London Stock Exchange

International Financial Reporting Standards
12 April 2005
Disclaimer

The purpose of this presentation is to provide an overview of the expected impact of the adoption of International Financial Reporting Standards (IFRS).

All numbers in this presentation are included for illustrative purposes only and represent our current best estimates of the impact of IFRS. The numbers are subject to change and should therefore not be relied on or considered definitive.

This communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc") of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.
Agenda

Introduction & overview

Jonathan Howell
Director of Finance

Key IFRS accounting changes

Maria Clohessy
Head of Finance

Q&A
Overview

- Purpose of presentation is to provide an overview of key IFRS changes impacting the Exchange

- 2003/04 numbers presented under IFRS for illustrative purposes only

- Financial impact on Exchange not material

- First results under IFRS for Exchange – six months ending 30 September 2005

- Ready for transition
Key accounting changes

- Key IFRS changes that impact the Exchange’s financial statements are:
  - Pensions IAS 19
  - Goodwill IFRS 3
  - Share-based payments IFRS 2
  - Property depreciation IAS 16
  - Lease rentals IAS 17
  - Dividends IAS 10
  - Joint ventures IAS 31
  - Segmental reporting IAS 14
No change under IFRS

• Items **not** impacted by IFRS:
  
  - Cash balances and cash flows
  
  - Financial strength and flexibility
  
  - Business and economic risks
IFRS impact on 2003/04 - summary

The impact of IFRS on PBT, EPS and net assets for 2003/04 financial year is estimated as follows:

<table>
<thead>
<tr>
<th></th>
<th>UK GAAP</th>
<th>IFRS</th>
<th>Change</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>£88.8m</td>
<td>£92.7m</td>
<td>£3.9m</td>
<td>4%</td>
</tr>
<tr>
<td>Earnings per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Basic</td>
<td>21.6p</td>
<td>23.0p</td>
<td>1.4p</td>
<td>6%</td>
</tr>
<tr>
<td>• Adjusted</td>
<td>21.2p</td>
<td>22.0p</td>
<td>0.8p</td>
<td>4%</td>
</tr>
<tr>
<td>Net assets</td>
<td>£365.7m</td>
<td>£345.6m</td>
<td>(£20.1m)</td>
<td>(5%)</td>
</tr>
</tbody>
</table>

1 IFRS adjustment to PBT includes £2.1m depreciation relating to Tower, disposed of in July 2004 - excluding this item, impact of IFRS would have been: 2% increase in PBT (£90.6m); 3% increase in Basic EPS (22.3p); and <1% increase in Adjusted EPS (21.3p).

2 Before goodwill and exceptional items.
Communication timetable

- **2004/05 Prelims** under UK GAAP
- Quantification of IFRS on **2004/05** results
- **2004/05** P&L and balance sheet under IFRS, with IFRS/UK GAAP reconciliation
- **Q1 2005/06** revenue under IFRS
- **Interim** results to **30 September 2005** under IFRS, with comparatives
- **Full year** results to **31 March 2006** under IFRS, with comparatives

- **May 2005**
- **July 2005**
- **November 2005**
- **May 2006**
Maria Clohessy
Head of Finance
Key accounting changes

- Key IFRS changes that impact the Exchange’s financial statements are:
  - Pensions (IAS 19)
  - Goodwill (IFRS 3)
  - Share-based payments (IFRS 2)
  - Property depreciation (IAS 16)
  - Lease rentals (IAS 17)
  - Dividends (IAS 10)
  - Joint ventures (IAS 31)
  - Segmental reporting (IAS 14)
Pensions - IAS 19

**UK GAAP policy**
- Accounting based on *triennial actuarial valuation*
- P&L charge reflects service cost and spreading of valuation surplus/deficit
- FRS17 valuation disclosed separately in notes to accounts

**IFRS policy**
- Accounting based on *annual valuation* – similar basis to FRS 17
- **Transitional arrangements - opted for** full surplus/deficit to be recognised on Balance Sheet
- P&L charge covers service cost and financing charge/credit

**Financial impact**
- PBT – **£2m** higher, largely as deficit not charged to P&L
- Net assets – **£23m** deficit recognised
Goodwill - IFRS 3

UK GAAP policy

- Amortise goodwill over estimated useful life (15 years)
- Impairment review if indications that goodwill not recoverable

IFRS policy

- Introduces concept of acquired intangibles (e.g. brands), a subset of goodwill - opted not to recognise
- P&L amortisation charges prohibited
- Regular impairment review (test similar to UK GAAP)

Financial impact

- PBT – no longer incur £2m amortisation charge
- Net assets – nil
Share-based payments - IFRS 2

UK GAAP policy
- P&L charge based on intrinsic value of share awards and options at grant date
- Charged to P&L over performance period
- Normally no P&L charge for options issued at market value

IFRS policy
- P&L charge based on fair value of share awards and options at grant date
- Results in P&L charge for share awards and options
- P&L charge spread over expected vesting period
- Expectations of vesting can lead to volatility in P&L charge

Financial impact
- PBT – £1m additional charge
- Net assets – nil
Property depreciation - IAS 16

UK GAAP policy
- Freehold properties – opted not to regularly revalue
- Depreciate over useful life (c50 years)

IFRS policy
- Transitional arrangements - opted for one-off restatement of two small freehold properties to current 2004 value
- Residual values at end of useful life reassessed annually
- Straight-line depreciation on difference between current 2004 value and residual value

Financial impact
- PBT – depreciation charge c£3m lower, c£2m due to Tower (since sold)
- Net assets – c£7m lower reflecting current value of two remaining properties
Lease rentals - IAS 17

<table>
<thead>
<tr>
<th><strong>UK GAAP policy</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Benefit of lease incentive (e.g. rent free period) spread over period to first rent review</td>
</tr>
<tr>
<td>• Results in reduced P&amp;L rent charge in first 5 years (normally)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>IFRS policy</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Paternoster Square lease incentive spread over duration of lease (25 years)</td>
</tr>
<tr>
<td>• Higher P&amp;L charge in first 5 years, lower for remainder of lease</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Financial impact</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• PBT – <strong>c£1m</strong> additional charge</td>
</tr>
<tr>
<td>• Net assets – <strong>c£1m</strong> lower</td>
</tr>
</tbody>
</table>
Dividends - IAS 10

**UK GAAP policy**
- Dividends recognised in period to which they relate

**IFRS policy**
- Proposed dividends not recognised as liability
- Dividends charged to reserves when declared

**Financial impact**
- PBT – nil
- Net assets – shareholders’ funds £10m higher as 2003/04 final dividend not recognised
Presentational change - FTSE - IAS 31

UK GAAP policy

- Share of FTSE turnover included in gross turnover, removed from net turnover
- Equity account separately for (i) share of FTSE profit before tax and (ii) tax

IFRS policy

- FTSE turnover not included
- Equity account for share of FTSE profit after tax

Financial impact

- P&L – Profit before tax reduced by FTSE tax charge of £0.4m
- No effect on profit after tax or reserves
Presentational change - Segmental reporting - IAS 14

**UK GAAP policy**
- Show revenue by business area

**IFRS policy**
- Segmental information to cover revenue, operating profit, assets and liabilities
- Segments will be Issuer Services, Broker Services, Information Services, Derivatives Services and Other

**Financial impact**
- Change in disclosure only
Tax - IAS 12

- IFRS changes result in no fundamental change to corporate or deferred tax

- Deferred tax changes reflect IFRS change:
  - P&L – **c30%** of IFRS taxable pre-tax adjustments (i.e. excluding goodwill and depreciation)
  - Balance sheet – **c30%** of IFRS net asset adjustments recognised as deferred tax asset/liability
## Profit before tax

### Year ended 31 March 2004

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>As reported – UK GAAP</td>
<td>89.1</td>
</tr>
<tr>
<td>Adoption of UITF 17 – Revised charge for own shares</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Revised – UK GAAP</td>
<td>88.8</td>
</tr>
<tr>
<td><strong>Impact of IFRS</strong></td>
<td></td>
</tr>
<tr>
<td>Pensions – lower charge</td>
<td>1.5</td>
</tr>
<tr>
<td>Goodwill – no charge</td>
<td>1.6</td>
</tr>
<tr>
<td>Share based payments – additional charge</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Property depreciation – lower for freehold properties ¹</td>
<td>2.9</td>
</tr>
<tr>
<td>Lease rentals – spreading of rent free benefit</td>
<td>(1.1)</td>
</tr>
<tr>
<td>FTSE JV income – reported net of tax</td>
<td>(0.4)</td>
</tr>
<tr>
<td></td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Profit before tax – IFRS</strong></td>
<td>92.7</td>
</tr>
</tbody>
</table>

¹ Principally due to Tower, sold in July 2004
## Net assets

### 31 March 2004

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As reported – UK GAAP</strong></td>
<td>372.1</td>
</tr>
<tr>
<td>Adoption of UITF 38 – Own shares deducted from equity</td>
<td>(6.4)</td>
</tr>
<tr>
<td><strong>Revised – UK GAAP</strong></td>
<td>365.7</td>
</tr>
<tr>
<td><strong>Impact of IFRS</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Pensions – deficit</td>
<td>(23.0)</td>
</tr>
<tr>
<td>Freehold properties – write down to fair value</td>
<td>(6.6)</td>
</tr>
<tr>
<td>Final dividend – not recognised</td>
<td>10.0</td>
</tr>
<tr>
<td>Other</td>
<td>(0.5)</td>
</tr>
<tr>
<td></td>
<td>(20.1)</td>
</tr>
<tr>
<td><strong>Net assets – IFRS</strong></td>
<td>345.6</td>
</tr>
</tbody>
</table>

<sup>1</sup> net of tax
Conclusion

- Financial impact not material
- Exchange ready for transition to IFRS
- Communication will continue throughout 2005
Questions