

Company Registration No. 2075721

London Stock Exchange plc

**Annual Report and Financial Statements
for the year ended 31 March 2000**



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COMPANIES HOUSE		24/06/00

Sir John Kemp-Welch 64

Chairman
(to 25 May 2000)

Chairman since July 1994. Formerly Joint Senior Partner, Cazenove & Co. He is Deputy Chairman of the Financial Reporting Council, Chairman of Martin Currie Portfolio Investment Trust plc and a member of the Panel on Takeovers and Mergers. He is retiring from the Board on 25 May 2000.

Don Cruickshank 57

Chairman designate
(from 25 May 2000)

Chairman, SMG plc. He was Director General of Telecommunications from 1993 to 1998, Chief Executive, NHS in Scotland from 1989 to 1993, Managing Director, Virgin Group from 1984 to 1989, Chairman, Wandsworth Health Authority from 1986 to 1989.

Gavin Casey 53 *

Chief Executive

Chief Executive since August 1996. He is a chartered accountant and was previously Chief Operating Officer of Smith New Court (acquired by Merrill Lynch in 1995).

Ian Salter 57 * *

Deputy Chairman since 1990. Director of SG Investment Management Limited.

Jonathan Howell 37 *

Director of Finance and Operations since December 1999. Previously Director of Regulation, March to December 1999. He is a Director of CRESTCo Limited and of FTSE International Limited. He joined the Exchange in 1996 from PricewaterhouseCoopers.

* Member of the Audit Committee

* Member of the Management Committee

* Member of the Nominations and Remuneration Committee

Martin Wheatley 41 *

Director of Business Development since December 1999. Previously Director of Marketing and Development, July 1998 to December 1999. His responsibilities include European strategy and marketing and development of trading systems. He joined the Exchange in 1985.

Gary Allen CBE DL 55 *

Chief Executive, IML plc since 1986. He was appointed to IML's Board in 1978, having joined the company in 1965. He is a Non-Executive Director of NV Bekaert SA, Belgium.

Graham Allen 49 *

Managing Director, ICI Investment Management Limited. He joined ICI in 1974. He was Chairman of the NAPF Investment Committee from 1996 to 1998, and Vice President of NAPF from 1998 to 2000.

Michael Marks 58 *

Executive Chairman, Merrill Lynch Europe, Middle East and Africa. Member of the Executive Management Committee of Merrill Lynch & Co. Inc. He is a member of NASD's International Markets Advisory Board.

Peter Meinertzhagen 54 *

Chairman, Hoare Govett Limited since October 1999. Previously Chairman, Hoare Govett Corporate Finance Limited and Chairman of the Hoare Govett Smaller Companies Index Investment Trust plc. He joined Hoare Govett in 1965.

Ian Plenderleith 56 *

Appointed Government Broker in 1989. An Executive Director of the Bank of England, responsible for financial market operations and a member of the Monetary Policy Committee. At the Bank of England since 1965, he has worked at the IMF in Washington DC and served on the Board of the European Investment Bank.

Simon Robertson 59

President, Goldman Sachs Europe Limited and a Managing Director of Goldman Sachs International. He is a Non-Executive Director of Invensys plc and of Inchcape plc. Previously Chairman of the Kleinwort Benson group.

Hector Sants 44

Global Head of International Equities, Donaldson Lufkin Jenrette and Chairman of DLJ International Securities. He was previously Vice Chairman, UBS Limited, responsible for UBS's equity operations.

Nigel Sherlock DL 60

Director of Brewin Dolphin Holdings plc and Chairman of its Wise Speke division. Previously Chief Executive, Wise Speke Limited, having been a partner from 1969 to 1987. He is a Director of Skipton Building Society, a Deputy Chairman of APCIMS, a Member of the Securities Institute and an Associate Member of the Institute of Investment Management and Research.

Management Committee

In addition to those Board members marked with * the following comprise the Management Committee:

Chris Broad
Allan Cameron
Maria Clohessy
Andrew McStravick
Tim Ward
Tim Wright

Financial review

The Exchange has had a successful year. Turnover was up £20.0 million to £164.0 million and contributed to profit before tax of £48.5 million, which was £26.2 million ahead of last year's restated results. The balance sheet remains healthy, with net assets growing by £8.1 million to £234.1 million.

High profitability and cash reserves have helped to finance: the early redemption of the 'A' shares, signalled in last year's annual report; investment in improving the facilities offered by our electronic order book; and the launch of techMARK and extraMARK.

Turnover

Turnover for continuing operations of £164.0 million was buoyed by very high trading volumes, particularly during the final quarter, leading to an increase of £13.6 million in Trading Services revenue to £54.1 million. The favourable market conditions also contributed to growth in Company Services revenue and, to a lesser extent, sales of Exchange data around the world.

Expenditure

Administrative expenses of £129.3 million were £8.0 million below last year's level, notwithstanding advisers' fees of £5.1 million incurred this year in respect of the demutualisation. Mainly as a result of securing higher rental income for some of our long-term leasehold properties, we have now been able to release £4.4 million of the provision in respect of these properties. There were 605 staff at the year-end, an increase of 8 per cent over last year. However, the passing of the Exchange's Listing Authority function to the FSA on 1 May 2000 resulted in the transfer of 11 per cent of staff numbers.

Final results

Profit on ordinary activities before taxation was £48.5 million, an increase of £26.2 million over last year's restated results, mainly because of increases in turnover. After tax of £14.6 million, we are transferring £33.9 million to reserves.

Balance sheet and cash flow

The net cash inflow for the year before financing was £25.7 million, £8.3 million above last year, with the inflow from operating activities exceeding the outflow for taxation and capital investment. During the year, £25.8 million was paid out in respect of the early redemption of the 'A' shares, leaving a balance of £8.8 million.

Notwithstanding the redemption of the 'A' shares, net assets have grown by £8.1 million to £234.1 million.

The Exchange's financial instruments comprise a £30 million debenture repayable in 2016 and surplus funds which are deposited at fixed rates over the short term.

Accounting developments

Under the new accounting standard on tangible fixed assets, FRS15, software development costs are now being capitalised and amortised over their useful lives. Last year's results have been restated accordingly, causing a reduction of £6.8 million in reported profit before tax. We have also opted to retain the current book amounts of our freehold properties at the valuations carried out in March 1997, less accumulated depreciation.

Under the terms of FRS3, the contribution of the Listing Authority, which transferred to the FSA on 1 May 2000, has been disclosed as a discontinued operation.

Going concern

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

Directors' report & accounts

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Corporate governance

The Exchange has made further enhancements to its corporate governance arrangements and has applied the principles of the Combined Code on Corporate Governance throughout the year.

The Exchange's Board has a majority of non-executive directors, each one selected for the contribution which he can bring to the Exchange's development. Of the nine non-executive directors, three are considered to be fully independent under the Combined Code. The remaining six non-executive directors are involved in the Exchange's wider business and market community, either within securities firms or as users of the Exchange; given this they are not fully independent under the Combined Code. The Exchange considers that the benefits of the insight which they bring because of their market involvement outweigh any disadvantages of not meeting the independence requirements.

Subject to the comments regarding non-executive directors above, the Exchange's Board is satisfied that it has complied with the provisions of the Combined Code on Corporate Governance during the year ended 31 March 2000.

Board of directors

The Board, at 31 March 2000, comprised the Chairman, Deputy Chairman (senior non-executive director), Chief Executive, two executive and eight non-executive directors. Reflecting the above comments on the Combined Code's independence requirements, Gary Allen, Graham Allen and Ian Plenderleith are considered to be fully independent.

Board committees

The committees of the Board which are concerned with the governance of the Exchange are detailed below and the directors who serve on them are indicated on pages 24-25.

The Senior Appointments and Remuneration Committee is chaired by Michael Marks and comprises two other non-executive directors. The remuneration report on page 30 outlines the responsibilities of this committee.

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

Management Committee

The Exchange's day to day management is conducted by the Management Committee which is chaired by the Chief Executive. This committee comprises Board members Gavin Casey, Jonathan Howell and Martin Wheatley, together with six other senior executives. The Management Committee reports regularly to the Board on the implementation of strategy and the management of the business.

Internal control

The Board confirms that, in respect of the financial year which commenced on 1 April 2000, the Exchange has established the procedures necessary to implement fully the guidance "Internal Control: Guidance for Directors on the Combined Code", published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales in September 1999. The system of internal control is designed to enable the Exchange to meet its business objectives and appropriately minimise risk. The Board is committed to the continual enhancement of internal controls, which ultimately can provide reasonable, but not absolute, assurance that the risks facing the business are effectively managed. For the year ended 31 March 2000, the Exchange has adopted the transitional approach with respect to internal control disclosures.

Although the Exchange has strong internal control procedures, a specific series of coincident events, including a system software fault, resulted in a significant delay in the market opening on 5 April 2000. An independent report to establish the detailed causes of this serious systems failure has been completed, the software fault has been addressed and a number of additional controls and rectification procedures have been implemented.

Internal financial control

The directors are responsible for the Company's system of internal financial control. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The directors, through the Audit Committee, have reviewed the effectiveness of the Company's system of internal financial control and are committed to its continual improvement. The framework is described under the following headings:

Delegation of authority – There are clearly defined matters which are reserved for Board approval only. The Board has delegated specific authorities to the Chief Executive and the Management Committee.

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

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

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

Risk management – The operation of effective risk management is the responsibility of all line managers. This is kept under review in conjunction with the Exchange's internal auditors.

Remuneration report

This report by the Exchange's Board has been prepared in accordance with the Listing Rules and Section 1 of the Combined Code on Corporate Governance.

Senior Appointments and Remuneration Committee

The Senior Appointments and Remuneration Committee comprises three non-executive directors who are appointed by the Board. The members at 31 March 2000 were:

Michael Marks (Chairman)
Peter Meinertzhagen
Ian Salter

The committee meets as required to:

- Review and present recommendations to the Board regarding the appointment, remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under any share scheme
- Perform the function of a Nomination Committee for the appointment of directors
- Review the remuneration of non-executive directors

(Recommendations are ratified by the Board.)

- Monitor the remuneration and conditions of service of members of the Management Committee who are not directors.

The members of this committee do not have any personal financial interests nor any potential conflicts arising from cross-directorships which relate to the business of this committee. The members do not have any day-to-day involvement in running the Company.

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

The committee's terms of reference are approved by the Board.

Remuneration policy

The Exchange's remuneration policy is designed to attract, retain and motivate senior executives of a high calibre through a remuneration package which is competitive and representative of best practice.

All executive directors have one year rolling service contracts with the Company.

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

Executive directors' rewards

The executive directors' remuneration package has five elements: base salary, benefits in kind, annual performance bonus, pension benefits and, in future, eligibility to participate in any share scheme.

Base salaries are reviewed annually taking into account market comparisons for similar roles, together with the performance of the individual.

Benefits in kind provided to executive directors are principally private health care and life insurance arrangements. Within the disclosures of individual director's remuneration, included in note 5 to the financial statements, benefits in kind represent the amounts assessable to income tax in respect of the benefits provided.

The annual performance bonus is a non-pensionable cash payment for achieving targets set each year. These targets are linked to the performance against objectives set for the director and the Company.

A share scheme was approved in March 2000, as part of the Company's reorganisation proposals. Shares and options may be awarded to executive directors under an Initial Plan and Annual Plan – no awards have been made in respect of the year to 31 March 2000.

Pension benefits are also part of the remuneration package. Executive directors may be members of the Company pension scheme which offers Inland Revenue approved retirement benefits on final salary. The core benefit, which is non-contributory, comprises a pension accrual rate of 1/60th of final pensionable salary for each year of service (up to a limit of 2/3rds of final pensionable salary). Alternatively, executive directors may elect to have a payment of 22½ per cent of their base salary paid into an appropriate vehicle for pension according to their individual circumstances.

The amounts paid for pension arrangements are shown for each director in note 5 to the financial statements. The note also includes details in respect of a director who is a member of the Company's defined benefit scheme.

Non-executive directors' fees

The standard fee for non-executive directors during the year was £15,000 per annum as approved by the Board. An additional amount is paid to the Deputy Chairman, as shown in the accounts, in relation to the further activities which he carries out for the Company in his non-executive role.

Directors' emoluments

Details of directors' remuneration and benefits are set out on pages 40-41, in note 5 to the financial statements.

Directors' report

The directors have pleasure in presenting their annual report to shareholders, together with the financial statements for the year ended 31 March 2000.

The Exchange was incorporated as a private limited company in 1986 under the name of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited and changed its name in 1995 to London Stock Exchange Limited ('the Exchange').

Directors

The directors of the Company at 31 March 2000 are shown on pages 24-25.

Sir John Bond retired from the Board on 31 December 1999.

Don Cruickshank was appointed to the Board on 20 April 2000.

Sir John Kemp-Welch will retire from the Board on 25 May 2000.

None of the directors had an interest in the shares or debentures of the Company as at 31 March 2000. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

The Exchange's corporate governance statement is set out on pages 28-29.

Interests in share capital

At 31 March 2000 14,102 (1999, 14,091) 'B' shares of 5p each were held by The Stock Exchange (Holdings) Limited as the share trustee in accordance with the Company's Articles of Association. As a result of the reorganisation proposals, which were approved at the Extraordinary General Meeting on 15 March 2000, the 'B' shares held by The Stock Exchange (Holdings) Limited were purchased by the Exchange for £1 and cancelled.

During the year 2,579 'A' shares of 5p each were redeemed for a total consideration of £25.8 million. Following approval of the reorganisation proposals, the remaining 880 'A' shares were redeemed on 12 April 2000.

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

Principal activities and results

The principal activities of the Exchange and its subsidiaries are the delivery of trading systems, the organisation and regulation of markets in securities, the provision of associated information services and the admission of securities to trading. After the end of the financial year, the role of the Listing Authority was transferred to the Financial Services Authority and, accordingly, has been treated as a discontinued operation in these accounts.

The profit of the Group on ordinary activities before taxation for the year ended 31 March 2000 was £48.5 million compared with a restated profit of £22.3 million for 1999 after reflecting the new accounting policy for the capitalisation of software developments.

The strategic developments and operations of the business are described more fully in the Chairman's statement and the Chief Executive's review on pages 4 to 9.

Post balance sheet event

On 3 May 2000 the Exchange announced plans to merge with the Deutsche Börse, subject to shareholders' approval. Information on the proposed merger will be provided to shareholders in due course.

Tangible assets

All freehold properties were revalued at 31 March 1997 and are included in the financial statements at the revalued amounts less depreciation. In the opinion of the directors, the market value of freehold properties at 31 March 2000 exceeded book value by approximately £42 million.

Employment

All new employees undergo an induction programme which includes training on health and safety. A range of training and development programmes is available for staff to develop their skills and knowledge. The Exchange 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 Exchange gave £108,000 (1999, £53,000) to charitable organisations. No donations were made to political organisations.

Supplier payment policy

The Exchange's policy with suppliers is to agree payment terms when business transactions are agreed and to make payments in accordance with those terms when goods have been satisfactorily supplied. At 31 March 2000 trade creditors represented 35 days of annual purchases to the Company.

Auditors

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

By Order of the Board

L M Condron

Secretary

25 May 2000

Directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 33, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

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.

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

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

Auditors' report

To the members of the London Stock Exchange Limited

We have audited the financial statements on pages 34 to 52.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 32 the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom primarily by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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.

We also, at the request of the directors (because the Company applies the Listing Rules of the Financial Services Authority as if its shares were listed), review whether the statement on pages 28-29 reflects the Company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2000 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers

Chartered Accountants and
Registered Auditors

London

25 May 2000

Consolidated profit and loss account

Year ended 31 March 2000

		2000	Restated 1999	1999
	Notes	£m	£m	£m
Turnover				
Group and share of joint venture – Continuing operations		164.0	144.0	144.0
– Discontinued operations		11.7	9.2	9.2
Gross turnover		175.7	153.2	153.2
Less: share of joint venture's turnover – Continuing operations		(4.5)	(3.4)	(3.4)
Net turnover	2	171.2	149.8	149.8
Administrative expenses	3	(129.3)	(137.3)	(130.5)
Operating profit – Continuing operations		36.7	8.6	14.7
– Discontinued operations		5.2	3.9	4.6
	4	41.9	12.5	19.3
Provisions for restructuring and SETS		–	1.8	1.8
Share of operating profit of joint venture and income from other fixed asset investments		0.3	0.4	0.4
Net interest receivable	7	6.3	7.6	7.6
Profit on ordinary activities before taxation		48.5	22.3	29.1
Taxation on profit on ordinary activities	8	(14.6)	(7.6)	(9.7)
Profit for the financial year		33.9	14.7	19.4
Earnings per equity share	9	114.1p	49.5p	65.3p

Statement of total recognised gains and losses

Profit for the financial year	33.9	14.7	19.4
Other recognised gains and losses for the year:			
Prior year adjustments (see note 26)	13.4	12.1	12.1
Total recognised gains and losses since last annual report	47.3	26.8	31.5

Note of historical cost profits and losses

Profit on ordinary activities before taxation	48.5	22.3	29.1
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	18	1.9	1.9
Revaluation reserve realised on property disposal	1.1	–	–
Historical cost profit on ordinary activities before taxation	51.5	24.2	31.0
Historical cost profit retained after taxation	36.9	16.6	21.3

Balance sheets

31 March 2000

	Notes	Group		Company	
		Restated		Restated	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Tangible assets	10	114.4	123.2	114.4	123.2
Investments in joint venture:					
Share of gross assets		5.8	2.2	-	-
Share of gross liabilities		(3.7)	(1.8)	-	-
	11	2.1	0.4	1.5	-
Other investments	11	0.4	0.4	0.4	0.4
		116.9	124.0	116.3	123.6
Current assets					
Debtors – amounts falling due within one year	12	35.7	27.7	35.7	27.7
Deferred tax – amounts falling due after more than one year	13	1.2	-	1.2	-
Investments – term deposits		196.0	194.0	196.0	194.0
Cash at bank		4.4	6.5	4.4	6.5
		237.3	228.2	237.3	228.2
Creditors: amounts falling due within one year	14	59.1	58.5	59.1	58.5
Net current assets		178.2	169.7	178.2	169.7
Total assets less current liabilities		295.1	293.7	294.5	293.3
Creditors: amounts falling due after more than one year	15	30.0	30.0	30.0	30.0
Provisions for liabilities and charges	16	31.0	37.7	31.0	37.7
Net assets		234.1	226.0	233.5	225.6
Capital and reserves					
Called up share capital	17	-	-	-	-
Reserves					
Revaluation reserve	18	49.6	52.6	49.6	52.6
Capital redemption reserve	18	8.8	34.6	8.8	34.6
Trade compensation reserve	18	15.0	15.0	15.0	15.0
Profit and loss account	18	160.7	123.8	160.1	123.4
Total shareholders' funds		234.1	226.0	233.5	225.6
Analysed between:					
Equity shareholders' funds	18	225.3	191.4	224.7	191.0
Non-equity shareholders' funds	18	8.8	34.6	8.8	34.6
		234.1	226.0	233.5	225.6

The financial statements on pages 34 to 52 were approved by the Board on 25 May 2000 and signed on its behalf by:

Gavin Casey, Chief Executive

Jonathan Howell, Director of Finance and Operations

Gavin Casey
Jonathan Howell

Consolidated cash flow statement

Year ended 31 March 2000

		2000	Restated 1999
	Notes	£m	£m
Net cash inflow from operating activities	20(i)	45.0	36.0
Returns on investments and servicing of finance			
Interest received		10.6	13.0
Interest paid		(3.0)	(3.1)
Dividends received		0.1	0.1
Net cash inflow from returns on investments and servicing of finance		7.7	10.0
Taxation			
Corporation tax paid		(12.1)	(3.1)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(14.7)	(25.6)
Receipts from sale of tangible fixed assets		1.2	0.1
Receipts from sale of fixed asset investments		0.1	—
Net cash outflow from capital expenditure and financial investments		(13.4)	(25.5)
Acquisitions and disposals			
Payments to acquire shares in joint venture		(1.5)	—
Net cash inflow before use of liquid resources and financing		25.7	17.4
Management of liquid resources			
Increase in term deposits	20(ii)	(2.0)	(16.6)
Financing			
Redemption of 'A' shares		(25.8)	(1.7)
Decrease in cash in the year	20(ii)	(2.1)	(0.9)

Notes to the financial statements

1. Accounting policies

Change in accounting policy

Following the introduction of the new financial reporting standard on tangible fixed assets, FRS15, the Company changed its accounting policy in respect of software development costs during the year. Previously the Company charged all software development costs to the profit and loss account as incurred. The Company now capitalises software development costs within tangible fixed assets. The effect of this change in accounting policy is set out in note 26 to the financial statements.

Basis of preparation

The competent authority activity was transferred to the Financial Services Authority on 1 May 2000 and has been treated as a discontinued operation. The expenses charged to the competent authority are the direct expenses of the activity and do not include any applicable overheads, which are included within the expenses charged to the continuing operations. This reflects the directors' expectation that no significant change in overhead expenses will arise from the transfer of the competent authority to the Financial Services Authority.

Basis of accounting and consolidation

The financial statements are prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets. The consolidated financial statements include the accounts of all subsidiaries, although none was actively trading during the year. As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements.

Turnover

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

Joint ventures

The Group's share of profits, less losses, of joint ventures is included in the consolidated profit and loss account and the Group's share of their net assets is included in the consolidated balance sheet.

Tangible assets and depreciation

a) Freehold properties

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 FRS15 no further revaluations of freehold properties will be made.

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

b) Leasehold properties

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

c) Plant and equipment

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

Provisions

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

Operating leases

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

Pension costs

The pension costs are assessed in accordance with the advice of an independent actuary. The accounting cost for providing pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Further details of the Company's pension scheme and the basis upon which the charge to the profit and loss account is determined are set out in note 22 to the financial statements.

Deferred taxation

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

Notes to the financial statements

2. Turnover

	2000	1999
	£m	£m
Analysis of turnover:		
Continuing operations		
Company services	25.7	20.4
Trading services	54.1	40.5
Information services	72.9	71.8
Other income	11.3	11.3
Discontinued operations	164.0	144.0
Competent authority	11.7	9.2
Gross turnover	175.7	153.2
Less: share of joint venture's turnover		
Information services	(4.5)	(3.4)
Net turnover	171.2	149.8

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

3. Administrative expenses

	2000	Restated 1999	1999
	£m	£m	£m
Continuing operations	122.8	132.0	125.9
Discontinued operations	6.5	5.3	4.6
	129.3	137.3	130.5

4. Operating profit

	2000	Restated 1999	1999
Operating profit is stated after charging the following amounts:	£m	£m	£m
Depreciation of tangible assets	22.2	33.1	18.2
Operating lease rentals – properties	5.2	5.2	5.2
Auditors' remuneration for:			
Audit	0.1	0.1	0.1
Non-audit fees for other services (see note i)	1.1	0.4	0.4
Fees in respect of Company reorganisation – demutualisation (see note ii)	5.1	–	–
Fees payable to The Financial Services Authority	1.0	0.8	0.8
Expenditure on Year 2000 and EMU requirements (see note iii)	2.2	17.6	17.6
Release of property provision (see note 16)	(4.4)	–	–

Notes

- i) Non-audit fees paid to PricewaterhouseCoopers during the year were £1.1m. These fees are primarily in respect of work on the Company reorganisation proposals, taxation, pensions, actuarial and consulting services.
- ii) These fees include non-audit fees payable to PricewaterhouseCoopers in respect of the Company reorganisation proposals referred to in (i) above.
- iii) The expenditure on Year 2000 and EMU requirements is primarily in respect of providing customer testing services and preparing the Exchange's own systems for the millennium and system changes required for trading in the euro.

Notes to the financial statements

5. Directors' emoluments

The report of the Board on directors' remuneration is on page 30.

	2000				1999				2000	1999
	Performance				Performance				Pensions	Pensions
	Salary	Bonus	Benefits	Total	Salary	Bonus	Benefits	Total	(Note i)	(Note i)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman										
Sir John Kemp-Welch	250	—	4	254	250	—	3	253	—	—
Chief executive										
G F Casey	340	275	9	624	322	250	8	580	73	69
Executive directors										
J A G Howell from 25 March 1999	175	160	2	337	3	2	—	5	23	—
M Wheatley (note i) from 9 July 1998	190	185	10	385	120	109	2	231	—	—
Directors serving in the previous year – see below.*	—	—	—	—	260	—	12	272	—	—
	955	620	25	1,600	955	361	25	1,341	96	69

*During the year ended 31 March 1999, Mrs C L Dann's salary was £201,000 and her benefits were £12,000; Mr R P Kilsby's salary was £59,000 with no other benefits.

Non-executive directors' fees

Directors in office throughout both years

I G Salter – deputy chairman	25	23	—	—
G J Allen	15	13	—	—
G K Allen	15	13	—	—
M J P Marks	15	13	—	—
P R Meinertzhagen	15	13	—	—
I Plenderleith	15	13	—	—
H W H Sants	15	13	—	—
N Sherlock	15	13	—	—

Directors who did not hold office for the whole of the two financial years

Sir John Bond until 31 December 1999	11	13	—	—
D H Brydon until 9 July 1998	—	3	—	—
R A Metzler until 9 July 1998	—	3	—	—
M H J Radcliffe until 9 July 1998	—	3	—	—
S M Robertson from 9 July 1998	15	9	—	—
B Solomons until 9 July 1998	—	3	—	—

Total non-executive directors' fees (note ii)	156	148	—	—
Total directors' emoluments	1,756	1,489	96	69

5. Directors' emoluments (continued)

Notes

i) Pensions

Mr M Wheatley is a member of the Company's defined benefit scheme. The increase in his accrued pension during the year was £8,000 (1999, £9,000) and the accumulated accrued pension at the end of the year was £42,000 (1999, £35,000). Mr Wheatley is 41 years old and the scheme's normal retirement age is 60 years. His pension increases in payment each year in line with inflation subject to a maximum of five per cent and a minimum of three per cent a year and has an attaching 50 per cent spouse's pension.

The Company made payments into a senior executive defined contribution pension scheme for G F Casey of £73,000 (1999, £69,000) and for J A G Howell of £23,000 (1999, £nil).

ii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £111,000 representing seven directors (1999, £94,000 representing seven directors).

iii) Waiver of emoluments

None of the directors waived emoluments during 1999 and 2000.

6. Employees

Employees of the Group and their employment costs are summarised below:

	2000	1999
The number of employees was:		
At the year end	605	559
Average for the year	588	536

	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	26.4	22.5
Social security costs	2.9	2.3
Other pension costs	0.8	0.6
Total	30.1	25.4

Notes to the financial statements

7. Interest

	2000 £m	1999 £m
Interest receivable		
Bank deposits (see note i)	11.1	12.6
Other	–	0.2
Total	11.1	12.8
Interest payable		
On bank and other loans repayable after five years (see note ii)	(3.0)	(3.0)
Interest on discounted provision for leasehold properties (see note 16)	(1.8)	(2.2)
Total	(4.8)	(5.2)
Net interest receivable	6.3	7.6

Notes

- i) Surplus funds are deposited for periods of less than one year. No trading of financial instruments takes place.
 ii) The interest payable on loans repayable after five years is in respect of the £30m debenture repayable in 2016 (see note 15).

8. Taxation

	2000 £m	Restated 1999 £m	1999 £m
Corporation tax for the year at 30% (1999, 31%)	17.8	8.6	8.6
Deferred taxation (see note 13)	(3.1)	(0.9)	1.2
Adjustment for previous years:			
Corporation tax	(1.0)	(0.6)	(0.6)
Deferred taxation	0.8	0.4	0.4
Joint venture	0.1	0.1	0.1
Taxation charge	14.6	7.6	9.7

The adjustments for previous years for corporation tax are in respect of assessments now agreed with the Inland Revenue.

9. Earnings per equity share

Earnings per equity share of 114.1p (1999, restated 49.5p and prior to restatement 65.3p) are based on profit for the financial year of £33.9m (1999, restated £14.7m and prior to restatement £19.4m) and a weighted average number of Ordinary shares in issue of 29.7m (1999, 29.7m). The weighted average number of Ordinary shares in issue is the actual number of Ordinary shares in issue at the date of these financial statements and reflects the number of 'B' shares in issue on the reorganisation of the Company as adjusted for the bonus issue on 12 April 2000 of 99,999 Ordinary shares for each Ordinary share (previously 'B' share) held.

10. Tangible assets

	Land and buildings		Plant and equipment	Total
	Freehold	Leasehold		
	£m	£m	£m	£m
GROUP AND COMPANY				
Cost or valuation:				
31 March 1999 as previously stated	156.0	4.7	62.9	223.6
Prior year adjustment (see note 26)	—	—	45.4	45.4
1 April 1999 restated	156.0	4.7	108.3	269.0
Additions	0.4	—	14.3	14.7
Disposals	(1.2)	(0.3)	(34.7)	(36.2)
31 March 2000	155.2	4.4	87.9	247.5
Depreciation:				
31 March 1999 as previously stated	67.0	4.7	47.8	119.5
Prior year adjustment (see note 26)	—	—	26.3	26.3
1 April 1999 restated	67.0	4.7	74.1	145.8
Provision for the year	3.8	—	18.4	22.2
Disposals	(0.1)	(0.3)	(34.5)	(34.9)
31 March 2000	70.7	4.4	58.0	133.1
Net book values:				
31 March 2000	84.5	—	29.9	114.4
1 April 1999 restated	89.0	—	34.2	123.2
Net book values at 31 March 2000 are analysed as follows:				
Valuations	76.9	—	—	76.9
Cost less depreciation	7.6	—	29.9	37.5
	84.5	—	29.9	114.4

Notes

- i) Freehold land and buildings includes freehold properties and the associated fixed plant. All freehold properties were revalued as at 31 March 1997 by DTZ Debenham Thorpe, International Property Advisors, in accordance with the RICS Appraisal and Valuation Manual. The Directors reviewed the valuations at 31 March 1997 and were of the opinion that the total value of freehold properties amounted to £92.0m based on the Existing Use Value or Open Market Value as appropriate.
- ii) Based on historical cost at 31 March 2000, the aggregate cost of tangible assets was £209.0m (1999, restated £229.5m) and the aggregate depreciation was £144.2m (1999, restated £158.8m).
- iii) Plant and equipment includes capitalised software with a net book value at 31 March 2000 of £18.3m (1999, £19.1m).

Notes to the financial statements

11. Fixed asset investments

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

	Joint venture note (i) £m	Other note (ii) £m	Total £m
GROUP			
Cost:			
1 April 1999	0.4	0.4	0.8
Additions – subscription for new shares	1.5	–	1.5
Share of retained profit	0.2	–	0.2
31 March 2000	2.1	0.4	2.5
COMPANY			
Cost:			
1 April 1999	–	0.4	0.4
Additions – subscription for new shares	1.5	–	1.5
31 March 2000	1.5	0.4	1.9

Notes

i) Joint venture

The Company owns 50 per cent of the 1000 £1 issued equity shares in FTSE International Limited, a company which distributes financial information. FTSE International Limited is a joint venture owned together with The Financial Times Limited, a subsidiary of Pearson plc, and is incorporated in Great Britain. The Exchange is entitled, under a shareholders' agreement, to receive royalties from FTSE International Limited. At 31 March 2000, the Company was owed £nil by FTSE International Limited (1999, £0.1m). The Group investment of £2.1m shown above represents the Exchange's share of the joint venture's net assets as at 31 December 1999, their accounting reference date.

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

	2000 £m	1999 £m
Royalties	1.9	1.8
Facilities management and other data services	0.2	0.2
Rent and service charges	0.1	0.1
	2.2	2.1

ii) Other investment

The other investment of £0.4m represents the cost of the Company's 3.0 per cent interest in unlisted redeemable fixed interest shares in CRESTCo Limited.

iii) Subsidiary undertakings

The Company holds directly or indirectly 100 per cent of the Ordinary shares, being the only class of shares on issue, of all its 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.

12. Debtors: amounts falling due within one year

	2000	1999
	£m	£m
Trade debtors	16.4	13.9
Amounts owed by joint venture	—	0.1
Other debtors	0.5	0.5
Prepayments and accrued income	18.8	13.2
	35.7	27.7

13. Deferred taxation: amounts falling due after more than one year

	£m
31 March 1999 as previously stated	4.6
Prior year adjustment (see note 26)	(5.7)
1 April 1999 restated (see note 16)	(1.1)
Credit to profit and loss account during the year	2.3
31 March 2000	1.2

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

	2000	1999
	£m	£m
Tax allowances available in excess of related depreciation	0.8	(1.8)
Other timing differences	0.4	0.7
	1.2	(1.1)

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

	2000	1999
	£m	£m
Tax allowances in excess of related depreciation	5.1	5.7
Other timing differences	5.9	7.1
	11.0	12.8

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

14. Creditors: amounts falling due within one year

	2000	1999
	£m	£m
Trade creditors	10.8	7.8
Corporation tax	14.3	9.5
Other taxation and social security	1.8	2.9
Other creditors	4.2	3.4
Accruals and deferred income	28.0	34.9
	59.1	58.5

Notes to the financial statements

15. Creditors: amounts falling due after more than one year

	2000	1999
	£m	£m
Repayable in five years or more – otherwise than by instalments:		
10% Mortgage Debenture Stock 2016	30.0	30.0

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

16. Provisions for liabilities and charges

	Deferred tax £m	Pensions £m	Property £m	Total £m
31 March 1999 as previously stated	–	1.5	35.1	36.6
Prior year adjustment (see note 26) – changing of debtor balance to net provision	1.1	–	–	1.1
1 April 1999 restated	1.1	1.5	35.1	37.7
Utilised during the year	–	(0.2)	(2.8)	(3.0)
Interest on discounted provision	–	–	1.8	1.8
Surplus provision released	–	–	(4.4)	(4.4)
Transfer to current taxation	(1.1)	–	–	(1.1)
31 March 2000	–	1.3	29.7	31.0

Pensions

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

Property

The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting for those properties which are surplus to business requirements. The leases have a maximum term of 14 years to expiry. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting agreed during the year. The changes in other assumptions include the effect of applying a higher discount rate, following interest rate increases over the past year, which reduced the provision by £3m.

Deferred tax

The deferred tax provision at 1 April 1999 was credited to the profit and loss account during the year. At 31 March 2000 there is a deferred tax asset (see note 13).

17. Share capital

	2000	1999
Authorised		
'A' shares of 5p each – number	5,601	5,601
– £	280	280
'B' shares of 5p each – number	14,399	14,399
– £	720	720
Issued, called up and fully paid		
'A' shares of 5p each – number	880	3,459
– £	44	173
'B' shares of 5p each – number	14,399	14,399
– £	720	720

Each 'A' share of 5p could have been redeemed at a price of £10,000 in the case of a shareholder being a natural person by no later than 31 December 2002. 'A' shares held by a shareholder who was not a natural person were redeemed prior to or on 30 September 1999. The 'A' shares were non-voting and had a preferential right to be redeemed on a winding up. The premium on these redemptions was charged to the capital redemption reserve. The 'A' shares did not confer upon the holders thereof any right to attend and vote at any general meeting. The holders were not entitled to dividends or distributions, save for the redemption amount. At an Extraordinary General Meeting on 15 March 2000, which approved the restructuring of the Company's constitution, it was resolved that all outstanding 'A' shares should be redeemed. Following the approval by the Court on 12 April 2000, all outstanding 'A' shares as at 31 March 2000 were redeemed with effect from 12 April 2000.

On 12 April 2000, each 'B' share was reclassified as an Ordinary share and there was a bonus issue of 99,999 Ordinary shares for every Ordinary share held. This increased the number of shares in issue to 29.7m.

Notes to the financial statements

18. Reserves

	Group				Company			
	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m	Revaluation £m	Capital redemption £m	Trade compensation £m	Profit and loss account £m
31 March 1999 as previously stated	52.6	34.6	15.0	110.4	52.6	34.6	15.0	110.0
Prior year adjustment (see note 26)	—	—	—	13.4	—	—	—	13.4
1 April 1999 restated	52.6	34.6	15.0	123.8	52.6	34.6	15.0	123.4
Profit for the financial year	—	—	—	33.9	—	—	—	33.7
Premium paid to 'A' shareholders (see note 17)	—	(25.8)	—	—	—	(25.8)	—	—
Transfer, representing the amount in the current year by which the depreciation charge for revalued assets exceeds the historic cost depreciation	(1.9)	—	—	1.9	(1.9)	—	—	1.9
Revaluation reserve realised on property disposal	(1.1)	—	—	1.1	(1.1)	—	—	1.1
31 March 2000	49.6	8.8	15.0	160.7	49.6	8.8	15.0	160.1

Equity shareholders' funds on the balance sheet comprise the issued share capital of 'B' shares together with the revaluation and trade compensation reserves and the profit and loss account. Non-equity shareholders' funds comprise the issued share capital of 'A' shares and the capital redemption reserve. As explained in note 17, following the approval by the Court on 12 April 2000, all outstanding 'A' shares as at 31 March 2000 were redeemed with effect from 12 April 2000.

19. Reconciliation of movements in shareholders' funds

	2000 £m	Restated 1999 £m
Profit for the financial year – (1999 restated, see note 26)	33.9	14.7
Redemption of 'A' shares during the year	(25.8)	(1.7)
Net addition to shareholders' funds	8.1	13.0
Opening shareholders' funds – (1999 restated, see note 26)	226.0	213.0
Closing shareholders' funds	234.1	226.0

20. Notes to the consolidated cash flow statement

	2000	Restated 1999
	£m	£m
i) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	41.9	12.5
Depreciation of tangible assets	22.2	33.1
Increase in debtors	(7.6)	(2.2)
(Decrease)/increase in creditors	(8.5)	4.6
Provisions utilised during the year	(3.0)	(12.0)
Net cash inflow from operating activities	45.0	36.0
ii) Reconciliation of net cash flow to movement in net funds		
Decrease in cash in the year	(2.1)	(0.9)
Increase in liquid resources	2.0	16.6
Change in net funds	(0.1)	15.7
Net funds at 1 April 1999	170.5	154.8
Net funds at 31 March 2000	170.4	170.5

	At 1 April 1999	Cash flows	At 31 March 2000
	£m	£m	£m
iii) Analysis of changes in net funds			
Cash in hand and at bank	6.5	(2.1)	4.4
Debt due after more than one year	(30.0)	—	(30.0)
Current asset investments	194.0	2.0	196.0
Total net funds	170.5	(0.1)	170.4

21. Commitments

	2000	1999
	£m	£m
Contracted capital commitments not provided for in the accounts	0.1	0.3
The contracted commitments were mainly in respect of computing equipment.		
Financial commitments under property operating leases at 31 March 2000 for payments in the year to 31 March 2001 are as follows:		
Leases expiring – in one year	0.2	—
– between two and five years	—	0.2
– in five years or more	4.7	4.8
	4.9	5.0

Notes to the financial statements

22. Pension costs

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

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

In addition to the Company's contributions to the pension plan, the Company matches certain additional voluntary contributions by employees; in the year to 31 March 2000 the cost of this match amounted to £0.2m (1999, £0.2m). As an alternative to being members of the pension plan, employees could opt for a personal pension. The Company will make contributions to these personal pensions instead of its contribution to the main plan. In the year to 31 March 2000 the cost of these contributions amounted to £0.8m (1999, £0.6m).

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

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

The total pension charge for the year was £0.8m (1999, £0.6m).

23. 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. All of the Company's financial assets and liabilities are sterling based and no derivative contracts have been entered into during the period. The main risks arising from the Exchange's financial instruments are in respect of interest rate, credit and liquidity.

Interest rate management

The Exchange finances its operations through retained earnings and a £30m debenture. Details of the debenture are set out in note 15. There are no floating rate financial assets or liabilities. Term deposits with banks are for fixed rates for the period of the deposit.

Liquidity and credit management

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

	2000 £m	1999 £m
Financial assets		
Other fixed asset investments	0.4	0.4
Investments – term deposits	196.0	194.0
Cash at bank	4.4	6.5
	200.8	200.9

Maturing in:

One year or less, or on demand	200.4	200.5
Weighted average period of fixed interest rates	84 days	106 days
Weighted average interest rate	6.0%	5.3%

Financial liabilities

The Company's financial liabilities and their maturity profile are:

10½% Mortgage Debenture Stock 2016, repayable in more than 5 years	30.0	30.0		
	Book value	Fair value	Book value	Fair value
	31 March	31 March	31 March	31 March
	2000	2000	1999	1999
	£m	£m	£m	£m

Fair values of financial assets and liabilities

Other fixed asset investments	0.4	0.4	0.4	0.4
Investments – term deposits and cash	200.4	200.4	200.5	200.5
10½% Mortgage Debenture Stock 2016	(30.0)	(49.5)	(30.0)	(53.4)
	170.8	151.3	170.9	147.5

24. 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 Limited

Details of transactions with FTSE International are included in note 11.

Notes to the financial statements

25. Share interests of directors

During the year, no director or member of a director's immediate family was granted or exercised any right to subscribe for shares in or debentures of the Company or any other body corporate in the Group. During the year, G F Casey, Sir John Kemp-Welch, M J P Marks, P R Meinertzhagen, I G Salter, H W H Sants and N Sherlock each redeemed their single 'A' share of the Company for £10,000 in accordance with the Articles of Association.

26. Prior year adjustment

During the year the Company changed its accounting policy in respect of software development costs. Previously the Company charged all software development costs to the profit and loss account as incurred. The Company now capitalises software development costs within tangible fixed assets. The cost capitalised is amortised over the asset's estimated useful life, which is on average three years. The comparative figures have been restated to reflect this change in accounting policy.

	Year ended 31 March 1999 £m
Profit for the financial year as previously reported	19.4
Effect of change in accounting policy:	
Software development costs previously charged as administrative expenses	8.1
Amortisation of capitalised software development costs	(14.9)
Change in taxation charge	2.1
Profit for the financial year as restated	14.7
Net assets as previously reported at 31 March 1999	212.6
Effect of change in accounting policy:	
Net book amount of software development costs capitalised	19.1
Change in deferred tax balance in respect of software development costs capitalised	(5.7)
Net assets as restated at 31 March 1999	226.0

The effect of this change in accounting policy is to reduce profit after tax for the current year by £0.6m as follows:

	Year ended 31 March 2000 £m
Software development costs now capitalised	9.6
Amortisation of capitalised software development costs	(10.4)
Change in taxation charge in respect of software development costs capitalised	0.2
	(0.6)

27. Post balance sheet event

On 3 May 2000 the Company announced plans to merge with Deutsche Börse, subject to shareholders' approval. It is proposed that the merged company will consist of all of the Exchange's and Deutsche Börse's businesses, except for Deutsche Börse's 50 per cent stake in Clearstream. Information on the proposed merger, including financial information on the Exchange and Deutsche Börse, will be provided to shareholders for approval in due course.

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