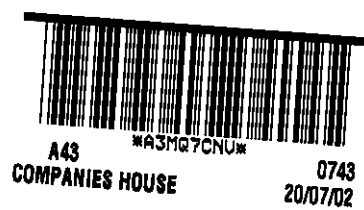


Company Registration No. 2075721

London Stock Exchange plc

**Annual Report and Financial Statements
for the year ended 31 March 2002**



Directors' report
and accounts

Contents

32	Corporate governance
34	Remuneration report
36	Directors' report
38	Directors' responsibility for the financial statements
39	Auditors' report
40	Consolidated profit and loss account
40	Statement of total recognised gains and losses
40	Note of historical cost profits and losses
41	Balance sheet
42	Consolidated cash flow statement
43	Notes to the financial statements

Corporate governance

Subject to the comments below regarding the independence of non-executive directors and the composition of Board committees, the Company's Board is satisfied that it has complied with the provisions of the Combined Code – Principles of Good Governance and Code of Best Practice ('the Combined Code') during the year ended 31 March 2002.

Board of directors

The Board has six scheduled meetings a year and meets more frequently as required. At 31 March 2002, the Board comprised nine non-executive directors, including the Chairman and Deputy Chairman and three executive directors. Of the non-executive directors, Gary Allen, Janet Cohen, Oscar Fanjul, Nigel Stapleton and Robert Webb are considered to be fully independent within the meaning of the Combined Code. The senior non-executive director, who is not regarded as being independent, is Ian Salter.

Board committees

Until 23 May 2001, the Board committees concerned with the governance of the Company comprised a majority of directors who were involved in the Company's wider business and market community. On 23 May 2001, the composition of these committees was reviewed in order to increase the representation of independent non-executive directors, while ensuring a necessary degree of continuity, and these changes brought the Company closer to the requirements of the Combined Code. At the same time, the Company's Senior Appointments and Remuneration Committee was replaced by separate Remuneration and Nomination Committees.

Directors serving on the Board's committees are identified on pages 30 to 31.

The Remuneration Committee is chaired by Nigel Stapleton and comprises three other non-executive directors. One member of the Committee is not regarded as being independent and, in this respect, the Company does not comply fully with the Combined Code. The Committee has written terms of reference and meets at least twice a year to review and present recommendations to the Board regarding remuneration and conditions of service of the Chairman, Chief Executive and executive directors, including the grant of entitlements under the Company's share schemes. A separate Remuneration Report is set out at pages 34 to 35. The Audit Committee is chaired by Gary Allen and comprises four other non-executive directors. It has written terms of reference and meets at

least twice a year, normally with the external auditors present, to consider the audit plan and the interim and annual results, as well as any matters raised by the auditors. It also reviews the adequacy and effectiveness of the key systems of internal control and monitors the efficiency and independence of the internal audit function. The Committee reviews the Company's financial statements and makes recommendations regarding their approval by the Board as a whole.

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

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

Internal control

The Board confirms that procedures have been in place throughout the year and up to the date of this report which comply fully with the guidance *Internal Control: Guidance for Directors on the Combined Code*, published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales in September 1999. The systems of internal control are designed to enable the Company 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.

The Board has ultimate responsibility for the Company's systems of internal control over business, operational, financial and compliance risks. The directors, through the Audit Committee, have reviewed the effectiveness of these systems, which can provide only reasonable and not absolute assurance against material misstatement or loss.

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

Delegation of authority – There are clearly defined matters which are reserved for Board approval only. The executive directors have general responsibility for making and implementing operational decisions and overseeing the Company's business.

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 – Reports from the Company's internal audit department on the effectiveness of key risk management and internal control procedures are reviewed by the Audit Committee and appropriate action 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 continuously updates and evaluates its documented key risks and controls. 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 also 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.

Health, safety and the environment

The Company's report on 'Working with the community' (pages 26 and 27) summarises our corporate responsibilities towards our people, the environment and the community. It is the Company's policy to maintain healthy and safe working conditions and to operate in an environmentally responsible manner, and significant health, safety and environmental issues are escalated to senior management in accordance with the risk management process described above.

An Environmental Policy Statement is set out on our website (www.londonstockexchange.com) and includes a framework for developing and reviewing environmental objectives and targets.

Our Health and Safety policy has recently been reviewed in detail and includes procedures for the safe handling of toxic and environmentally damaging materials. Compliance with the policy is overseen by an internal Health and Safety group. This group, with representation from each business area, meets on a regular basis and considers changes in legislation and related matters. There were no reportable fatalities, injuries, illnesses or dangerous occurrences during the year, nor were any Health and Safety enforcement notices or convictions received.

Following the recent publication of guidelines by the Association of British Insurers, the Department of Environmental, Food and Rural Affairs and other interested parties, the Company intends to further develop its corporate responsibility statement in subsequent Annual Reports.

Remuneration report

Scope of report

The Remuneration report sets out the Company's remuneration policy and, particularly, its approach for directors. It also explains how the Company applies the principles of good corporate governance in relation to directors' remuneration as defined in the Combined Code, and explains any areas of non-compliance.

Details of directors' remuneration and benefits are set out in note 7 (pages 46 to 49) to the financial statements.

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

Remuneration Committee

The Remuneration Committee comprises four non-executive directors who are appointed by the Board. The Committee meets as required and at least twice a year to determine on behalf of the Board the framework of executive remuneration, and the specific remuneration of the executive directors including the award of entitlements under the performance related incentive schemes. The members of the Committee are:

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

Prior to the Company's listing in July 2001 the composition of the Remuneration Committee was reviewed to increase the number of independent non-executive directors, while at the same time providing the necessary degree of continuity. For the purposes of the Combined Code, Peter Meinertzhagen, a member of the former Senior Appointments and Remuneration Committee, is the sole member not regarded as being independent.

The members of this Committee do not have any personal financial interests nor 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.

The Committee obtains advice from the remuneration consultants, Mercer Human Resource Consulting Ltd. The results of market surveys and other analysis from external sources are also made available to the Committee. When appropriate, the Committee also invites the views of the Chief Executive, Chairman and Director of Finance.

The Committee's terms of reference are reviewed regularly and approved by the Board.

Remuneration policy

Since last year's listing, the Remuneration Committee has embarked upon a full review of remuneration for senior executives. The objective has been to establish a transparent framework covering all elements of remuneration that retains, motivates and incentivises senior executives.

In a competitive and consolidating marketplace the Company must attract and retain a talented 'top team' to ensure it is positioned to deliver its business plans and maximise returns for shareholders.

The Company is committed to paying for performance. A significant proportion of executive remuneration is variable and dependent on the achievement of challenging performance targets which align with shareholders' interests. In 2001/02 over two-thirds of executives' pay was performance related.

The Remuneration Committee continually reviews executive remuneration practices and levels in relation to market practice as defined by a group of peer companies. This peer group is comprised of specialist financial services and information technology companies, and is kept under review to reflect corporate events and ongoing suitability. Specifically, total remuneration is benchmarked at market median or slightly above this peer group.

The principle components of executive directors' remuneration are as follows:

Fixed components

- base salary and benefits, set by reference to the peer group.

Performance related components

- annual bonus, through a cash and in certain circumstances deferred award of shares for the achievement of corporate and individual objectives
- share option grants to reward the creation of long-term shareholder value.

These components of executive directors' remuneration are set out in more detail below.

Base salary

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

Annual Bonus Plan

Executive directors are eligible to participate in the Annual Bonus Plan. Under this plan bonuses are determined by two factors:

- the performance of the Company against annual financial targets which include operating profit, earnings per share and cashflows
- individual performance against personal objectives.

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. Similarly, executive directors will not be eligible for a bonus if the Company fails to meet its annual financial targets.

Awards over 100 per cent of salary are in part deferred as share awards, which are delivered in two tranches after 12 and 24 months of award date, subject to continued service.

Long-term incentive schemes

In March 2000, shareholders approved the Initial and Annual Plans under which all previous share scheme awards have been made. These Plans were introduced to develop quickly a stronger commercial culture following the Company's demutualisation and to align senior management's interests and actions with the interests of shareholders.

Following listing in July 2001, the Board considered it appropriate to replace the Annual and Initial Plans with a new equity based incentive plan that is tied to corporate financial performance and incorporates best practice and guidance published by institutional investor associations. These new incentive arrangements, under which future awards will be made, will be presented to shareholders for approval at the 2002 AGM and will take the form of a share option scheme. No further awards will be made under the previously approved Initial and Annual Plans.

Share options

Future long-term incentives will be made up entirely of share options. Executive directors will be considered for awards of options over ordinary shares on an annual basis. Subject to approval of the proposed option scheme by shareholders at the forthcoming AGM, the maximum value of shares placed under option to an individual in the financial year ending 31 March 2003 will be 100 per cent of annual salary.

Awards will only become exercisable, providing the Company achieves the performance criteria set by the Board during the initial three-year period. If the criteria have not been met when the options are due to vest then the options will lapse and there will be no opportunity for re-testing. In addition, all options will expire after 10 years.

Options granted in the financial year 2002/03 under the proposed new share option scheme 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.

Earnings per share growth has been chosen as a good measure of value creation; it is aligned with the Company's corporate strategy and business goals and with the interests of shareholders. The Remuneration Committee will review performance measures and targets on an annual basis to ensure that they remain suitably challenging and aligned with shareholder value creation.

Share ownership guidelines

To qualify for future awards under long-term incentive schemes, executive directors and other senior executives are required to build up and then hold shares with a value at least equal to their base salary.

All employee SAYE Share Option Scheme

All UK permanent employees, including executive directors, are eligible to participate in the Inland Revenue approved SAYE Share Option Scheme. Under the scheme rules, participants can save up to £250 each month for a period of five years and 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.

Pensions

Martin Wheatley, who was appointed prior to 1989, participates in the Company's final salary pension arrangements. This provides a core benefit, which is non-contributory, of a pension accrual rate of 1/60th of final pensionable salary for each year of service (up to a limit of 2/3rds of final pensionable salary).

All other executive directors have a proportion of their base salary paid into an appropriate defined contribution pension scheme.

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

Executive directors

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

The executive directors receive a range of benefits in kind, which include private medical insurance, and life insurance on a similar basis to other senior executives.

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. The fees for these appointments will normally be paid to the Company.

Non-executive directors' remuneration

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

Don Cruickshank was appointed on 25 May 2000, initially until the 2003 AGM, as an Executive Chairman. In this capacity he received shares and options under the Initial Plan in November 2000. On becoming non-executive Chairman he has foregone his entitlement to be considered for further awards under the Exchange's incentive schemes. He retains an entitlement to medical insurance which was part of his original terms and conditions.

Directors' report

The directors of 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 2002.

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 2002 was £75.2 million (2001: £30.4 million), after charging exceptional items of £3.6 million (2001: £36.5 million).

The strategic developments and operations of the business are described in the Chairman's statement, the Chief Executive's review and the operating and financial reviews on pages 4 to 25.

Dividend

The directors are recommending a final dividend of 2.5p (2001: 2.2p) per share for the year which, together with the interim dividend of 1.1p (2001: 1.0p) per share paid in January 2002, produces a total dividend of 3.6p (2001: 3.2p) per share amounting to £10.6 million (2001: £9.5million). The profit retained of £39.3 million (2001: £5.7 million) has been transferred to reserves.

Share capital

Details of the Company's share capital and the bonus issue made during the year are set out in note 18 to the accounts on page 54.

Substantial shareholding

As at 23 May 2002 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Fidelity International Limited	9.17%
UBS AG	4.07%

Directors

The directors of the Company at 31 March 2002 are set out on pages 30 and 31.

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 Gary Allen, Jonathan Howell, Michael Marks and Peter Meinertzhagen. The unexpired term of the service contract for Jonathan Howell is 12 months. The other directors seeking reappointment do not have a service contract with the Company.

Directors' interests

Directors' interests in the shares of the Company as at 31 March 2002 according to the register maintained under the Companies Act 1985 are set out in note 7 to the financial statements on pages 46 to 49. 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 32 and 33.

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 2002 exceeded book value by approximately £30 million. This is based on an existing use valuation which does not take into account any change of use for any of the properties.

Employees

Information on the Company's employment policies is given on pages 26 and 27.

Donations

During the year the Company gave £119,000 (2001: £100,000) 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 2002 trade creditors represented 30 days of annual purchases by the Company.

Auditors

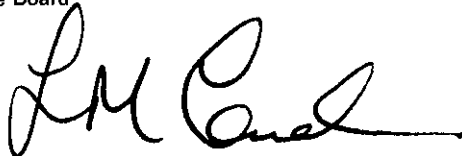
A resolution to reappoint PricewaterhouseCoopers as the Company's auditors will be proposed at the AGM.

By Order of the Board

L M Condron

Secretary

23 May 2002



Directors' responsibility for the financial statements

The following statement, which should be read in conjunction with the auditors' report on page 39, is made with a view to distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

Annual Report and accounts

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

Accounting policies

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

Accounting records

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

Safeguarding assets

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The maintenance and integrity of the Group's website is the responsibility of the directors. Information published on the internet is accessible in many countries; the legal requirements relating to the preparation and dissemination of financial statements in those countries are different from those applying in the United Kingdom.

Independent auditors' report

To the members of London Stock Exchange plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes.

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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 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 or the Listing Rules 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 Chairman's statement, the Chief Executive's review and the operating and financial review.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 2002 and of 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
 23 May 2002

Consolidated profit and loss account

Year ended 31 March 2002

	Notes	2002 £m	2001 £m
Turnover			
Group and share of joint venture			
– Continuing operations		215.6	193.4
– Discontinued operations		–	1.2
Gross turnover		215.6	194.6
Less: share of joint venture's turnover – Continuing operations		(9.0)	(6.2)
Net turnover	2	206.6	188.4
Administrative expenses			
– Operating costs	3	(136.1)	(129.7)
– Exceptional items	4	(3.6)	(18.9)
		(139.7)	(148.6)
Operating profit			
– Continuing operations – before exceptional items	5	70.5	57.9
– after exceptional items		66.9	39.0
– Discontinued operations		–	0.8
		66.9	39.8
Share of operating profit of joint venture and income from other fixed asset investments		1.0	0.3
Net interest receivable/(payable)			
– Before exceptional items	8	7.3	7.9
– Exceptional item	8	–	(17.6)
		7.3	(9.7)
Profit on ordinary activities before taxation		75.2	30.4
Taxation on profit on ordinary activities	9	(25.3)	(15.2)
Profit for the financial year		49.9	15.2
Dividends	10	(10.6)	(9.5)
Retained profit for the financial year		39.3	5.7
Earnings per share	11	17.1p	5.1p
Diluted earnings per share	11	17.0p	5.1p
Adjusted earnings per share	11	18.3p	15.2p
Dividend per share		3.6p	3.2p

There were no other recognised gains and losses during the two years ended 31 March 2002 and 2001.

Note of historical cost profits and losses

Profit on ordinary activities before taxation		75.2	30.4
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	19	1.9	1.9
Historical cost profit on ordinary activities before taxation		77.1	32.3
Historical cost profit retained after taxation		51.8	17.1

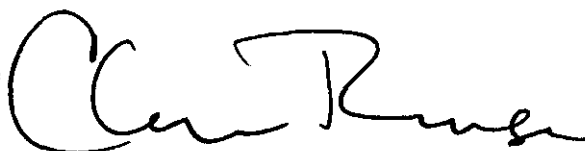
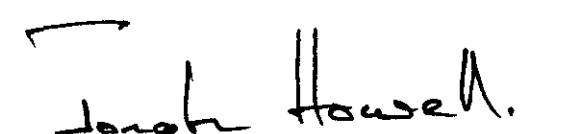
Balance sheet

31 March 2002

	Notes	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
Fixed assets					
Tangible assets	12	115.4	117.1	115.4	117.1
Investments					
Investments in joint venture:					
Share of gross assets		8.6	7.1	—	—
Share of gross liabilities		(7.1)	(4.8)	—	—
	13	1.5	2.3	1.5	1.5
Other investments	13	12.1	10.1	12.1	10.1
		13.6	12.4	13.6	11.6
		129.0	129.5	129.0	128.7
Current assets					
Debtors					
Debtors – amounts falling due within one year	14	38.9	37.3	38.9	37.3
Deferred tax – amounts falling due after more than one year	15	7.9	10.7	7.9	10.7
		46.8	48.0	46.8	48.0
Investments – term deposits		186.0	143.0	186.0	143.0
Cash at bank		3.9	4.9	3.9	4.9
		236.7	195.9	236.7	195.9
Creditors – amounts falling due within one year	16	62.7	58.8	62.7	58.8
Net current assets		174.0	137.1	174.0	137.1
Total assets less current liabilities		303.0	266.6	303.0	265.8
Provisions for liabilities and charges	17	21.7	24.6	21.7	24.6
Net assets		281.3	242.0	281.3	241.2
Capital and reserves					
Called up share capital	18	14.9	1.5	14.9	1.5
Reserves					
Revaluation reserve	19	45.8	47.7	45.8	47.7
Profit and loss account	19	220.6	192.8	220.6	192.0
Total equity shareholders' funds		281.3	242.0	281.3	241.2

The financial statements on pages 40 to 59 were approved by the Board on 23 May 2002 and signed on its behalf by:

Clara Furse, Chief Executive
Jonathan Howell, Director of Finance

Consolidated cash flow statement

Year ended 31 March 2002

	Notes	2002 £m	2001 £m
Net cash inflow/(outflow) from:			
– ongoing operating activities	21(i)	82.4	74.5
– exceptional items	21(i)	(3.8)	(22.4)
Net cash inflow from operating activities		78.6	52.1
Returns on investments and servicing of finance			
Interest received		8.8	12.1
Interest paid		–	(4.1)
Premium on redemption of debenture		–	(17.6)
Dividends received		0.2	0.1
Net cash inflow/(outflow) from returns on investments and servicing of finance		9.0	(9.5)
Taxation			
Corporation tax paid		(15.8)	(20.6)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(15.8)	(22.7)
Payments to acquire own shares		(5.0)	(10.0)
Receipts from sale of fixed asset investments		0.7	–
Net cash outflow from capital expenditure and financial investments		(20.1)	(32.7)
Dividends paid		(9.7)	(3.0)
Net cash inflow/(outflow) before use of liquid resources and financing		42.0	(13.7)
Management of liquid resources			
(Increase)/decrease in term deposits	21(ii)	(43.0)	53.0
Financing			
Redemption of mortgage debenture		–	(30.0)
Redemption of 'A' shares		–	(8.8)
(Decrease)/increase in cash in the year	21(ii)	(1.0)	0.5

Notes to the financial statements

1. Accounting policies

Basis of accounting and consolidation

The financial statements are prepared in accordance with applicable UK accounting standards 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 actively traded 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. 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.

Joint ventures

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

Fixed asset investments

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

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 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 and improvements are included at cost and depreciated over the shorter of the period of the lease or the economic life of the property.
- c) Plant and equipment is stated at cost and is depreciated on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from three to five years. Third party software costs for the development and implementation of systems which enhance the services provided by the Company are capitalised and amortised over their estimated useful lives, which is an average of three years.
- d) The Group selects its depreciation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances.

Provisions

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

Operating leases

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

Notes to the financial statements

1. Accounting policies (continued)**Pension costs**

Pension costs for the defined benefit plan are assessed in accordance with the advice of an independent actuary. The accounting cost for providing defined benefit pensions is charged over the period during which the Company benefits from the services of employees. The cost is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Pension costs under the defined contribution plan are charged as incurred. Further details of the Company's pension schemes and the basis upon which the charge to the profit and loss account is determined are set out in note 23 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 25 to the financial statements on page 59. Costs for the Initial Share Plan are being charged to the profit and loss account over three years from the date of award. Costs for the Annual Share Plan are charged in the year to which the awards relate.

2. Turnover

	2002 £m	2001 £m
Analysis of turnover:		
Continuing operations		
Issuer Services	26.9	31.9
Broker Services	81.2	64.2
Information Services	94.9	87.0*
Other income	12.6	10.3*
	215.6	193.4
Discontinued operations		
Competent authority	—	1.2
Gross turnover	215.6	194.6
Less: share of joint venture's turnover	(9.0)	(6.2)
Net turnover	206.6	188.4

* The comparative figures for 2001 have been restated to include RNS turnover of £1.7m within Information Services, which was previously classified as Other income.

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

3. Administrative expenses

	2002 £m	2001 £m
Continuing operations	136.1	129.3
Discontinued operations	—	0.4
	136.1	129.7

4. Exceptional items

	2002 £m	2001 £m
Fees in respect of the Company's introduction to the Official List	3.6	–
Fees in respect of the proposed merger with Deutsche Börse AG and in defence of the bid from OM Gruppen	–	18.9
	3.6	18.9

5. Operating profit

	2002 £m	2001 £m
Operating profit before exceptional items is stated after charging the following amounts:		
Depreciation of tangible assets	17.5	19.9
Operating lease rentals – properties	4.4	5.1
Auditors' remuneration for:		
Audit	0.1	0.1
Non-audit services (see below)	0.7	1.0
Release of property provision (see note 17)	(1.5)	(4.7)

Non-audit fees paid to PricewaterhouseCoopers during the year were £0.7m (2001: £1.0m). These fees are primarily in respect of taxation, pensions, actuarial and transaction related services. In addition, non-audit fees of £0.2m (2001: £1.2m) were payable in respect of the exceptional items included in note 4 above.

6. Employees

Employees of the Group and their employment costs are summarised below:	2002	2001
The number of employees was:		
At the year end	524	545
Average for the year	552	534
	£m	£m
Staff costs during the year amounted to:		
Wages and salaries	31.9	26.3
Social security costs	4.1	2.9
Other pension costs	2.7	1.6
Total	38.7	30.8

Notes to the financial statements

7. Directors' emoluments

The Remuneration report of the Board is on pages 34 and 35.

	2002				2001				2002	2001
	Performance				Performance				Pensions	Pensions
	Salary	Bonus*	Benefits	Total	Salary	Bonus	Benefits	Total	(Note ii)	(Note ii)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman										
D G Cruickshank (note i)	350	–	1	351	432	250	1	683	–	–
Chief Executive										
C H F Furse	319	475	1	795	57	50	–	107	26	8
Executive directors										
J A G Howell	210	320	2	532	211	260	2	473	25	24
M Wheatley (note ii)	235	300	10	545	215	270	10	495	–	–
Previous directors										
Sir John Kemp-Welch – until 25 May 2000	–	–	–	–	42	–	1	43	–	–
G F Casey – until 15 September 2000	–	–	–	–	170	138	9	317	–	37
	1,114	1,095	14	2,223	1,127	968	23	2,118	51	69
Compensation for termination of contract										
G F Casey				–				950	–	–
				2,223				3,068	51	69
* In addition to the cash bonus above, share awards under the Annual Bonus Plan will be made after the year end as set out on page 47.										
Non-executive directors' fees										
Directors in office throughout both years										
I G Salter – Deputy Chairman				50				25		
G J Allen				30				15		
M J P Marks				30				15		
P R Meinertzhagen				30				15		
Directors who did not hold office for the whole of the two financial years										
G K Allen until 28 February 2001				–				14		
J Cohen from 1 February 2001				30				5		
O Farjul from 1 February 2001				30				5		
I Plenderleith until 28 February 2001				–				14		
S M Robertson until 20 March 2001				–				15		
H W H Sants until 19 March 2001				–				15		
N Sherlock until 31 March 2001				–				15		
N J Stapleton from 1 February 2001				30				5		
R S Webb QC from 1 February 2001				30				5		
Total non-executive directors' fees (note iii)				260				163		
Total directors' emoluments				2,483				3,231	51	69

7. Directors' emoluments (continued)

Notes

i) Chairman

The bonus, share awards and grant of options to D G Cruickshank were in relation to his capacity as Executive Chairman. D G Cruickshank became Non-Executive Chairman with effect from 24 January 2001.

ii) Pensions

M Wheatley is a member of the Company's defined benefit scheme. The increase in his accrued pension during the year was £3,000 (2001: £9,000) and the accumulated accrued pension at the end of the year was £55,000 (2001: £51,000). M Wheatley is 43 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 contributed to the senior executive defined contribution pension plan for C H F Furse of £26,000 (2001: £8,000), and for J A G Howell of £25,000 (2001: £24,000).

iii) Non-executive directors' fees

Fees paid directly to the employer companies of non-executive directors were £110,000 representing three directors (2001: £90,000 representing six directors).

iv) Waiver of emoluments

None of the directors waived emoluments during 2001 and 2002.

Directors' share interests

Share schemes for 2002 onwards

Annual Bonus Plan

As part of the short term incentive scheme, described in the Remuneration report on pages 34 and 35, a proportion of the annual bonus is 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				Price at award date (£)	Final vesting date
	At start of year	Awarded during year	Vested during year	At end of year		
C H F Furse	–	3,440	–	3,440	3.65	25/06/03
J A G Howell	–	12,360	–	12,360	3.65	25/06/03
M Wheatley	–	13,720	–	13,720	3.65	25/06/03

Shares awarded during the year under the Annual Bonus Plan vest in two equal tranches on 25 June 2002 and 25 June 2003.

In addition to the cash bonus for the year to 31 March 2002, share awards under the Annual Bonus Plan will be made after the year end. The share awards will amount to 40,793 shares for C H F Furse, 32,634 shares for J A G Howell and 23,310 shares for M Wheatley and will vest over the following two years.

Proposed Share Option Plan

As described in the Remuneration report on pages 34 to 35, the Company will present a new long term incentive scheme to shareholders for approval at the AGM. Under the new plan, all future long term incentives will be made up entirely of share options.

Notes to the financial statements

7. Directors' emoluments (continued)

Share option grants and Share awards in 2001 and prior

The following grants and awards were made under the long term incentive scheme (comprising the Initial and Annual Share Plans) approved by shareholders in March 2000. These plans are now closed and no further grants or awards will be made under them.

Share option grants	Number of options			At end of year	Option price per share (£)	Date of grant	Expiry date
	At start of year	Granted during year	Exercised during year				
D G Cruickshank	181,950	–	–	181,950	2.37	16/11/00	16/11/10
	134,750	–	–	134,750	2.97	16/11/00	16/11/10
	316,700	–	–	316,700			
C H F Furse	285,450	–	–	285,450	2.52	25/01/01	25/01/11
	211,450	–	–	211,450	3.15	25/01/01	25/01/11
	–	3,430	–	3,430	3.65	25/06/01	25/06/11
	496,900	3,430	–	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
	422,300	12,350	–	434,650			
M Wheatley	272,950	–	–	272,950	2.37	16/11/00	16/11/10
	202,150	–	–	202,150	2.97	16/11/00	16/11/10
	–	13,720	–	13,720	3.65	25/06/01	25/06/11
	475,100	13,720	–	488,820			

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

Share awards	Number of shares			At end of year	Price at award date per share (£)	Vesting Date
	At start of year	Awarded during year	Vested during year			
D G Cruickshank	50,550	–	–	50,550	2.37	16/11/03
	50,550	–	–	50,550		
C H F Furse	79,300	–	–	79,300	2.52	25/01/04
	–	1,720	–	1,720	3.65	25/06/04
	79,300	1,720	–	81,020		
J A G Howell	67,400	–	–	67,400	2.37	16/11/03
	–	6,180	–	6,180	3.65	25/06/04
	67,400	6,180	–	73,580		
M Wheatley	75,820	–	–	75,820	2.37	16/11/03
	–	6,860	–	6,860	3.65	25/06/04
	75,820	6,860	–	82,680		

The market price of the shares on 31 March 2002 was £4.33 and the range during the year was from £2.81 to £4.35.

7. Directors' emoluments (continued)

Directors' interests in shares

The directors who held office at 31 March 2002 had the following other interests in the shares of the Company:

	Ordinary shares 2002	Ordinary shares 2001
D G Cruickshank	25,000	25,000
C H F Furse	100,000	–
J A G Howell	12,500	12,500
M Wheatley	17,500	17,500
O Fanjul	28,000	–
I Salter	12,000	4,000

8. Net interest receivable/(payable)

	2002 £m	2001 £m
Interest receivable		
Bank deposit and other interest (see i)	8.5	12.4
Interest payable		
On bank and other loans repayable after five years (see ii)	–	(2.8)
Interest on discounted provision for leasehold properties (see note 17)	(1.2)	(1.7)
Total	(1.2)	(4.5)
Net interest receivable – before exceptional item	7.3	7.9
Exceptional item		
Premium on redemption of mortgage debenture	–	(17.6)
Net interest receivable/(payable) – after exceptional item	7.3	(9.7)

(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 was in respect of the £30m debenture repayable in 2016 which was redeemed on 8 March 2001.

9. Taxation

	2002 £m	2001 £m
Current tax:		
Corporation tax for the year at 30% (2001: 30%)	25.2	15.0
Adjustments in respect of previous periods	(3.1)	(1.4)
	22.1	13.6
Deferred taxation (see note 15)	2.8	1.5
Joint venture	0.4	0.1
Taxation charge	25.3	15.2

The adjustments for previous years are mainly in respect of timing differences, the effect of which was previously dealt with in deferred taxation, and reflect revised assumptions for the allowance of certain expenses.

Notes to the financial statements

9. Taxation (continued)

Factors affecting the current tax charge for the year

The current tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%).

The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before tax	75.2	30.4
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	22.6	9.1
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	2.5	6.8
Accounting deduction (less)/greater than capital allowances – timing difference	(0.5)	0.3
Movement in provisions	0.6	(1.2)
Adjustments to tax charge in respect of previous periods	(3.1)	(1.4)
Corporation tax charge	22.1	13.6

Factors that may affect future tax charges

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

10. Dividends

	2002 £m	2001 £m
Interim paid: 1.1p (2001: 1.0p) per Ordinary share	3.2	3.0
Final proposed: 2.5p (2001: 2.2p) per Ordinary share	7.4	6.5
	10.6	9.5

11. Earnings per share

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

	2002	2001
Adjusted earnings per share	18.3p	15.2p
Earnings per share	17.1p	5.1p
Diluted earnings per share	17.0p	5.1p
	£m	£m
Profit for the financial year	49.9	15.2
Adjustments:		
Exceptional items	3.6	18.9
Exceptional interest costs – redemption of debenture	–	17.6
Discontinued operations	–	(0.8)
Tax effect of exceptional items and discontinued operations	–	(5.9)
Adjusted profit for the financial year	53.5	45.0
Weighted average number of shares – million	291.8	295.7
Effect of dilutive share options and awards – million	2.1	0.3
Diluted weighted average number of shares – million	293.9	296.0

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 291.8m (2001: 295.7m). For diluted earnings per share, the weighted average number of shares assumes share options and share awards granted to employees either convert or vest. The weighted average number of shares for 2001 has been adjusted for the 9 for 1 bonus issue of shares that was made on 20 July 2001.

12. Tangible assets

	Land and buildings Freehold £m	Leasehold £m	Plant and equipment £m	Total £m
Cost or valuation:				
1 April 2001	155.5	4.4	98.3	258.2
Additions	0.1	1.5	14.3	15.9
Disposals	(0.3)	(0.4)	(8.0)	(8.7)
31 March 2002	155.3	5.5	104.6	265.4
Depreciation:				
1 April 2001	73.9	4.4	62.8	141.1
Provision for the year	3.3	—	14.2	17.5
Disposals	(0.3)	(0.4)	(7.9)	(8.6)
31 March 2002	76.9	4.0	69.1	150.0
Net book values:				
31 March 2002	78.4	1.5	35.5	115.4
1 April 2001	81.6	—	35.5	117.1
Net book values at 31 March 2002 are analysed as follows:				
Assets at valuation less depreciation	70.3	—	—	70.3
Assets at cost less depreciation	8.1	1.5	35.5	45.1
	78.4	1.5	35.5	115.4

- (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*. 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 2002, the aggregate cost of tangible assets was £226.9m (2001: £219.7m), the aggregate depreciation was £157.3m (2001: £150.3m) and the aggregate net book value was £69.6m (2001: £69.4m).
- (iii) Plant and equipment includes capitalised software with a net book value at 31 March 2002 of £21.9m (2001: £20.4m).

Notes to the financial statements

13. Fixed asset investments

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

	Joint venture (i) £m	Shares held in the Company (ii) £m	Other (iii) £m	Total £m
Group				
1 April 2001	2.3	9.7	0.4	12.4
Additions – purchase of own shares	–	5.0	–	5.0
Shares awarded and charge to the profit and loss account	–	(2.3)	–	(2.3)
Disposal of shares on vesting	–	(0.7)	–	(0.7)
Share of retained profit	(0.8)	–	–	(0.8)
31 March 2002	1.5	11.7	0.4	13.6
Company				
1 April 2001	1.5	9.7	0.4	11.6
Additions – purchase of own shares	–	5.0	–	5.0
Shares awarded and charge to the profit and loss account	–	(2.3)	–	(2.3)
Disposal of shares on vesting	–	(0.7)	–	(0.7)
31 March 2002	1.5	11.7	0.4	13.6

(i) Joint venture

The Company owns 50 per cent of the 1,000 £1 issued equity shares in FTSE International Ltd, a company incorporated in Great Britain which distributes financial information. FTSE International Ltd is a joint venture owned together with The Financial Times Ltd, a subsidiary of Pearson plc. The Group investment of £1.5m shown above represents the Company's share of the joint venture's net assets as at 31 December 2001, their accounting reference date.

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

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

	2002 £m	2001 £m
Royalties	2.2	1.7
Rent and service charges	0.2	0.1
	2.4	1.8

At 31 March 2002, there was £1.2m indebtedness by FTSE International Ltd to the Company representing the dividend declared for the year to 31 December 2001 (2001: £nil).

(ii) Shares held in the Company

Shares held in the Company are in a separately administered trust for the purposes of the ESOP. The difference between the purchase price of shares and the exercise price of awards/grants is charged to the profit and loss account over the period of service for which the awards and options are granted. Details of the ESOP are set out in note 25 to the financial statements.

(iii) 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 Ltd.

(iv) Subsidiary undertakings

The Company holds directly or indirectly 100 per cent of the Ordinary shares, being the only class of shares in 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.

14. Debtors: amounts falling due within one year

	2002 £m	2001 £m
Trade debtors	14.4	15.1
Amounts owed by joint venture	1.2	—
Other debtors	1.5	0.9
Prepayments and accrued income	21.8	21.3
	38.9	37.3

The Company is in the process of making claims to HM Customs & Excise for VAT paid between 1997 and 2001. Although the outcome of the claims cannot be known with certainty they could result in the repayment of up to £7m of VAT.

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

	2002 £m	2001 £m
1 April 2001	10.7	12.2
Transfer to the profit and loss account during the year	(2.8)	(1.5)
31 March 2002	7.9	10.7

The deferred taxation balance comprises:

Tax allowances available in excess of related depreciation	5.4	5.6
Provisions and other timing differences	2.5	5.1
	7.9	10.7

The deferred tax asset is recoverable against future taxable profits.

16. Creditors: amounts falling due within one year

	2002 £m	2001 £m
Trade creditors	10.2	10.9
Corporation tax	13.6	7.3
Other taxation and social security	0.9	0.8
Other creditors	5.8	6.3
Accruals and deferred income	24.8	27.0
Proposed dividend	7.4	6.5
	62.7	58.8

Notes to the financial statements

17. Provisions for liabilities and charges

	Pensions £m	Property £m	Total £m
1 April 2001	1.1	23.5	24.6
Utilised during the year	(0.2)	(2.4)	(2.6)
Interest on discounted provision	–	1.2	1.2
Surplus provision released to profit and loss account	–	(1.5)	(1.5)
31 March 2002	0.9	20.8	21.7

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.

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 12 years to expiry. The surplus provision transferred to the profit and loss account mainly reflects the increase in expected receipts from sub-letting and lower future costs.

18. Share capital

	2002	2001
Authorised		
Ordinary shares of 5p each – number	500,000,000	40,000,000
– £	25,000,000	2,000,000
Issued, called up and fully paid		
Ordinary shares of 5p each – number	297,000,000	29,700,000
– £	14,850,000	1,485,000

At an Extraordinary General Meeting on 19 July 2001 shareholders approved the adoption of new Articles of Association required to effect the Introduction to the Official List and a 9 for 1 bonus issue, increasing the number of issued shares to 297.0m.

19. Reserves

	Group		Company	
	Revaluation £m	Profit and loss account £m	Revaluation £m	Profit and loss account £m
1 April 2001	47.7	192.8	47.7	192.0
Retained profit for the financial year	–	39.3	–	40.1
Bonus issue of new shares	–	(13.4)	–	(13.4)
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
31 March 2002	45.8	220.6	45.8	220.6

All reserves are classified as equity shareholders' funds, as they are all attributable to Ordinary shareholders.

20. Reconciliation of movements in shareholders' funds

	2002 £m	2001 £m
Profit for the financial year	49.9	15.2
Dividends	(10.6)	(9.5)
Redemption of 'A' shares during the year	—	(8.8)
Net addition/(reduction) to shareholders' funds	39.3	(3.1)
Opening shareholders' funds	242.0	245.1
Closing shareholders' funds	281.3	242.0

21. Notes to the consolidated cash flow statement

	2002 £m	2001 £m	
(i) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	66.9	39.8	
Depreciation of tangible assets	17.5	19.9	
Increase in debtors	(0.7)	(1.3)	
Decrease in creditors	(3.3)	(3.2)	
Provisions utilised during the year	(2.6)	(3.4)	
Amortisation of own shares	0.8	0.3	
Net cash inflow from operating activities	78.6	52.1	
Comprising:			
Ongoing operating activities	82.4	74.5	
Exceptional items (see note 4)	(3.8)	(22.4)	
Net cash inflow	78.6	52.1	
(ii) Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	(1.0)	0.5	
Increase/(decrease) in liquid resources	43.0	(53.0)	
Redemption of debenture	—	30.0	
Change in net funds	42.0	(22.5)	
Net funds at 1 April 2001	147.9	170.4	
Net funds at 31 March 2002	189.9	147.9	
	At 1 April 2001 £m	Cash flows £m	At 31 March 2002 £m
(iii) Analysis of changes in net funds			
Cash in hand and at bank	4.9	(1.0)	3.9
Current asset investments	143.0	43.0	186.0
Total net funds	147.9	42.0	189.9

Notes to the financial statements

22. Commitments

	2002 £m	2001 £m
Contracted capital commitments not provided for in the financial statements	0.7	0.6
The contracted commitments were mainly in respect of computing equipment.		
Financial commitments under property operating leases at 31 March 2002 for payments in the year to 31 March 2003 are as follows:		
Leases expiring – between two and five years	0.6	0.9
– in five years or more	3.5	3.8
	4.1	4.7

23. 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 2000 by an independent qualified actuary. The market value of the plan's assets for the scheme was £162m, representing 107 per cent of the value of benefits that had accrued to members, after allowing for expected future increases in salaries.

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

Following a contribution holiday for the defined benefit and defined contribution schemes, contributions recommenced in March 2001. The contribution rate for the defined benefit scheme is currently 31.2 per cent of pensionable salaries less £1.1m amortisation of the scheme surplus. 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 the members approach retirement.

At 31 March 2002 contributions of £0.3m (2001: nil) were paid in advance to the defined benefit scheme.

The pension charge for the year ended 31 March 2002 was:

	2002 £m	2001 £m
Defined benefit contribution	1.2	0.9
Release of pension provision (see note 17)	(0.2)	(0.2)
Defined contribution costs	1.7	0.9
Total pension charge	2.7	1.6

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 transitional disclosure requirements of FRS 17 – Retirement Benefits.

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

23. Pension costs (continued)

Defined benefit valuation

The actuarial valuation as at 31 March 2000 was updated at 31 March 2001 and 2002 by an independent qualified actuary to provide the information required by FRS 17.

The assumptions which have the most significant effect on the results of the valuation are those relating to the discount of estimated cash flows and the rates of increase in salaries and pensions, as set out below:

	31 March 2002	31 March 2001	Actuarial valuation 31 March 2000
Inflation assumption	2.5%	2.7%	2.9%
Rate of increase in salaries	4.5%	4.7%	4.9%
Rate of increase in pensions in payment	3.7%	3.7%	3.7%
Discount rate	6.0%	6.0%	5.9%

Defined benefit assets and liabilities

The fair value of the assets and net position in the defined benefit scheme, with the assumed expected rate of return at 31 March 2002 and 2001 are as follows:

	31 March 2002 £m	Long term expected rate of return	31 March 2001 £m	Long term expected rate of return
Equities	40.8	7.75%	71.0	6.25%
Bonds	107.3	5.57%	80.0	5.25%
Total market value of assets	148.1		151.0	
Present value of liabilities	167.0		163.0	
Deficit in the plan	(18.9)		(12.0)	
Related deferred tax asset	5.7		3.6	
Net pension liability	(13.2)		(8.4)	

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2002 would have been reduced by £12.6m (2001: £7.6m) being the deficit of the pension scheme based on assumptions at that date of £13.2m less the existing pension provision and related deferred tax asset. During the year, the trustees of the plan re-allocated the plan's investments so that approximately 25 per cent was invested in equities and 75 per cent in bonds by 31 March 2002 and they plan 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 2002 £m
Current service cost	(2.0)
Other service costs	-
Total costs	(2.0)
Finance income and costs	
Interest cost, being the expected increase in the present value of scheme liabilities	(9.8)
Expected return on assets in the scheme	8.6
Net finance cost	(1.2)

Notes to the financial statements

23. Pension costs (continued)**Defined benefit other recognised gains and losses**

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

	Year ended 31 March 2002 £m
%	
Difference between the expected and actual return on assets	(8.5)
Percentage of scheme assets	(5.7%)
Experience gains and losses arising on the scheme liabilities	3.6
Percentage of scheme liabilities	2.2%
Effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	(0.3)
Total	(5.2)
Percentage of scheme liabilities	(3.1%)

24. 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 year. The main risks arising from the Company's financial instruments are in respect of interest rate, credit and liquidity.

Interest rate management

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

Liquidity and credit management

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

	2002 £m	2001 £m
Financial assets		
Other fixed asset investments (excluding own shares)	0.4	0.4
Investments – term deposits	186.0	143.0
Cash at bank	3.9	4.9
	190.3	148.3
Maturing in:		
One year or less, or on demand	189.9	147.9
Weighted average period of fixed interest rates	113 days	153 days
Weighted average interest rate	4.0%	5.7%

	Book value 31 March 2002 £m	Fair value 31 March 2002 £m	Book value 31 March 2001 £m	Fair value 31 March 2001 £m
Fair values of financial assets				
Other fixed asset investments (excluding own shares)	0.4	0.4	0.4	0.4
Investments – term deposits and cash	189.9	189.9	147.9	147.9
	190.3	190.3	148.3	148.3

Borrowing facilities

At 31 March 2002, the Company had in place a multicurrency revolving loan facility for £250m. The facility is not drawn down and is available up to 23 May 2004.

25. Employee Share Ownership Plans (ESOP)

As referred to in the Remuneration report on pages 34 and 35, the Company is proposing a new long term incentive scheme to shareholders at the forthcoming AGM. This will set out the arrangements for future long term incentive awards of share options.

The previous long term incentive scheme (comprising the Initial and Annual Share Plans) was approved by shareholders in March 2000 and option grants and share awards were made based on approvals prior to the Company's listing in July 2001. No further option grants or share awards will be made under this scheme apart from the SAYE scheme available to all staff. The Company established an ESOP discretionary trust to administer the original, and the proposed new, share scheme and to acquire the Company's shares to meet commitments to employees.

Under the Initial Share Plan, introduced in November 2000 following the Company's conversion to a public limited company, share awards and grants of options were made to senior executives. The share awards have a vesting period of three years and share options become exercisable at 20 per cent per annum over five years.

Under the Annual Share Plan, awards of shares and grants of options to staff were made in November 2000 and June 2001, based on individual performance and potential. The 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. As provided under UITF 17, no charge is made in the accounts in respect of the SAYE scheme.

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

At the balance sheet date, 5,309,967 shares (2001: 4,240,000 shares) were held by the trust, at an initial cost of £14.0m. This was funded by an interest free loan from the Company. At the balance sheet date, the market value of these shares was £23.0m (2001: £12.3m). Dividends on shares held in respect of share awards have not been waived by the trust. In accordance with UITF 13, the assets, liabilities, income and costs of the ESOP trust have been included in the Company's financial statements.

As at 31 March 2002 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	
				2002	2001
Share awards	16/11/00	–	16/11/03	862,010	908,190
	25/1/01	–	25/1/04	79,300	79,300
	25/6/01	–	25/6/02	31,250	–
	25/6/01	–	25/6/03	31,250	–
	25/6/01	–	25/6/04	404,240	–
	8/11/01	–	8/11/04	31,922	–
Share options	16/11/00	2.37	16/11/01	2,709,470	2,907,300
	16/11/00	2.97	16/11/01	1,703,820	1,819,900
	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	928,810	–
	25/6/01	4.56	25/6/02	169,880	–
	8/11/01	3.72	8/11/02	114,919	–
	8/11/01	4.65	8/11/02	85,125	–
SAYE scheme – share options	7/12/00	1.90	7/12/05	1,359,258	1,460,260
	16/8/01	2.79	16/8/06	435,446	–
Total share awards and options				9,443,600	7,671,850

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 Limited

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