
	53,605	–	34,961	18,644			124,111		

Shares awarded under the Annual Bonus Plan vest in two equal tranches 12 months prior to final vesting date and on final vesting date.

The aggregate value of shares vesting during the year to directors was £307,831 (2004: £185,475).

Share option grants and Share awards in 2001 and prior

The following grants and awards were made under the long-term incentive scheme approved by shareholders in March 2000. No performance conditions apply to the exercise of these options, although options priced at £2.97 and £3.15 are premium priced.

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

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

The gain on share options exercised during the year to directors was nil (2004: £8,920)

	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	3.67	6,312	25/06/01	25/06/04
J A G Howell	6,180	–	6,180	–	3.65	3.67	22,681	25/06/01	25/06/04

The aggregate value of shares vesting for the above awards during the year to directors was £28,993 (2004: £962,585)

The market price of the shares on 31 March 2005 was £4.54 and the range during the year was £3.37 to £5.90.

Directors' interests in shares

The directors who held office at 31 March 2005 had the following other beneficial interests in the shares of the Company:

	Ordinary shares 19 May 2005	**Ordinary shares 31 March 2005**	Ordinary shares 31 March 2004*
C Gibson-Smith	**10,214**	**10,214**	7,557
C H F Furse	**305,977**	**287,477**	303,137
J A G Howell	**103,356**	**92,357**	80,944
G Allen	**1,865**	**1,865**	1,423
J Cohen	**1,443**	**1,443**	1,102
O Fanjul	**25,976**	**25,976**	29,509
N Stapleton	**1,645**	**1,645**	1,255
R Webb	**1,424**	**1,424**	1,086

*Numbers of shares at 31 March 2004 are prior to share consolidation in July 2004

C H F Furse and J A G Howell as potential beneficiaries, are also deemed to be interested in the London Stock Exchange Employee Benefit Trust, the trustees of which held 878,694 shares in London Stock Exchange plc on 31 March 2005 and 752,193 on 19 May 2005.

Signed by and approved on behalf of the Board

Nigel Stapleton
Chairman of the Remuneration Committee

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 2005.

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 2005 was £89.1 million (2004: £88.8 million) and profit after taxation and minority interests was £62.2 million (2004: £63.4 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 Review on pages 4 to 19.

Dividend

The directors are recommending a final dividend of 5.0 pence (2004: 3.4 pence) per share for the year which, together with the interim dividend of 2.0 pence (2004: 1.4 pence) per share paid in January 2005, produces a total dividend of 7.0 pence (2004: 4.8 pence) per share amounting to £17.7 million (2004: £14.1 million). If approved by shareholders, the final dividend will be paid on 15 August 2005 to shareholders on the register on 22 July 2005. Following shareholder approval at the AGM in July 2004, a special interim dividend of 55 pence per share, amounting to £162.5 million, was paid in August 2004.

Share capital

Details of the Company's share capital are set out in note 19 to the accounts on page 49.

Substantial shareholding

As at 19 May 2005 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:

Threadneedle Investments	12.01%
UBS AG	6.02%
Deutsche Bank AG	5.85%
Barclays plc	4.95%
Fidelity International Limited	4.84%
Credit Suisse First Boston	3.33%
Legal & General Group plc	3.29%

Directors

Ian Salter and Michael Marks ceased to be directors with effect from the AGM on 14 July 2004. All other directors set out on pages 22 and 23 served throughout the year.

The directors who will, according with the Company's Articles of Association, retire at the forthcoming AGM and, being eligible, offer themselves for reappointment are Janet Cohen, Robert Webb and Gary Allen. None of the directors seeking reappointment have a service contract with the Company.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2005 according to the register maintained under the Companies Act 1985 are set out in the Remuneration report on pages 27 to 33. 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 24 to 26.

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, the market value of freehold properties at 31 March 2005 was approximately £7 million lower than book value.

Employees
Information on the Company's employment policies is given on pages 20 and 21. The Company also provides an induction programme for new employees, including training on health and safety, and a range of development programmes for all staff to develop their skills and knowledge. The Company encourages and assists the employment, training and retention of disabled people. Where changes to working practices or structure affect staff, they are consulted and given the appropriate support.

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

Donations
During the year the Company gave £124,000 (2004: £101,000) 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 2005 trade creditors represented 15 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
19 May 2005

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the independent auditors' report on page 37, 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.

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, the statement of total recognised gains and losses 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 Chief Executive's review, the Operating and Financial Review and the Corporate Governance statement.

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

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 2005 and 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; and

- 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
19 May 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2005

Continuing operations	Notes	2005 £m	2004 £m As restated (see note 1)
Turnover			
Group and share of joint venture		**259.7**	250.4
Less: share of joint venture's turnover		**(15.3)**	(13.3)
Net turnover	2	**244.4**	237.1
Administrative expenses			
Operating costs		**(164.4)**	(155.8)
Exceptional items	3	**(6.8)**	–
		(171.2)	(155.8)
Operating profit			
Before exceptional items and goodwill amortisation		**82.0**	82.9
Before exceptional items		**80.0**	81.3
After exceptional items and goodwill amortisation		**73.2**	81.3
Share of operating profit of joint venture and income from other fixed asset investments		**1.7**	1.4
Total operating profit – Group and share of joint venture		**74.9**	82.7
Profit on disposal of Stock Exchange Tower	3	**7.2**	–
Net interest receivable	7	**7.0**	6.1
Profit on ordinary activities before taxation		**89.1**	88.8
Taxation on profit on ordinary activities	8	**(27.6)**	(25.7)
Profit on ordinary activities after taxation		**61.5**	63.1
Minority interests		**0.7**	0.3
Profit for the financial year	20	**62.2**	63.4
Dividends	9	**(180.2)**	(14.1)
Transfer (from)/to reserves for the financial year		**(118.0)**	49.3
Basic earnings per share	10	**23.1p**	21.6p
Diluted earnings per share	10	**22.9p**	21.4p
Adjusted basic earnings per share	10	**23.5p**	21.2p
Dividend per share (excludes special dividend)		**7.0p**	4.8p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	**62.2**	63.4
Other recognised gains and losses for the financial year		
Prior year adjustment (see note 1)	**(0.6)**	–
Total gains and losses recognised since last Annual Report	**61.6**	63.4

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Profit on ordinary activities before taxation		**89.1**	88.8
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	**0.1**	1.9
Realisation of property revaluation gains of previous years	20	**39.8**	–
Historical cost profit on ordinary activities before taxation		**129.0**	90.7
Historical cost profit retained after taxation		**101.4**	65.0

31 March 2005

	Notes	Group 2005 £m	Group 2004 £m As restated (see note 1)	Company 2005 £m	Company 2004 £m As restated (see note 1)
Fixed assets					
Intangible assets	11	**27.5**	24.3	**–**	–
Tangible assets	12	**114.9**	168.3	**113.4**	111.9
		142.4	192.6	**113.4**	111.9
Investments					
Investments in joint venture:					
Share of gross assets		**12.6**	10.5	**–**	–
Share of gross liabilities		**(11.0)**	(9.0)	**–**	–
	13	**1.6**	1.5	**1.5**	1.5
Other investments	13	**0.4**	0.4	**91.9**	90.1
		2.0	1.9	**93.4**	91.6
		144.4	194.5	**206.8**	203.5
Current assets					
Debtors	14	**98.4**	61.1	**77.3**	68.4
Investments – term deposits		**119.5**	223.0	**115.0**	219.0
Cash at bank		**4.9**	4.9	**3.8**	2.9
		222.8	289.0	**196.1**	290.3
Creditors – amounts falling due within one year	15 & 16	**75.1**	78.9	**106.3**	73.5
Net current assets		**147.7**	210.1	**89.8**	216.8
Total assets less current liabilities		**292.1**	404.6	**296.6**	420.3
Creditors – amounts falling due after more than one year	17	**0.5**	0.5	**–**	–
Provisions for liabilities and charges	18	**40.0**	38.4	**34.8**	38.4
Net assets		**251.6**	365.7	**261.8**	381.9
Capital and reserves					
Called up share capital	19	**14.9**	14.9	**14.9**	14.9
Reserves					
Revaluation reserve	20	**2.2**	42.1	**2.2**	2.3
Profit and loss account	20	**233.6**	307.7	**244.7**	364.7
Equity shareholders' funds		**250.7**	364.7	**261.8**	381.9
Equity minority interest	21	**0.9**	1.0	**–**	–
Total shareholders' funds		**251.6**	365.7	**261.8**	381.9

The financial statements on pages 38 to 54 were approved by the Board on 19 May 2005 and signed on its behalf by:

Clara Furse, Chief Executive
Jonathan Howell, Director of Finance

Year ended 31 March 2005

	Notes	2005 £m	2004 £m As restated (see note 1)
Net cash inflow from operating activities			
Ongoing operating activities	23(i)	**100.9**	105.4
Exceptional items	23(i)	**(5.5)**	–
Net cash inflow from operating activities		**95.4**	105.4
Dividends from joint venture		**1.3**	0.7
Returns on investments and servicing of finance			
Interest received		**8.1**	7.5
Interest paid		**(0.2)**	(0.2)
Dividends received		**0.1**	0.1
Net cash inflow from returns on investments and servicing of finance		**8.0**	7.4
Taxation			
Corporation tax paid		**(24.3)**	(22.2)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		**(40.8)**	(54.2)
Receipts from disposal of Stock Exchange Tower		**32.3**	–
Net cash outflow from capital expenditure and financial investments		**(8.5)**	(54.2)
Acquisitions			
Acquisition of subsidiary undertaking		**–**	(15.5)
Dividends paid		**(177.6)**	(12.9)
Net cash (outflow)/inflow before use of liquid resources and financing		**(105.7)**	8.7
Management of liquid resources			
Decrease/(increase) in term deposits	23(ii)	**103.5**	(16.0)
Financing			
Issue of ordinary share capital to minority interest		**0.2**	1.1
Loans received from minority shareholder			
due within one year		**0.3**	2.9
due after one year		**–**	0.5
(Redemption)/issue of loan notes		**(1.5)**	1.5
Purchase of own shares		**(2.5)**	–
Own shares on exercise of employee share options		**5.7**	2.2
Increase in cash in the year	23(ii)	**–**	0.9

1. Accounting policies

Basis of accounting and consolidation
The financial statements are prepared in accordance with the Companies Act 1985 and 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.

Change in accounting policy
The Company has adopted UITF Abstract 38 Accounting for ESOP trusts and UITF 17 (revised December 2003) Employee share schemes. Under UITF 38 the Company's own shares held by the ESOP trust are deducted from shareholders' funds until they vest unconditionally in employees. Prior to the adoption of UITF 38, the Company's own shares held by the ESOP trust were recognised as an asset on the balance sheet at the lower of cost and net realisable value. Under UITF 17 (revised December 2003) the profit and loss charge for share options and awards is determined with reference to the fair value of the shares at the date of grant. Prior to the adoption of the revised UITF 17 the profit and loss charge was determined by reference to the cost of shares purchased by the ESOP trust.

Prior year adjustment
The change in accounting policy outlined above results in a reduction to investments and equity shareholders' funds at 31 March 2004 of £6.4m. Profit for the financial year ended 31 March 2004 is reduced by £0.3m. Profit for earlier financial years is reduced by £0.3m resulting in a total adjustment to the profit and loss account of £0.6m, which is recorded in the statement of total recognised gains and losses. Profit for the year ended 31 March 2005 is reduced by £0.7m. The cash flow statement has been restated to show the exercise of share options within Financing.

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. Impairment reviews are performed at the end of the first full year after acquisition and where there is an indication of potential impairment.

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 are approximately 50 years, the estimated useful lives of fixed plant range from five to 20 years.

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

c) Plant and equipment is stated at cost and is depreciated 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
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. Lease incentives at commencement of a lease are allocated over the period to the first rent review. Provision is made in the accounts for lease commitments, less income from sub-letting, for property space which is surplus to business requirements.

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. Shares in the Company held under the Employee Share Ownership Plan are deducted from shareholders' funds until they vest unconditionally in employees. Charges to the profit and loss account are determined with reference to the fair value of the shares at the date of grant. Costs for the Annual Bonus Plan have been charged in the year to which they relate. Costs for the LTIP are charged over the performance period.

2. Turnover

	2005 £m	2004 £m
Continuing operations		
Issuer Services	**35.2**	38.5
Broker Services	**99.8**	94.1
Information Services	**110.3**	101.0
Derivatives Services	**6.8**	6.1
Other income	**7.6**	10.7
Gross turnover	**259.7**	250.4
Less: share of joint venture's turnover	**(15.3)**	(13.3)
Net turnover	**244.4**	237.1

For the purposes of Segmental Reporting, the directors consider that the Company has one class of business with the four principal revenue streams noted above derived from that business, with principal operations of the Group being in the United Kingdom.

3. Exceptional items

	2005 £m	2004 £m
Fees in respect of potential offers for the Company	**(6.8)**	–
Exceptional items included within operating profit	**(6.8)**	–
Profit on disposal of Stock Exchange Tower (see below)	**7.2**	–
Total exceptional items	**0.4**	–

	2005 £m	2004 £m
Profit on disposal of Stock Exchange Tower		
Proceeds receivable from disposal	**64.2**	–
Book value and disposal costs	**57.0**	–
Profit on disposal	**7.2**	–

No taxation is payable on the disposal as indexed base cost for tax purposes exceeds disposal proceeds; accordingly, a nil effect on the Company's tax provision has been assumed.

4. Operating profit

Operating profit is stated after charging the following amounts:

	2005 £m	2004 £m
Depreciation of tangible assets	**30.9**	21.9
Amortisation of goodwill	**2.0**	1.6
Operating lease rentals – properties	**12.2**	8.1
Auditors remuneration for:		
Audit	**0.2**	0.2
Other services (see below)	**0.8**	1.3

Other fees paid to PricewaterhouseCoopers LLP during the year were £0.8m (2004: £1.3m). These fees were in respect of taxation advice £0.3m (2004: £0.2m), assurance services £0.1m (2004: £0.1m) and transaction-related and other services £0.4m (2004: £1.0m).

5. Employees

	2005	2004
The number of employees was:		
At the year end	**519**	522
Average for the year	**513**	517

	£m	£m
Staff costs, included within administrative expenses, amounted to:		
Wages and salaries	**35.8**	33.2
Social security costs	**5.2**	4.5
Other pension costs	**6.5**	6.8
Total	**47.5**	44.5

6. Directors' emoluments

	2005 £000	2004 £000
Emoluments:		
Salary and fees	**1,139**	1,452
Performance bonus	**775**	364
Gains on the exercise of share options	**337**	1,157
Benefits	**3**	14
	2,254	2,987
Contributions to defined contribution pension scheme	**51**	51
Total	**2,305**	3,038

During the year two directors (2004: two) had retirement benefits accruing under a defined contribution scheme and no director (2004: one) had retirement benefits accruing under a defined benefit scheme.

Further details of directors emoluments are included in the Remuneration report on pages 27 to 33.

7. Net interest receivable

	2005 £m	2004 £m
Interest receivable		
Bank deposit and other interest	**9.0**	8.0
Interest payable		
Interest on discounted provision for leasehold properties (see note 18)	**(1.7)**	(1.7)
Interest payable on other loans	**(0.3)**	(0.2)
Total	**(2.0)**	(1.9)
Net interest receivable	**7.0**	6.1

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

8. Taxation

	2005 £m	2004 £m
Current tax:		
Corporation tax for the year at 30% (2004: 30%)	**25.1**	25.7
Adjustments in respect of previous years	**–**	(3.6)
Joint venture	**0.5**	0.4
	25.6	22.5
Deferred taxation (see note 14)	**2.0**	3.2
Taxation charge	**27.6**	25.7

The adjustments in respect of previous years for corporation tax were for tax assessments now agreed with the Inland Revenue, including, in 2004, £2.7m for the allowance of expenditure reported as exceptional items in prior years.

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% (2004: 30%).

The variations are explained below:

	2005 £m	2004 £m As restated
Profit on ordinary activities before tax	**89.1**	88.8
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**26.7**	26.6
Items disallowed for the purpose of tax provision (primarily professional fees, depreciation on expenditure not subject to capital allowances and profit on disposal of Stock Exchange Tower)	**0.9**	2.9
Accounting deduction less than taxation allowance – timing differences	**(2.0)**	(3.4)
Adjustments to tax charge in respect of previous years	**–**	(3.6)
Corporation tax charge	**25.6**	22.5

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

	2005 £m	2004 £m
Special interim dividend paid – 55p per Ordinary share	**162.5**	–
Interim paid: 2.0p (2004: 1.4p) per Ordinary share	**5.1**	4.1
Final proposed: 5.0p (2004: 3.4p) per Ordinary share	**12.6**	10.0
	180.2	14.1

Following shareholder approval at the AGM in July 2004, a special interim dividend of 55p per share was paid to all shareholders on 16 August 2004.

10. Earnings per share

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

	2005	2004 As restated
Basic earnings per share	**23.1p**	21.6p
Diluted earnings per share	**22.9p**	21.4p
Adjusted basic earnings per share	**23.5p**	21.2p

	£m	£m
Profit for the financial year	**62.2**	63.4
Adjustments:		
Exceptional items within Operating profit	**6.8**	–
Amortisation of goodwill	**2.0**	1.6
Profit on disposal of Stock Exchange Tower	**(7.2)**	–
Tax effect of exceptional items and amortisation of goodwill	**(0.3)**	(2.9)
Minority interest of exceptional items, goodwill and taxation	**(0.2)**	(0.1)
Adjusted profit for the financial year	**63.3**	62.0
Weighted average number of shares – million	**269.0**	293.0
Effect of dilutive share options and awards – million	**2.9**	2.7
Diluted weighted average number of shares – million	**271.9**	295.7

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 269.0 million (2004: 293.0 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).

As described in note 9, during the year the Company paid a special interim dividend of 55p per share and at the same time carried out a consolidation of its share capital (see note 19). These transactions have the same overall effect on the Company's capital structure as a buyback of shares and, in accordance with FRS 14 Earnings Per Share, earnings per share for prior years has not been restated, other than for the change in accounting policy described in note 1.

11. Intangible assets

	Group Goodwill £m
Cost:	
1 April 2004	26.0
Recognition of deferred consideration (see note 18)	5.2
31 March 2005	**31.2**
Amortisation:	
1 April 2004	1.7
Charge for the year	2.0
31 March 2005	**3.7**
Net book values:	
31 March 2005	**27.5**
1 April 2004	24.3

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

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 2004	165.3	35.7	114.7	315.7
Additions	–	6.9	26.1	33.0
Disposals	(103.6)	–	(9.3)	(112.9)
31 March 2005	**61.7**	**42.6**	**131.5**	**235.8**
Depreciation:				
1 April 2004	82.4	1.5	63.5	147.4
Provision for the year	2.2	3.8	24.9	30.9
Disposals	(48.1)	–	(9.3)	(57.4)
31 March 2005	**36.5**	**5.3**	**79.1**	**120.9**
Net book values:				
31 March 2005	**25.2**	**37.3**	**52.4**	**114.9**
1 April 2004	82.9	34.2	51.2	168.3
Net book values at 31 March 2005 are analysed as follows:				
Assets at valuation less depreciation	16.8	–	–	16.8
Assets at cost less depreciation	8.4	37.3	52.4	98.1
	25.2	**37.3**	**52.4**	**114.9**

Company	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 2004	68.3	35.7	114.2	218.2
Additions	–	6.9	24.5	31.4
Disposals	(6.6)	–	(9.3)	(15.9)
31 March 2005	**61.7**	**42.6**	**129.4**	**233.7**
Depreciation:				
1 April 2004	41.5	1.5	63.3	106.3
Provision for the year	1.6	3.8	24.5	29.9
Disposals	(6.6)	–	(9.3)	(15.9)
31 March 2005	**36.5**	**5.3**	**78.5**	**120.3**
Net book values:				
31 March 2005	**25.2**	**37.3**	**50.9**	**113.4**
1 April 2004	26.8	34.2	50.9	111.9
Net book values at 31 March 2005 are analysed as follows:				
Assets at valuation less depreciation	16.8	–	–	16.8
Assets at cost less depreciation	8.4	37.3	50.9	96.6
	25.2	**37.3**	**50.9**	**113.4**

(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. Properties remaining at 31 March 2005 were valued at £21.9m as at 31 March 1997.

(ii) Based on historical cost for the Group at 31 March 2005, the aggregate cost of tangible assets was £242.3m (2004: £277.7m), the aggregate depreciation was £129.6m (2004: £151.5m) and the aggregate net book value was £112.7m (2004: £126.2m).

(iii) Plant and equipment includes capitalised software with a net book value at 31 March 2005 of £35.5m (2004: £34.7m).

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 £m	Shares in Group undertakings (ii) £m	Loans to Group undertakings £m	Other (iii) £m	Total £m
Group						
31 March 2004 as previously stated	1.5	6.4	–	–	0.4	8.3
Prior year adjustment (see note 1)	–	(6.4)	–	–	–	(6.4)
1 April 2004 restated	1.5	–	–	–	0.4	1.9
Share of retained profit	0.1	–	–	–	–	0.1
31 March 2005	**1.6**	**–**	**–**	**–**	**0.4**	**2.0**
Company						
31 March 2004 as previously stated	1.5	6.4	88.3	1.4	0.4	98.0
Prior year adjustment (see note 1)	–	(6.4)	–	–	–	(6.4)
1 April 2004 restated	1.5	–	88.3	1.4	0.4	91.6
Investments during the year	–	–	1.8	–	–	1.8
31 March 2005	**1.5**	**–**	**90.1**	**1.4**	**0.4**	**93.4**

(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 £1.6m shown above represents the Company's share of the joint venture's net assets as at 31 December 2004, its 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 Ltd during the year:

	2005 £m	2004 £m
Royalties	**4.1**	3.1

At 31 March 2005, there was £0.6m indebtedness by FTSE International Ltd to the Company representing the dividend declared for the year to 31 December 2004 (2004: £0.9m).

(ii) Subsidiary undertakings

	Principal activity	Country of incorporation	Country of principal operations	% Equity and votes held
Principal subsidiaries				
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.

(iii) 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 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Trade debtors	**17.2**	16.4	**16.8**	15.9
Amounts owed by group undertakings	**–**	–	**13.1**	10.6
Amounts owed by joint venture	**0.6**	0.9	**0.6**	0.9
Deferred consideration on disposal of Stock Exchange Tower – due December 2005	**31.8**	–	**–**	–
Other debtors	**5.5**	1.9	**5.5**	1.9
Prepayments and accrued income	**41.9**	38.5	**41.1**	36.9
Deferred taxation (see below)	**1.4**	3.4	**0.2**	2.2
	98.4	61.1	**77.3**	68.4

	2005 £m	2004 £m
Deferred taxation – amounts falling due after more than one year		
1 April 2004	**3.4**	6.6
Transfer to the profit and loss account during the year	**(2.0)**	(3.2)
31 March 2005	**1.4**	3.4
The deferred taxation balance comprises:		
Tax allowances available in excess of related depreciation	**0.6**	1.9
Provisions and other timing differences	**0.8**	1.5
	1.4	3.4

The deferred tax asset is recoverable against future taxable profits.

15. Creditors – amounts falling due within one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Loans (see note 16)	**2.8**	4.4	**–**	1.5
Trade creditors	**4.3**	3.0	**4.2**	2.7
Amounts owed to group undertakings	**–**	–	**34.4**	–
Corporation tax	**13.0**	12.2	**15.3**	13.1
Other taxation and social security	**1.3**	1.5	**1.0**	1.1
Other creditors	**2.8**	3.9	**2.8**	3.9
Accruals and deferred income	**38.3**	43.9	**36.0**	41.2
Proposed dividend	**12.6**	10.0	**12.6**	10.0
	75.1	78.9	**106.3**	73.5

16. Loans due within one year

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Loan from minority shareholder – repayable on demand, following approval of subsidiary borrowing Board	**2.8**	2.9	**–**	–
Interest payable during the year at 6.9% p.a. (2004: 5.9% p.a.)				
Loan notes issued on acquisition of Proquote Ltd	**–**	1.5	**–**	1.5
Interest payable during the year at 4.5% p.a. (2004: 4.1% p.a.)				
	2.8	4.4	**–**	1.5

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

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Loan from minority shareholder – wholly repayable after June 2013	**0.5**	0.5	**–**	–
Interest payable during the year at 6.9% p.a. (2004: 5.9% p.a.)				

18. Provisions for liabilities and charges

	Property £m	Deferred consideration £m	Total £m
1 April 2004	38.4	–	38.4
Utilised during the year	(5.3)	–	(5.3)
Interest on discounted provision	1.7	–	1.7
Deferred consideration recognised	–	5.2	5.2
31 March 2005	**34.8**	**5.2**	**40.0**

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 nine and 23 years to expiry.

Deferred Consideration
Deferred consideration relates to the equity derivatives business acquired from OM London Exchange. The deferred consideration has been estimated at £5.2m and can be up to a maximum of £11.2m, payable by March 2006.

19. Share capital

		2005	2004
Authorised			
Ordinary shares of 5p each	– number	**–**	500,000,000
New Ordinary shares of 5⅚p each	– number	**428,571,428**	–
	– £	**25,000,000**	25,000,000
Issued, called up and fully paid			
Ordinary shares of 5p each	– number	**–**	297,000,000
New Ordinary shares of 5⅚p each	– number	**254,571,428**	–
	– £	**14,850,000**	14,850,000

Following approval by shareholders at the AGM in July 2004, every seven existing 5p Ordinary shares were replaced with six New Ordinary shares of 5⅚p each, with effect from 26 July 2004.

20. Reserves

	Group		Company	
	Revaluation £m	Profit and loss account £m	Revaluation £m	Profit and loss account £m
31 March 2004 as previously stated	42.1	314.1	2.3	371.1
Prior year adjustment (note 1)	–	(6.4)	–	(6.4)
1 April 2004 restated	42.1	307.7	2.3	364.7
Profit for the financial year	–	62.2	–	56.1
Dividends	–	(180.2)	–	(180.2)
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(0.1)	0.1	(0.1)	0.1
Transfer, representing the revaluation reserve for the Stock Exchange Tower realised on disposal	(39.8)	39.8	–	–
Employee share schemes and own shares	–	4.0	–	4.0
31 March 2005	**2.2**	**233.6**	**2.2**	**244.7**

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 £244.7m includes £4.4m which is not distributable.

21. Equity minority interest

	Group	
	2005 £m	2004 £m
1 April 2004	**1.0**	0.2
Issue of ordinary share capital in subsidiary undertaking	**0.6**	1.1
Share of losses of subsidiary undertaking	**(0.7)**	(0.3)
31 March 2005	**0.9**	1.0

22. Reconciliation of movements in shareholders' funds

	2005 £m	2004 £m As restated
Profit for the financial year	**62.2**	63.4
Dividends	**(180.2)**	(14.1)
	(118.0)	49.3
Movement in respect of employee share schemes and own shares	**4.0**	3.6
Net (reduction)/addition to shareholders' funds	**(114.0)**	52.9
Opening equity shareholders' funds (as restated)	**364.7**	311.8
Closing equity shareholders' funds	**250.7**	364.7

23. Notes to the consolidated cash flow statement

	2005 £m	2004 £m As restated
(i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**73.2**	81.3
Depreciation of tangible assets	**30.9**	21.9
Amortisation of goodwill	**2.0**	1.6
(Increase)/decrease in debtors	**(8.3)**	0.7
Increase in creditors	**2.1**	0.4
Provisions utilised during the year	**(5.3)**	(1.3)
Share scheme expense	**0.8**	0.8
Net cash inflow from operating activities	**95.4**	105.4
Comprising:		
Ongoing operating activities	**100.9**	105.4
Exceptional items (see note 3)	**(5.5)**	–
Net cash inflow	**95.4**	105.4

	2005 £m	2004 £m
(ii) Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	–	0.9
Decrease/(increase) in debt financing	**1.2**	(4.9)
(Decrease)/increase in liquid resources	**(103.5)**	16.0
Change in net funds resulting from cash flows	**(102.3)**	12.0
Transfer to equity in subsidiary undertaking	**0.4**	–
Change in net funds	**(101.9)**	12.0
Net funds at 1 April 2004	**223.0**	211.0
Net funds at 31 March 2005	**121.1**	223.0

	At 1 April 2004 £m	Cash flows £m	Other non-cash changes £m	**At 31 March 2005 £m**
(iii) Analysis of changes in net funds				
Cash in hand and at bank	4.9	–	–	**4.9**
Debt due within one year	(4.4)	1.2	0.4	**(2.8)**
Debt due after more than one year	(0.5)	–	–	**(0.5)**
Current asset investments	223.0	(103.5)	–	**119.5**
Total net funds	223.0	(102.3)	0.4	**121.1**

24. Commitments

	2005 £m	2004 £m
There were no contractual capital commitments not provided for in the financial statements at 31 March 2004 or 2005		
Financial commitments under property operating leases at 31 March 2005 for payments in the year to 31 March 2006 are as follows:		
Leases expiring		
in less than one year	**0.1**	–
between two and five years	**0.3**	0.8
in five years or more	**15.0**	15.2
	15.4	16.0

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 2005 was 23 per cent of pensionable salaries (2004: 23 per cent). 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 (2004: £3.2m) 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 2005 was:

	2005 £m	2004 £m
Defined benefit contribution	**1.1**	1.3
Amortisation of additional contributions	**3.1**	3.1
Defined contribution costs	**2.3**	2.4
Total pension charge	**6.5**	6.8

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 2003, 2004 and 2005 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 2005	31 March 2004	31 March 2003
Inflation assumption	**2.8%**	2.7%	2.5%
Rate of increase in salaries	**4.8%**	4.7%	4.5%
Rate of increase in pensions in payment	**3.6%**	3.5%	3.5%
Discount rate	**5.4%**	5.5%	5.4%

25. Pension costs (continued)

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 2005, 2004 and 2003 are as follows:

	31 March 2005 £m	Long term expected rate of return	31 March 2004 £m	Long term expected rate of return	31 March 2003 £m	Long term expected rate of return
Equities	**52.4**	7.90%	47.1	8.20%	35.9	8.00%
Bonds	**139.1**	4.81%	130.7	4.86%	123.1	4.82%
Total market value of assets	**191.5**		177.8		159.0	
Present value of liabilities	**210.0**		196.0		187.0	
Deficit in the plan	**(18.5)**		(18.2)		(28.0)	
Related deferred tax asset	**5.6**		5.5		8.4	
Net pension liability	**(12.9)**		(12.7)		(19.6)	

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2005 would have been reduced by £23.1m (2004: £22.8m) being the deficit of the pension scheme based on assumptions at that date of £12.9m (2004: £12.7m) plus the prepaid pension contribution of £14.5m (2004: £14.4m) and related deferred tax adjustment of £4.3m (2004: £4.3m). The plan's assets are invested approximately 27 per cent in equities and 73 per cent in bonds at 31 March 2005 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 2005 £m	Year ended 31 March 2004 £m
Current service cost	**(1.5)**	(1.7)
Other service costs	**–**	–
Total costs	**(1.5)**	(1.7)
Finance income and costs		
Interest cost, being the expected increase in the present value of scheme liabilities	**(10.7)**	(10.0)
Expected return on assets in the scheme	**10.2**	8.8
Net finance cost	**(0.5)**	(1.2)

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 2005 £m	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	**4.1**	10.7	(9.5)	(8.5)
Percentage of scheme assets	***2.1%***	*6.0%*	*(6.0%)*	*(5.7%)*
Experience gains and losses arising on the scheme liabilities	**0.9**	(1.5)	4.5	3.6
Percentage of scheme liabilities	***0.4%***	*(0.8%)*	*2.4%*	*2.2%*
Effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(7.6)**	(0.9)	(17.0)	(0.3)
Total	**(2.6)**	8.3	(22.0)	(5.2)
Percentage of scheme liabilities	***(1.2%)***	*4.2%*	*(11.8%)*	*(3.1%)*

	2005 £m	2004 £m
Movement in defined benefit liability during the year		
Deficit in scheme at 1 April 2004	**(18.2)**	(28.0)
Current service cost	**(1.5)**	(1.7)
Contributions	**4.3**	4.4
Net finance cost	**(0.5)**	(1.2)
Actuarial (loss)/gain	**(2.6)**	8.3
Deficit in scheme at 31 March 2005	**(18.5)**	(18.2)

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 and a limited amount of floating rate liabilities with details included in notes 16 and 17. 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 2005 amounted to nil (2004: £0.1m).

	2005 £m	2004 £m
Financial assets		
Other fixed asset investments	**0.4**	0.4
Investments – term deposits	**119.5**	223.0
Cash at bank	**4.9**	4.9
	124.8	228.3
Maturing in:		
One year or less, or on demand	**124.4**	227.9
Weighted average period of fixed interest rates	**150 days**	135 days
Weighted average interest rate	**4.8%**	4.1%

	Book value 31 March 2005 £m	**Fair value 31 March 2005 £m**	Book value 31 March 2004 £m	Fair value 31 March 2004 £m
Fair values of financial assets and liabilities				
Other fixed asset investments	**0.4**	**0.4**	0.4	0.4
Investments – term deposits and cash	**124.4**	**124.4**	227.9	227.9
Loan from minority shareholder				
within one year	**(2.8)**	**(2.8)**	(2.9)	(2.9)
after more than one year	**(0.5)**	**(0.5)**	(0.5)	(0.5)
Loan notes	**–**	**–**	(1.5)	(1.5)
	121.5	**121.5**	223.4	223.4

Borrowing facilities
At 31 March 2005, 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)

Following approval at the 2004 AGM a new Long Term Incentive Plan (LTIP) was introduced during the year. This scheme has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of annual bonus in the Company's shares. Vesting of these awards is dependent upon the Company's total shareholder return performance. Further details are provided in the Remuneration report on pages 27 to 33.

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

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

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

Under UITF 17 (revised) a charge equal to the intrinsic value at the date of grant is made to the profit and loss account, although, as provided under UITF 17 (revised), no charge is made in the accounts in respect of the SAYE scheme. Costs for the LTIP are charged over the performance period.

The Company established an ESOP discretionary trust to administer the share plans and to acquire the Company's shares to meet commitments to employees. At the balance sheet date, 878,694 shares (2004: 2,971,092 shares) were held by the trust, at an initial cost of £3.8m. This was funded by an interest free loan from the Company. At the balance sheet date, the market value of these shares was £4.0m (2004: £10.4m). Dividends on shares held in respect of the previous long term incentive scheme and the Annual Bonus Plan have not been waived by the trust, dividends on shares held in respect of the new LTIP and share options have been waived by the trust amounting to £0.1m (2004: £0.1m). The special dividend was waived on all shares held by the trust amounting to £0.9m. In accordance with UITF 38, the assets, liabilities, income and costs of the ESOP trust have been included in the Company's financial statements.

As at 31 March 2005 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 **2005**	2004
Share awards	25/6/01	–	25/6/04	**700**	282,400
	15/7/02	–	1/4/04	**–**	77,158
	16/5/03	–	1/4/04	**–**	116,017
	16/5/03	–	1/4/05	**89,066**	116,017
	16/5/03	–	16/5/06	**34,056**	34,056
	15/7/04	–	15/7/07	**503,214**	–
	20/8/04	–	20/8/07	**243,674**	–
Share options	16/11/00	2.37	16/11/01	**1,219,220**	2,053,180
	16/11/00	2.97	16/11/01	**816,210**	1,309,470
	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	**410,286**	677,230
	25/6/01	4.56	25/6/02	**63,410**	155,240
	8/11/01	3.72	8/11/02	**–**	114,919
	8/11/01	4.65	8/11/02	**–**	85,125
	15/7/02	3.90	15/7/05	**908,614**	1,165,031
	15/7/02	3.90	15/7/03	**–**	25,642
	16/5/03	3.23	16/5/06	**1,459,226**	1,738,699
	20/5/04	3.79	20/5/07	**1,458,864**	–
	12/7/04	3.73	12/7/07	**10,252**	–
	20/8/04	3.45	20/8/07	**139,333**	–
SAYE scheme – share options	7/12/00	1.90	1/1/06	**706,870**	888,600
	16/8/01	2.79	1/10/06	**256,819**	293,219
	1/10/02	3.09	1/10/07	**120,161**	161,179
	1/8/03	2.73	1/8/08	**140,675**	176,951
	1/8/04	2.93	1/8/09	**191,254**	–
Total share awards and options				**9,268,804**	9,967,033

	Year ended 31 March 2005 £m	Year ended 31 March 2004 As restated £m	Year ended 31 March 2003 As restated £m	Year ended 31 March 2002 £m	Year ended 31 March 2001 £m
Profit and loss account					
Turnover – Continuing operations					
Issuer Services	**35.2**	38.5	36.0	26.9	31.9
Broker Services	**99.8**	94.1	87.3	81.2	64.2
Information Services	**110.3**	101.0	102.2	94.9	87.0
Derivatives Services	**6.8**	6.1	–	–	–
Other income	**7.6**	10.7	11.8	12.6	10.3
Gross turnover	**259.7**	250.4	237.3	215.6	193.4
Administrative expenses					
operating costs for continuing operations	**(162.4)**	(154.2)	(144.5)	(136.1)	(129.3)
goodwill amortisation	**(2.0)**	(1.6)	(0.1)	–	–
exceptional items	**(6.8)**	–	(11.6)	(3.6)	(18.9)
Operating profit for continuing operations before exceptional items and goodwill amortisation	**82.0**	82.9	81.4	70.5	57.9
Profit on ordinary activities before taxation	**89.1**	88.8	79.2	75.2	30.4
Profit on ordinary activities after taxation	**61.5**	63.1	52.4	49.9	15.2
Basic earnings per share	**23.1p**	21.6p	18.0p	17.1p	5.1p
Diluted earnings per share	**22.9p**	21.4p	17.8p	17.0p	5.1p
Adjusted basic earnings per share	**23.5p**	21.2p	20.8p	18.3p	15.2p
Balance sheet					
Fixed assets	**144.4**	194.5	142.3	117.3	119.8
Net current assets	**147.7**	210.1	211.3	174.0	137.1
Creditors – amounts falling due after more than one year	**(0.5)**	(0.5)	–	–	–
Provisions for liabilities and charges	**(40.0)**	(38.4)	(41.6)	(21.7)	(24.6)
Net assets	**251.6**	365.7	312.0	269.6	232.3
Cash flow					
Net cash inflow from operating activities before exceptional items	**100.9**	105.4	74.8	82.4	74.5
Other information					
Operating margin for continuing operations excluding joint ventures, goodwill amortisation and exceptional items	**33.6%**	35.0%	36.0%	34.1%	30.9%
Share price – high	**£5.90**	£3.83	£5.03	£4.35	£3.15
Share price – low	**£3.37**	£2.80	£2.70	£2.81	£1.93
Total dividend per share (excludes special dividend)	**7.0p**	4.8p	4.3p	3.6p	3.2p

Shareholder Services

Lloyds TSB Registrars Shareview Service

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

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

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

Exchange's share price service

To obtain share price information for 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.

Trading information

To assist look-up of information on the Exchange, the SEDOL code is B0167W7 and the ISIN number is GB00B0167W72.

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 19 May 2005 the Company had been notified of the following substantial interests in accordance with Sections 198 to 208 of the Companies Act 1985:

Threadneedle Investments	12.01%
UBS AG	6.02%
Deutsche Bank AG	5.85%
Barclays plc	4.95%
Fidelity International Limited	4.84%
Credit Suisse First Boston	3.33%
Legal & General Group plc	3.29%

Financial Calendar (provisional)

AGM	13 July 2005
Q1 Trading Statement (revenues only)	13 July 2005
Ex-dividend date for final dividend	20 July 2005
Final dividend record date	22 July 2005
Final dividend payment	15 August 2005
Half year end	30 September 2005
Interim Results	November 2005
Q3 Trading Statement (revenues only)	January 2006
Financial year end	31 March 2006
Preliminary Results	May 2006

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.

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