London
STOCK EXCHANGE

Investing for growth

INTERIM REPORT SIX MONTHS ENDED 30 SEPTEMBER 2003

Contents

CHAIRMAN'S STATEMENT

In a challenging environment, the Exchange continues to make progress. Low levels of new and further issue activity impacted our Issuer Services' business and Information Services was affected by the decline in terminals taking Exchange data. However SETS continues to grow, helping to offset a decline in international bargains. Performance was also supported by contributions from recent business developments and from actions to reduce costs.

In the meantime, the Exchange continues to invest in new products and services, and the benefits are already being seen. Our strategy to develop a low cost, scalable and flexible technology infrastructure is producing operational cost savings and laying the framework for the delivery of new products and services more quickly and cost-effectively than before. These developments will add to our existing strengths and build on our enviable market position.

Financial results

Unless otherwise stated, all figures referenced below are before exceptional items and refer to the six months ended 30 September 2003 and the corresponding period last year.

Financial performance in the first six months has been satisfactory. Turnover has held steady at £119.6 million (2002: £119.5 million). Operating costs fell one per cent to £72.4 million (2002: £73.4 million), as savings in IT costs and reductions in other operational expenditure helped to offset cost increases from recent initiatives. This led to a three per cent rise in operating profit before exceptional items and goodwill amortisation to £41.7 million (2002: £40.5 million).

Adjusted earnings per share increased three per cent to 10.8 pence per share (2002: 10.5 pence per share). Earnings per share rose to 11.5 pence per share from 11.1 pence per share.

For the half year, operating cash flows were £54.8 million, up two per cent (2002: £53.8 million). At 30 September 2003, cash balances were £225.6 million (31 March 2003: £211.0 million) reflecting the cash inflow from operating activities, reduced by the purchase consideration for EDX London (£14.0 million) and capital expenditure (£18.3 million).

Issuer Services

In a weak IPO market, Issuer Services' revenue decreased four per cent for the half year, from £19.2 million to £18.4 million, contributing 15 per cent of total revenue. Annual fees from companies listed on our markets increased modestly, primarily due to tariff changes for international companies, and accounted for 59 per cent of Issuer Services' turnover (2002: 55 per cent).

The number of companies on our markets at 30 September 2003 was 2,692 (2002: 2,849). The number of new issues on the Exchange's markets decreased 27 per cent to 94 (2002: 128). Nonetheless, a total of £10 billion of new capital was raised on the Exchange's markets during the half year and the Exchange accounted for 87 per cent of the IPOs in Western Europe (2002: 77 per cent).

AIM, our international market for smaller, growing companies, continued to attract new companies. In May, the new AIM fast track entry service was launched, allowing companies to gain admission to AIM more easily and more cost-effectively using their annual report and accounts as a basis. To date, three international companies have taken advantage of this facility, with more international companies expected to join the market following release of their annual results in 2004. At 30 September 2003, 718 companies were traded on AIM, up five per cent over the same period last year (2002: 686).

The Office of Fair Trading (OFT) has been investigating the increases in the Exchange's issuer fees introduced on 1 April 2002. The Exchange is currently negotiating a resolution of this matter with the OFT and expects an outcome shortly.

Broker Services

Broker Services' turnover for the half year was unchanged at £43.7 million (2002: £43.7 million) and accounted for 37 per cent of total turnover.

During the first half of the year, the total number of equity bargains rose five per cent to 27.6 million (2002: 26.4 million), a daily average of 219,000 bargains (2002: 210,000). In the same period, the daily average number of bargains transacted on SETS increased 30 per cent to 126,000 (2002: 97,000) though the average value of a SETS bargain decreased 24 per cent to £22,000 (2002: £29,000).

During the half year, over 62 per cent of eligible trades (by value) were executed on the SETS order book, contributing approximately 62 per cent of Broker Services' income for the half year (2002: 55 per cent).

The total value of equity bargains for the period decreased 25 per cent to £1.8 trillion (2002: £2.4 trillion), the reduction being attributable in part to a decline in the number of international bargains. The daily average number of international bargains fell to 38,000 (2002: 59,000) while the daily average number of off book bargains increased modestly to 55,000 (2002: 54,000).

The Exchange has recently introduced two new trading services. In September, an "iceberg" facility was added to the SETS electronic order book. This service enables large orders to be executed more efficiently, encouraging more orders to be traded on SETS. At the start of November, SETSmm, an extension to the SETS order book, was launched. This new hybrid market adds a further 198 securities capable of electronic trading, supported by liquidity from committed market makers.

Last month, the Exchange released details of proposed trading of Dutch securities on SETS. Initial reaction has been positive and implementation plans are being discussed with Dutch market participants. The trading service will be launched at the end of the first calendar quarter 2004.

Information Services

At £50.2 million (2002: £50.7 million), Information Services was the largest contributor to turnover for the half year, representing 42 per cent of total turnover.

During the first half of the year, the number of terminals taking the Exchange's real time market data fell from 94,000 to 90,000 (2002: 100,000). Of those, approximately 81,000 terminals were attributable to professional users, down from 88,000 at the end of the last financial year (2002: 94,000). Proquote, the Exchange's low cost trading system and market data business, has further increased the number of customers using its service. Proquote now has over 1,500 screens, and more than 100 corporate customers. During the period, Proquote also rolled out its new network connection allowing customers to link up to SETS via the internet from any location.

RNS, the Exchange's financial communications service, contributed £3.6 million to Information Services' turnover (2002: £3.4 million). RNS continues to hold a significant share of the highly competitive regulatory news distribution market, with 89 companies in the FTSE 100 using RNS to release regulatory announcements.

FTSE, the Exchange's joint venture, also performed well. For the six months, the Exchange's share of FTSE turnover was £6.2 million, an increase of 11 per cent over the corresponding period last year (2002: £5.6 million).

During the period, the Exchange launched the first stages of the Corporate Data Warehouse, a new technology infrastructure developed to meet the strong market demand for Exchange originated real time and historic data. SEDOL, the Exchange's securities numbering service is on track for launch in an improved form in the first calendar quarter 2004, providing unique identification for securities on a global basis. Users are already entering agreements for the use of this new service.

Derivative Services

EDX London, our new joint owned equity derivatives business, commenced trading on 30 June 2003 following approval as a Recognised Investment Exchange by the Financial Services Authority. Turnover for the three months to 30 September 2003 was £1.6 million, broadly in line with our expectations, whilst operating costs were slightly higher at £2.0 million, including £0.2 million goodwill amortisation. During the first three months of operations, 3.7 million contracts were traded.

Tax Credit

During the period we reached agreement with the Inland Revenue on the tax treatment of certain exceptional expenditure incurred in a number of prior years. This is mainly in respect of advisers' fees for corporate activity and resulted in a one-off tax credit of £2.7 million.

Interim Dividend

The Directors have declared an interim dividend of 1.4 pence per share (2002: 1.3 pence per share) to those shareholders on the register on 5 December 2003, for payment on 5 January 2004.

Current trading and prospects

As expected, this is proving to be a challenging year. Although various market indices have risen since March, our financial performance is not directly linked to the level of the market and it may therefore take a period of time for benefits to be reflected in our main business areas. At present, we see a continuation of trends, in particular no significant improvement in the IPO market and terminal numbers remain under pressure.

However, SETS is expected to underpin performance in our Broker Services division and new services are contributing to the top line. Overall, the Board is confident that performance for the year will remain resilient.

C. S. Gibson-Smith.

Chris Gibson-Smith

Chairman
6 November 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Six months ended 30 September 2003

Continuing operations	Notes	Six months ended 30 September Existing operations 2003 £m	Acquisition 2003 £m	Total 2003 £m	2002 £m	Year ended 31 March 2003 £m
Turnover						
Group and share of joint venture		**118.0**	**1.6**	**119.6**	119.5	237.3
Less: share of joint venture's turnover		**(6.2)**	**–**	**(6.2)**	(5.6)	(11.4)
Net turnover	2	**111.8**	**1.6**	**113.4**	113.9	225.9
Administrative expenses						
Operating costs		**(70.4)**	**(2.0)**	**(72.4)**	(73.4)	(144.3)
Exceptional items	3	**–**	**–**	**–**	2.3	(11.6)
		(70.4)	**(2.0)**	**(72.4)**	(71.1)	(155.9)
Operating profit						
Before exceptional items and goodwill amortisation		**41.9**	**(0.2)**	**41.7**	40.5	81.7
Before exceptional items		**41.4**	**(0.4)**	**41.0**	40.5	81.6
After exceptional items		**41.4**	**(0.4)**	**41.0**	42.8	70.0
Share of operating profit of joint venture and income from other fixed asset investments				**0.7**	0.6	1.1
Net interest receivable	4			**3.0**	4.0	8.4
Profit on ordinary activities before taxation				**44.7**	47.4	79.5
Taxation on profit on ordinary activities	5			**(11.2)**	(15.1)	(26.8)
Profit on ordinary activities after taxation				**33.5**	32.3	52.7
Minority interests				**0.1**	–	–
Profit for the financial period				**33.6**	32.3	52.7
Dividends				**(4.1)**	(3.7)	(12.5)
Retained profit for the financial period				**29.5**	28.6	40.2
Earnings per share	6			**11.5p**	11.1p	18.1p
Diluted earnings per share	6			**11.4p**	11.0p	17.9p
Adjusted earnings per share	6			**10.8p**	10.5p	20.9p
Dividend per share				**1.4p**	1.3p	4.3p

There were no other recognised gains and losses during the period.

CONSOLIDATED BALANCE SHEET

30 September 2003

	Notes	30 September 2003 £m	30 September 2002 £m	31 March 2003 £m
Fixed assets				
Intangible assets	7	**27.3**	–	14.1
Tangible assets		**137.0**	114.9	126.3
		164.3	114.9	140.4
Investments				
Investments in joint venture		**1.9**	1.9	1.5
Other investments	8	**7.9**	10.8	10.1
		9.8	12.7	11.6
		174.1	127.6	152.0
Current assets				
Debtors		**66.7**	49.2	64.3
Investments – term deposits		**219.0**	233.0	207.0
Cash at bank		**6.6**	4.1	4.0
		292.3	286.3	275.3
Creditors: amounts falling due within one year		**72.4**	75.6	64.0
Net current assets		**219.9**	210.7	211.3
Total assets less current liabilities		**394.0**	338.3	363.3
Creditors: amounts falling due after more than one year		**0.5**	–	–
Provisions for liabilities and charges	9	**41.8**	28.4	41.6
Net assets		**351.7**	309.9	321.7
Capital and reserves				
Called up share capital		**14.9**	14.9	14.9
Reserves				
Revaluation reserve		**43.0**	44.9	44.0
Profit and loss account		**293.1**	250.1	262.6
Equity shareholders' funds		**351.0**	309.9	321.5
Equity minority interest		**0.7**	–	0.2
Total shareholders' funds		**351.7**	309.9	321.7

CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 September 2003

	Notes	Six months ended 30 September 2003 £m	Six months ended 30 September 2002 £m	Year ended 31 March 2003 £m
Net cash inflow from continuing operations:				
Ongoing operating activities	11(i)	**54.8**	53.8	74.8
Exceptional items	11(i)	–	9.3	10.4
Net cash inflow from operating activities		**54.8**	63.1	85.2
Dividends from joint venture		**0.7**	1.2	1.2
Returns on investments and servicing of finance				
Interest received		**3.2**	4.7	9.5
Dividends received		**0.1**	–	–
Net cash inflow from returns on investments and servicing of finance		**3.3**	4.7	9.5
Taxation				
Corporation tax paid		**(8.6)**	(6.7)	(25.2)
Capital expenditure and financial investments				
Payments to acquire tangible fixed assets		**(18.3)**	(8.4)	(28.1)
Receipts from sale of fixed asset investments		**1.2**	0.6	0.7
Net cash outflow from capital expenditure and financial investments		**(17.1)**	(7.8)	(27.4)
Acquisitions				
Acquisition of subsidiary undertaking		**(14.0)**	–	(11.8)
Net cash acquired with subsidiary undertaking		–	–	0.5
Net cash outflow for acquisition		**(14.0)**	–	(11.3)
Dividends paid		**(8.8)**	(7.3)	(11.1)
Net cash inflow before use of liquid resources and financing		**10.3**	47.2	20.9
Management of liquid resources				
Increase in term deposits	11(ii)	**(12.0)**	(47.0)	(21.0)
Financing				
Issue of ordinary share capital to minority interest		**0.6**	–	0.2
Loans received from minority shareholder				
due within one year		**3.2**	–	–
due after one year		**0.5**	–	–
Increase in cash in the period	11(ii)	**2.6**	0.2	0.1

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

Basis of accounting and consolidation

The interim financial information is prepared in accordance with applicable UK accounting standards under the historical cost convention modified by the revaluation of certain fixed assets. The interim financial information is prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 March 2003 and are unaudited. The interim financial information does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

Comparative figures for the year ended 31 March 2003 are an abridged version of the Group's full accounts which carried an unqualified audit report and have been delivered to the Registrar of Companies.

2. Turnover

	Six months ended 30 September		Year ended 31 March
	2003 £m	2002 £m	2003 £m
Continuing operations			
Issuer Services	**18.4**	19.2	36.0
Broker Services	**43.7**	43.7	87.3
Information Services	**50.2**	50.7	102.2
Derivative Services	**1.7**	–	–
Other income	**5.6**	5.9	11.8
Gross turnover	**119.6**	119.5	237.3
Less: share of joint venture's turnover	**(6.2)**	(5.6)	(11.4)
Net turnover	**113.4**	113.9	225.9

3. Exceptional items

	Six months ended 30 September		Year ended 31 March
	2003 £m	2002 £m	2003 £m
VAT repayment	**–**	9.3	10.4
Provision in respect of leasehold properties	**–**	(7.0)	(22.0)
	–	2.3	(11.6)
Taxation effect	**–**	(0.7)	3.5

The VAT repayment represents a recovery of VAT paid between 1990 and 2001. Following successful negotiation with Customs and Excise, a retrospective change in the method for calculating VAT recoverable on expenditure has been agreed, resulting in this repayment.

The increase in provision for leasehold properties is in respect of space to be sublet in new headquarters at Paternoster Square.

4. Net interest receivable

	Six months ended 30 September 2003 £m	2002 £m	Year ended 31 March 2003 £m
Interest receivable			
Bank deposit and other interest	**3.8**	4.4	9.3
Interest payable			
Interest on discounted provision for leasehold properties	**(0.8)**	(0.4)	(0.9)
Net interest receivable	**3.0**	**4.0**	**8.4**

5. Taxation

	Six months ended 30 September 2003 £m	2002 £m	Year ended 31 March 2003 £m
Current tax:			
Corporation tax for the period at 30%	**13.7**	14.3	23.9
Adjustments in respect of previous periods	**(3.1)**	–	–
	10.6	14.3	23.9
Deferred taxation	**0.4**	0.6	2.5
Joint venture	**0.2**	0.2	0.4
Taxation charge	**11.2**	15.1	26.8

The adjustments in respect of previous periods for corporation tax are for tax assessments now agreed with the Inland Revenue. In particular, the tax treatment of certain exceptional expenditure incurred in prior years in respect of advisers' fees for corporate activity has now been agreed resulting in a tax credit of £2.7m, see note 6.

Factors affecting the current tax charge for the period

The current tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2002: 30%). The variations are explained below:

	Six months ended 30 September 2003 £m	2002 £m	Year ended 31 March 2003 £m
Profit on ordinary activities before tax	**44.7**	47.4	79.5
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**13.4**	14.2	23.9
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	**0.8**	0.6	2.6
Accounting deduction less than taxation allowance – timing difference	**(0.5)**	(0.5)	(2.6)
Adjustments to tax charge in respect of previous periods	**(3.1)**	–	–
Corporation tax charge	**10.6**	14.3	23.9

Factors that may affect future tax charges

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

6. 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 which would arise on the conversion or vesting of share options and share awards under the Employee Share Ownership Plan (ESOP). Adjusted earnings per share excludes exceptional items and amortisation of goodwill to enable comparison of the underlying earnings of the business with prior periods.

	Six months ended 30 September 2003 £m	Six months ended 30 September 2002 £m	Year ended 31 March 2003 £m
Earnings per share	**11.5p**	11.1p	18.1p
Diluted earnings per share	**11.4p**	11.0p	17.9p
Adjusted earnings per share	**10.8p**	10.5p	20.9p
Profit for the financial period	**33.6**	32.3	52.7
Adjustments:			
Exceptional items	**–**	(2.3)	11.6
Amortisation of goodwill	**0.7**	–	0.1
Tax effect of exceptional items and amortisation of goodwill	**(2.8)**	0.7	(3.5)
Adjusted profit for the financial period	**31.5**	30.7	60.9
Weighted average number of shares – million	**292.4**	291.8	291.9
Effect of dilutive share options and awards – million	**2.6**	2.9	3.0
Diluted weighted average number of shares – million	**295.0**	294.7	294.9

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 292.4m (September 2002: 291.8m; March 2003: 291.9m).

The tax effect of exceptional items and amortisation of goodwill for the six months to September 2003 includes an exceptional tax credit of £2.7m in respect of previous periods - see note 5.

7. Intangible assets

	Goodwill £m
Cost:	
1 April 2003	**14.2**
Additions during the period (see note 12)	**13.9**
30 September 2003	**28.1**
Amortisation:	
1 April 2003	**0.1**
Charge for the period	**0.7**
30 September 2003	**0.8**
Net book value:	
30 September 2003	**27.3**

8. Fixed asset investments

Other investments include £7.5m (September 2002: £10.4m; March 2003: £9.7m) in respect of 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 the awards/grants is charged to the profit and loss account over the period of service for which the awards and options are granted.

9. Provisions for liabilities and charges

	Property £m	Deferred consideration £m	Total £m
1 April 2003	38.0	3.6	**41.6**
Utilised during the period	(0.6)	–	**(0.6)**
Interest on discounted provision	0.8	–	**0.8**
30 September 2003	38.2	3.6	**41.8**

Property
The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting space which is surplus to business requirements. The leases have between 11 and 25 years to expiry.

Deferred consideration
Deferred consideration relates to amounts payable to former shareholders of Proquote Ltd, contingent upon Proquote Ltd achieving certain revenue targets. The total deferred consideration has been estimated at £3.6m and can be up to a maximum of £11.0m.

10. Reconciliation of movements in shareholders' funds

	Six months ended 30 September 2003 £m	Six months ended 30 September 2002 £m	Year ended 31 March 2003 £m
Profit for the financial period	**33.6**	32.3	52.7
Dividends	**(4.1)**	(3.7)	(12.5)
Net addition to shareholders' funds	**29.5**	28.6	40.2
Opening equity shareholders' funds	**321.5**	281.3	281.3
Closing equity shareholders' funds	**351.0**	309.9	321.5

11. Notes to the consolidated cash flow statement

	Six months ended 30 September 2003 £m	Six months ended 30 September 2002 £m	Year ended 31 March 2003 £m
i) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	**41.0**	42.8	70.0
Depreciation of tangible assets	**10.7**	9.6	19.0
Amortisation of goodwill	**0.7**	–	0.1
Profit on disposal of fixed assets	**(0.1)**	–	–
Increase in debtors	**(2.9)**	(4.5)	(19.2)
Increase/(decrease) in creditors	**5.6**	8.5	(1.6)
Increase in property provision	**–**	7.0	22.0
Provisions utilised during the period	**(0.6)**	(0.7)	(5.9)
Amortisation of own shares	**0.4**	0.4	0.8
Net cash inflow from operating activities	**54.8**	63.1	85.2
Comprising:			
Ongoing operating activities	**54.8**	53.8	74.8
Exceptional items (see note 3)	**–**	9.3	10.4
Net cash inflow	**54.8**	63.1	85.2

11. Notes to the consolidated cash flow statement (continued)

	At 1 April 2003 £m	Cash flows £m	At 30 September 2003 £m
ii) Analysis of changes in net funds			
Cash in hand and at bank	4.0	2.6	**6.6**
Debt due within one year	–	(3.2)	**(3.2)**
Debt due after more than one year	–	(0.5)	**(0.5)**
Current asset investments	207.0	12.0	**219.0**
Total net funds	211.0	10.9	**221.9**

12. Acquisition

EDX London Ltd

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

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

INDEPENDENT REVIEW REPORT TO LONDON STOCK EXCHANGE PLC

Introduction

We have been instructed by the company to review the financial information set out on pages 4 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2003.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
6 November 2003

Financial calendar

Interim dividend record date	5 December 2003
Interim dividend payment date	5 January 2004
Q3 trading statement (revenues only)	January 2004
Financial year end	31 March 2004
Preliminary results	May 2004
Annual General Meeting	July 2004

The financial calendar is updated throughout the year. Please refer to our website **www.londonstockexchange-ir.com** for up to date details and other shareholder services.

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