London STOCK EXCHANGE

INTERIM REPORT

Six months ended 30 September 2005

Contents

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

Chris Gibson-Smith
Chairman

The Exchange has demonstrated robust strength as an independent business, making an excellent start to the financial year, despite the backdrop of an Offer period. We have delivered strong trading in all of the Exchange's core business areas, reflecting our initiatives to encourage greater market activity during a period of improving market conditions. Issuer Services saw a significant increase in the number of new issues on both the Main Market and on AIM, including an increase in international listings. Broker Services continued to demonstrate impressive growth on the SETS electronic order book as daily bargains reached new levels, helped by our development of SETSmm as well as the incentives to greater trading provided by the volume discount initiative. A further uplift in the number of terminals taking real time Exchange data and SEDOL's success helped Information Services to post increased revenues.

The Exchange is capitalising on more buoyant equity markets through products and initiatives that make our markets amongst the most attractive in the world. The Exchange continues to develop to meet the opportunities of a changing global exchange landscape through innovative services and close customer relationships. Together with our upgraded technology platform, strong brand and position at the centre of Europe's largest equity market, the Exchange will continue to grow.

Financial results

Unless otherwise stated, all figures below refer to the six months ended 30 September 2005. Comparative figures are for the corresponding period last year, restated under International Financial Reporting Standards.

The Exchange delivered an excellent trading performance in the first six months of the year, with turnover up 15 per cent to £136.1 million (2004: £118.3 million). Operating costs excluding exceptional items rose 10 per cent to £85.3 million (2004: £77.4 million) and, reflecting the operational gearing of the business, operating profit (before exceptional items) increased 24 per cent to £50.8 million (2004: £40.9 million).

Total expenses for the half year rose to £111.0 million (2004: £77.4m) with the inclusion of £25.7 million of exceptional items incurred in the period, comprising £2.6 million for advisers' fees in respect of potential offers for the company, and a £23.1 million charge in respect of EDX London, principally for the impairment of goodwill.

Adjusted earnings per share, excluding exceptional items, increased 40 per cent to 15.7 pence per share (2004: 11.2 pence per share). Basic earnings per share reduced to 9.6 pence per share from 12.8 pence per share.

For the half year, operating cash flows from operating activities increased significantly to £76.0 million, up 29 per cent (2004: £59.0 million). At 30 September 2005, cash balances rose to £166.1 million (31 March 2005: £124.4 million).

Issuer Services

Issuer Services delivered a strong first half performance with revenue increasing 34 per cent to £26.8 million (2004: £20.0 million), contributing 20 per cent to total turnover.

For the first six months of the financial year there were 306 new issues on the Exchange's markets, a notable 43 per cent increase over the same time last year (2004: 214). Included in this total were 82 new issues in June alone, the highest monthly number for eight years. New issues on the Main Market increased from 30 to 47, with the average market capitalisation of an IPO during the period increasing to £353 million (2004: £212 million).

In total, new and further issues raised £12.4 billion of new capital (2004: £9.5 billion) in the period. The appeal of the Exchange's markets is demonstrated by the 69 per cent share of IPOs in Western Europe (2004: 78 per cent) as companies access the largest liquidity pool in Europe. At 30 September 2005 the number of companies on our markets increased to 3,013 (2004: 2,765).

AIM, the world's most successful market for smaller, growing companies, delivered further strong growth in the period, with 259 companies joining the market in the first half of the financial year (2004: 184). At 30 September 2005 the number of companies traded on AIM increased to 1,311 (2004: 936), including 185 international companies, nearly double the number last year (2004: 94). AIM appeals to companies from a wide range of industries, covering 33 sectors, with notable success in attracting mining and oil and gas companies, as well as increases in chemicals, telecoms, support services and IT hardware sector stocks.

At the beginning of October 2005 the Exchange announced AIM for Europe, its plan to meet the demand among small and medium sized companies across Europe for equity growth capital. To this end the Exchange is developing a network of links with investors, advisers, intermediaries and issuers across Europe to extend the environment that has made AIM an international success.

RNS, the Exchange's financial communications service, contributed £4.2 million to Issuer Services' turnover (2004: £3.6 million). With over 90 companies in the FTSE 100 continuing to use the Exchange to release regulatory announcements in the half year, RNS has maintained a significant share of the regulatory news distribution market.

Broker Services

Broker Services produced another excellent performance as turnover for the half year increased 17 per cent to £56.9 million (2004: £48.6 million), accounting for 42 per cent of total turnover.

During the period, the total number of equity bargains rose 31 per cent to 40.6 million (2004: 31.0 million), a daily average of 317,000 bargains (2004: 246,000). The daily average number of bargains traded on SETS, the electronic order book, increased 30 per cent to 201,000 (2004: 155,000), with July a record month as SETS bargains per day averaged 222,000. Value traded during the first half increased 23 per cent to £523 billion (2004: £424 billion). The average value of a SETS bargain decreased to £20,000 compared to H1 last year (2004: £22,000) but increased slightly on the second half of last year.

A number of factors have contributed to the growth of trading on SETS, including the increased activity on the Exchange's primary markets, use of algorithmic/black box trading and the increasing impact of derivatives-based business originating in the broader UK market. In addition, the growth reflects the continued effects of the volume discount scheme, introduced last year, which lowers the cost of trading and therefore provides an incentive for greater trading volumes.

Trading on the electronic order book also benefited from the development of SETSmm, which trades mid-cap securities on a hybrid market structure. SETSmm averaged 29,000 bargains per day (2004: 13,000) and has helped drive increased liquidity and reduced spreads in the stocks traded. In July 2005 an additional 198 securities were added to SETSmm, bringing the total to 453.

During the half year, SETS contributed approximately 68 per cent of Broker Services' income (2004: 65 per cent), with 65 per cent of eligible trades (by value) executed on the electronic order book (2004: 62 per cent).

The total value of equity bargains for the period increased 14 per cent to £2.5 trillion (2004: £2.2 trillion), reflecting the increase in SETS trading and the number of international bargains which rose to an average 72,000 bargains per day (2004: 45,000). During the period, the daily average number of off book bargains reduced slightly to 44,000 (2004: 46,000).

Information Services

Information Services' revenue rose six per cent to £45.1 million (2004: £42.4 million), contributing 33 per cent of total turnover for the half year.

The number of terminals taking the Exchange's real time market data continued the rise seen since the start of the second half of last year, increasing to 98,000 at 30 September 2005, up 8,000 from the same point last year (2004: 90,000). Of this total, approximately 85,000 terminals were attributable to professional users, up 2,000 on the number at the end of the last financial year and up 5,000 on the comparable period (2004: 80,000). Proquote, the Exchange's provider of financial market software and data, increased the number of installed screens to 2,900 (2004: 2,300).

SEDOL Masterfile, the extension to the Exchange's securities numbering service that provides unique identification for securities on a global basis, continues to make good progress. The number of securities with SEDOL identification has increased from 450,000 at end of March 2005 to over 700,000, with over 1,000 licences signed for the use of the service.

Infolect, the Exchange's new high performance delivery system that carries real time market data to customers, was successfully tested over the summer and was implemented in September. This marks an important milestone in the Exchange's Technology Roadmap, a four year project to transition the Exchange's IT systems and operations to next generation technology. Infolect provides a 15 times faster service, with the capacity to support future market growth and increased message volumes, at a tenth of the development cost of the previous system.

Derivatives Services

Turnover for Derivatives Services, which mainly comprises EDX London, the Exchange's jointly owned equity derivatives business, increased to £3.9 million in the half year (2004: £3.6 million). During the period EDX traded a total of 10.1 million contracts (2004: 9.2 million). Although development of services for the over-the-counter equity derivatives market continued during the period, this service does not justify further investment. Accordingly, we have recognised an exceptional charge of £23.1 million, principally in respect of the impairment of goodwill.

Interim Dividend

The Directors have declared an interim dividend of 4.0 pence per share (2004/5: interim 2.0 pence per share; final 5.0 pence per share). This doubling of the interim dividend reflects a re-setting of the dividend payout, the strong trading seen so far this financial year and the Directors' confidence in the future prospects of the business. The level of increase is consistent with the Exchange's desire to move the dividend payment further forward, and signals the Company's new dividend policy of sustainable, progressive dividends. The interim dividend will be paid to those shareholders on the register on 9 December 2005, for payment on 6 January 2006.

Capital Return and Share Buyback Programme

Following the return to shareholders of £162.5 million by special dividend in August 2004, the Board has kept the Exchange's capital position under regular review. The strong trading performance and cash generation over the past year has enabled the Board to recommend a further distribution of cash to shareholders. Accordingly, the Exchange intends to effect a capital return of £250 million, subject to shareholder and court approval. Implementation of the capital return is expected to commence when the current Offer period in respect of the Exchange expires, or as soon as circumstances allow. In addition, the Exchange intends to commence an ongoing share buyback programme following the return of capital.

A new company structure arising from a Scheme of Arrangement will be effected in such a way as to maintain sufficient distributable reserves to enable payment of dividends and possible future capital returns. The Board believes that the Exchange has the financial flexibility to pursue opportunities for further growth through its proposed new structure, its continued cash generation capability, together with significant available loan facilities.

Outlook

Many of the positive trends apparent in our markets in the first half of the financial year have continued into the second half:

- the primary market remains buoyant, with the size of companies joining our Main Market in October more than double last year;
- SETS continues to perform strongly, with 32% growth in daily bargains in October over the same period last year; and
- demand for real time trading data remains encouraging.

Meanwhile, the Exchange continues to focus on improving operational efficiencies while continuing to invest in the business. Ongoing cost control should keep costs next year at the same level as the current financial year.

Going forward, our focus on the business needs of our issuers, intermediaries and investors, product innovation and international business development supports our expectation of continuing strong trading performance.

Chris Gibson-Smith
Chairman
3 November 2005

Six months ended 30 September 2005

		Six months ended 30 September		Year ended 31 March
Continuing operations	Notes	**2005 Unaudited £m**	2004 Unaudited £m	2005 Unaudited £m
Revenue	2	**136.1**	118.3	244.4
Expenses	2	**(111.0)**	(77.4)	(166.6)
Profit on disposal of Stock Exchange Tower	3	**–**	4.5	6.7
Operating profit		**25.1**	45.4	84.5
Analysed as:				
Operating profit before exceptional items		**50.8**	40.9	84.6
Exceptional items	3	**(25.7)**	4.5	(0.1)
Operating profit		**25.1**	45.4	84.5
Finance income		**9.9**	10.2	19.2
Finance costs		**(6.5)**	(6.4)	(12.7)
Net finance income	4	**3.4**	3.8	6.5
Share of profit after tax of joint venture		**0.6**	0.6	1.1
Investment income		**0.3**	0.1	0.1
Profit before taxation		**29.4**	49.9	92.2
Taxation	5	**(8.8)**	(13.8)	(27.7)
Profit for the financial period		**20.6**	36.1	64.5
Loss attributable to minority interest		**(3.8)**	(0.2)	(0.5)
Profit attributable to equity holders		**24.4**	36.3	65.0
		20.6	36.1	64.5
Basic earnings per share	6	**9.6p**	12.8p	24.2p
Diluted earnings per share	6	**9.5p**	12.7p	23.9p
Dividend per share in respect of financial period (excluding special dividend)	7			
Dividend per share paid during the period		**5.0p**	3.4p	5.4p
Dividend per share proposed for the period		**4.0p**	2.0p	7.0p

30 September 2005

		30 September		31 March
	Notes	**2005 Unaudited £m**	2004 Unaudited £m	2005 Unaudited £m
Assets				
Non-current assets				
Property, plant and equipment		**66.2**	70.6	71.7
Intangible assets	8	**49.1**	66.3	65.0
Available for sale investments		**0.4**	0.4	0.4
Investment in joint venture	9	**1.8**	1.7	2.2
Trade and other receivables	10	**–**	30.9	–
Deferred tax assets		**18.4**	15.8	14.8
		135.9	185.7	154.1
Current assets				
Trade and other receivables	10	**79.1**	43.6	81.9
Cash and cash equivalents		**166.1**	117.7	124.4
		245.2	161.3	206.3
Total assets		**381.1**	347.0	360.4
Liabilities				
Current liabilities				
Trade and other payables		**58.3**	56.4	49.1
Current tax		**13.2**	13.2	13.0
Borrowings		**2.8**	3.2	2.8
Provisions	11	**15.5**	7.9	11.9
		89.8	80.7	76.8
Non-current liabilities				
Borrowings		**0.5**	0.5	0.5
Retirement benefit obligations	12	**16.5**	18.3	18.7
Provisions	11	**27.1**	36.0	28.1
		44.1	54.8	47.3
Total liabilities		**133.9**	135.5	124.1
Net assets		**247.2**	211.5	236.3
Equity				
Capital and reserves attributable to the Company's equity holders				
Share capital	13	**14.9**	14.9	14.9
Retained earnings	13	**235.0**	195.8	220.3
		249.9	210.7	235.2
Equity minority interest	13	**(2.7)**	0.8	1.1
Total equity		**247.2**	211.5	236.3

Six months ended 30 September 2005

	Notes	Six months ended 30 September 2005 Unaudited £m	2004 Unaudited £m	Year ended 31 March 2005 Unaudited £m
Cash flow from operating activities				
Cash generated from operations	14	**76.0**	59.0	95.4
Interest received		**2.9**	5.7	8.1
Interest paid		**(0.2)**	–	(0.2)
Corporation tax paid		**(12.5)**	(11.7)	(24.3)
Net cash inflow from operating activities		**66.2**	53.0	79.0
Cash flow from investing activities				
Purchase of property, plant and equipment		**(2.2)**	(15.7)	(22.3)
Purchase of intangible assets		**(12.2)**	(10.5)	(18.5)
Receipts from disposal of Stock Exchange Tower		**–**	32.9	32.3
Dividends received from joint venture		**1.0**	1.3	1.3
Dividends received from financial assets		**0.3**	0.1	0.1
Net cash (outflow)/inflow from investing activities		**(13.1)**	8.1	(7.1)
Cash flow from financing activities				
Dividends paid		**(12.6)**	(172.5)	(177.6)
Issue of ordinary share capital to minority interest		**–**	–	0.2
Loans received from minority shareholder		**–**	0.3	0.3
Redemption of loan notes		**–**	(1.5)	(1.5)
Purchase of own shares by ESOP trust		**–**	–	(2.5)
Proceeds from own shares on exercise of employee share options		**1.2**	2.4	5.7
Net cash outflow from financing activities		**(11.4)**	(171.3)	(175.4)
Increase/(decrease) in cash and cash equivalents		**41.7**	(110.2)	(103.5)
Cash and cash equivalents at beginning of period		**124.4**	227.9	227.9
Cash and cash equivalents at end of period		**166.1**	117.7	124.4

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Six months ended 30 September 2005

	Six months ended 30 September		**Year ended 31 March**
	2005 Unaudited £m	2004 Unaudited £m	2005 Unaudited £m
Profit for the financial period	**20.6**	36.1	64.5
Defined benefit pension scheme actuarial gain/(loss), net of tax (see note 5)	**0.8**	(0.9)	(1.8)
Total recognised income and expense for the financial period	**21.4**	35.2	62.7
Attributable to minority interest	**(3.8)**	(0.2)	(0.5)
Attributable to equity holders	**25.2**	35.4	63.2
	21.4	35.2	62.7

NOTES TO THE FINANCIAL INFORMATION

The interim report for the six months ended 30 September 2005 was approved by the Directors on 3 November 2005.

1. Basis of preparation and accounting policies

The Group's financial statements for the year ended 31 March 2005 were presented under UK Generally Accepted Accounting Principles (UK GAAP).

To comply with European Union (EU) legislation the Group is required to prepare its consolidated financial statements for the year ending 31 March 2006 in accordance with International Financial Reporting Standards (IFRS). Accordingly, this interim financial information has been prepared using the IFRS accounting policies which management expects to apply in the Group's first IFRS financial statements for the year ending 31 March 2006. The Directors have assumed that the EU will endorse the amendments to IAS 19 Employee Benefits published by the IASB in December 2004 allowing actuarial gains and losses to be recognised in full through equity.

The interim financial information is prepared under the historic cost convention and on the basis of the principle accounting policies set out below. These policies are consistent with those adopted for the restatement of the Group's financial statements for the year ended 31 March 2005, which was published on 21 July 2005. The financial information consolidates the financial information of the Company and its subsidiaries, with all intercompany balances and transactions eliminated. IFRS currently in issue are subject to ongoing amendment by the IASB and subsequent endorsement by the EU and are therefore subject to change. The Group's IFRS financial statements for the year ending 31 March 2006 may, therefore, be prepared in accordance with some different accounting policies from the information presented here.

The interim financial information is unaudited and does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

The Group's statutory consolidated financial statements for the year ended 31 March 2005 were presented under UK GAAP, carried an unqualified audit report and have been delivered to the Registrar of Companies. Comparative figures for the year ended 31 March 2005 presented here are an abridged version of the Group's full accounts and have been adjusted to reflect the transition to IFRS and are unaudited.

1. Basis of preparation and accounting policies (continued)

Accounting policies

Revenue
Revenue represents the total amount receivable for the provision of goods and services, excluding value added tax. Revenue 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; and
c) data, transaction and Exchange charges are recognised in the month in which the data is provided or the transaction is effected.

Foreign currencies
The consolidated financial information is presented in sterling, which is the Group's presentation and functional currency. Transactions in foreign currencies and currency balances at the period end are converted at the rate ruling at the transaction date or period end date respectively, with any gains or losses recognised in the income statement.

Intangible assets
a) Goodwill arising on the acquisition of subsidiaries represents the excess of consideration paid over the fair value of net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.
b) Third party software costs for the development and implementation of systems which enhance the services provided by the Group are capitalised and amortised over their estimated useful lives, which is an average of three years.

Property, plant and equipment
a) Freehold properties, including related fixed plant, are included in the financial information at cost less accumulated depreciation and any provision for impairment. Freehold buildings and related fixed plant are depreciated to residual value, based on cost at the beginning of the year plus subsequent additions, over their estimated economic lives. The economic lives of properties are for approximately 50 years, the estimated useful lives of fixed plant range from five to 20 years;
b) Leasehold properties and improvements are included at cost and depreciated to residual value over the shorter of the period of the lease or the economic life of the asset;
c) Plant and equipment is stated at cost and is depreciated to residual value on a straight line basis over the estimated useful lives of the assets, which are mainly in the range from three to five years; and
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. Residual values and economic lives are reviewed at each balance sheet date.

Joint ventures
Investments in joint ventures are accounted for under the equity method and are initially recognised at cost. The Group's share of profits or losses after tax from joint ventures is included in the consolidated income statement. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the Group's balance sheet.

Cash and cash equivalents
Cash and cash equivalents comprises cash at bank and term deposits that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Financial instruments
a) Investments (other than fixed deposits and interests in joint ventures and subsidiaries) are designated as available for sale and are recorded on trade date at fair value with changes in fair value recognised in equity. Where the fair value is not reliably measurable, the investment is held at cost.
b) Foreign currency derivatives are recorded at fair value. The method of recording gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. The Group designates foreign currency derivatives where they meet the relevant IAS 39 criteria as cash flow hedges with the movement in fair value recognised in equity. Amounts recognised in equity are transferred to the income statement when the hedged item is recognised in the income statement.
c) The Company's own shares held by the ESOP trust are deducted from equity until they vest unconditionally in employees.
d) Consideration paid in respect of Treasury shares is deducted from equity until the shares are cancelled, reissued or disposed of.

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 income statement when incurred. Lease incentives are spread over the term of the lease. Provision is made in the accounts for lease commitments, less income from sub-letting, for property space which is surplus to business requirements.

Pension costs
The Group operates defined benefit and defined contribution pension schemes. For the defined benefit scheme the service cost, representing benefits accruing to employees, is included as an operating expense, and the expected return on scheme assets and interest cost from unwinding of the discount on scheme obligations are included as finance income and finance costs respectively. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions or differences between actual and expected returns on assets are recognised at each period end in the statement of recognised income and expense. The net asset or liability recognised on the balance sheet comprises the present value of pension obligations and the fair value of scheme assets. For defined contribution schemes, the expense is charged to the income statement as incurred.

Deferred taxation
Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred taxation is determined using tax rates expected to apply when the asset is realised or liability settled.

Deferred tax assets are recognised to the extent it is probable that they will be recoverable against future taxable profits.

Share based compensation
The Group operates a number of equity settled share based compensation plans for employees. The charge to the income statement is determined by the fair value of the options granted or shares awarded at the date of grant and recognised over the vesting period.

IFRS 1 transitional arrangements
The following exemptions have been applied to the financial information:

a) Business combinations
The Group has chosen not to restate business combinations prior to the transition date, 1 April 2004;

b) Fair value or revaluation at deemed cost
The Group has chosen to restate freehold properties, other than the Stock Exchange Tower which has since been sold, to fair value as deemed cost at the transition date;

c) Employee benefits
The Group has chosen to recognise all cumulative pension scheme actuarial gains and losses in equity at the transition date; and

d) Share based payments
The Group has chosen to apply IFRS 2 Share-based payments to awards granted after 7 November 2002.

2. Segment information

Segmental disclosures for the six months ended 30 September 2005 are as follows:

	Issuer Services £m	Broker Services £m	Information Services £m	Derivatives Services £m	Other £m	Corporate £m	Group £m
Revenue	26.8	56.9	45.1	3.9	3.4	–	136.1
Expenses							
Depreciation and amortisation	(1.3)	(7.0)	(4.1)	(0.6)	(0.1)	(0.3)	(13.4)
Exceptional impairment of goodwill and other exceptional costs (see note 3)	–	–	–	(23.1)	–	(2.6)	(25.7)
Other expenses	(15.3)	(21.4)	(22.3)	(5.3)	(3.4)	(4.2)	(71.9)
Total	(16.6)	(28.4)	(26.4)	(29.0)	(3.5)	(7.1)	(111.0)
Operating profit	10.2	28.5	18.7	(25.1)	(0.1)	(7.1)	25.1
Share of profit after tax of joint venture	–	–	0.6	–	–	–	0.6

Comparative segmental disclosures for the six months ended 30 September 2004 are as follows:

	Issuer Services £m	Broker Services £m	Information Services £m	Derivatives Services £m	Other £m	Corporate £m	Group £m
Revenue	20.0	48.6	42.4	3.6	3.7	–	118.3
Expenses							
Depreciation and amortisation	(1.3)	(6.0)	(5.0)	(0.4)	(0.3)	(0.2)	(13.2)
Other expenses	(12.8)	(18.2)	(21.9)	(5.2)	(2.0)	(4.1)	(64.2)
Total	(14.1)	(24.2)	(26.9)	(5.6)	(2.3)	(4.3)	(77.4)
Profit on disposal of Stock Exchange Tower	–	–	–	–	–	4.5	4.5
Operating profit	5.9	24.4	15.5	(2.0)	1.4	0.2	45.4
Share of profit after tax of joint venture	–	–	0.6	–	–	–	0.6

The Other segment represents property letting and activities not directly related to the main four business segments. Corporate expenses are for corporate services which cannot reasonably be allocated to business segments.

Principal operations of the Group are in the United Kingdom.

3. Exceptional items

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Fees in respect of potential offers for the Company	**(2.6)**	–	(6.8)
Impairment of goodwill and provision in respect of EDX London Ltd (see notes 8 & 11)	**(23.1)**	–	–
Profit on disposal of Stock Exchange Tower	**–**	4.5	6.7
Total exceptional items	**(25.7)**	4.5	(0.1)

4. Net finance income

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Finance income			
Bank deposit and other interest	**4.5**	5.1	9.0
Expected return on defined benefit pension scheme assets (see note 12)	**5.4**	5.1	10.2
	9.9	10.2	19.2
Finance costs			
Interest on discounted provision for leasehold properties (see note 11)	**(0.8)**	(0.9)	(1.7)
Defined benefit pension scheme interest cost (see note 12)	**(5.6)**	(5.4)	(10.7)
Interest payable on other loans	**(0.1)**	(0.1)	(0.3)
	(6.5)	(6.4)	(12.7)
Net finance income	**3.4**	3.8	6.5

5. Taxation

	Six months ended 30 September		Year ended 31 March
Taxation charged to the income statement	**2005 £m**	2004 £m	2005 £m
Current tax:			
Corporation tax for the period at 30% (2004: 30%)	**13.9**	12.7	25.1
Adjustments in respect of previous years	**(1.2)**	–	–
	12.7	12.7	25.1
Deferred taxation	**(3.9)**	1.1	2.6
Taxation charge	**8.8**	13.8	27.7

	Six months ended 30 September		Year ended 31 March
Taxation on items charged to equity	**2005 £m**	2004 £m	2005 £m
Deferred tax:			
Defined benefit pension scheme actuarial gains/losses	**0.3**	(0.3)	(0.8)

Factors affecting the tax charge for the period
The income statement tax charge assessed for the period differs from the standard rate of corporation tax in the UK of 30% (2004: 30%). The variations are explained below:

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Profit before taxation	**29.4**	49.9	92.2
Profit multiplied by standard rate of corporation tax in the UK of 30%	**8.8**	15.0	27.7
Expenses disallowed for the purpose of tax provision (primarily professional fees and profit on disposal of Stock Exchange Tower)	**1.0**	(1.0)	0.3
Share of joint venture consolidated at profit after tax	**(0.2)**	(0.2)	(0.3)
Adjustments in respect of previous years	**(0.8)**	–	–
Taxation charge	**8.8**	13.8	27.7

Factors that may affect future tax charges
The disposal of properties at their deemed cost amount would not give rise to a tax liability.

6. Earnings per share

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

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Basic earnings per share	**9.6p**	12.8p	24.2p
Diluted earnings per share	**9.5p**	12.7p	23.9p
Adjusted basic earnings per share	**15.7p**	11.2p	24.2p

	£m	£m	£m
Profit for the financial period attributable to equity holders	**24.4**	36.3	65.0
Adjustments:			
Exceptional items	**25.7**	(4.5)	0.1
Tax effect of exceptional items	**(6.6)**	–	–
Exceptional items and taxation attributable to minority interest	**(3.7)**	–	–
Adjusted profit for the financial period attributable to equity holders	**39.8**	31.8	65.1
Weighted average number of shares – million	**253.9**	284.5	269.0
Effect of dilutive share options and awards – million	**2.7**	2.0	2.9
Diluted weighted average number of shares – million	**256.6**	286.5	271.9

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 253.9m (September 2004: 284.5m; March 2005: 269.0m).

The tax effect of exceptional items for September 2005 includes a tax credit of £6.6m in respect of the impairment loss and provision for EDX London Ltd.

7. Dividends

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Final dividend – 5.0p (2004: 3.4p) per Ordinary share	**12.6**	10.0	10.0
Interim dividend – 4.0p (2004: 2.0p) per Ordinary share	**–**	–	5.1
Special interim dividend – 55p per Ordinary share	**–**	162.5	162.5
	12.6	172.5	177.6

An interim dividend relating to the six months ended 30 September 2005 of 4.0p, amounting to £10.2m is proposed. This interim dividend, which is due to be paid in January 2006, is not reflected in this financial information.

8. Intangible assets

	Goodwill £m	Software £m	Total £m
Cost:			
1 April 2005	31.2	80.2	111.4
Additions during the period	–	9.6	9.6
Revised estimate of contingent consideration (see note 11)	0.7	–	0.7
Disposals	–	(4.8)	(4.8)
30 September 2005	**31.9**	**85.0**	**116.9**
Amortisation and accumulated impairment:			
1 April 2005	1.7	44.7	46.4
Charge for the period	–	6.8	6.8
Impairment loss	19.1	0.3	19.4
Disposals	–	(4.8)	(4.8)
30 September 2005	**20.8**	**47.0**	**67.8**
Net book value:			
30 September 2005	**11.1**	**38.0**	**49.1**

An impairment review of goodwill and intangible assets of EDX London Ltd has been carried out in accordance with IAS 36 Impairment of assets.

As part of that review, the future business plan for EDX London was considered, taking account of (i) developments to date in EDX London's business; (ii) management's assessment of current market requirements and future developments; and (iii) management's view that the new over-the-counter clearing service does not justify further investment. The business plan covered the next five years with a growth rate of 2.25 per cent beyond that and cash flows discounted using a pre-tax discount rate of 13 per cent.

The carrying value of goodwill and intangible assets was not supported by the estimated net present value of future cash flows and, accordingly, an exceptional impairment loss of £19.4m has been recognised.

9. Investment in joint venture

The Group 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 £1.8m (30 September 2004: £1.7m, 31 March 2005: £2.2m) represents the Group's share of the joint venture's net assets. The Group is entitled, under a shareholders' agreement, to receive royalties from FTSE International Ltd, see below.

Summary financial information for FTSE International Ltd:

	Six months ended 30 September		**Year ended 31 March**
	2005 £m	2004 £m	2005 £m
Revenue	**16.8**	14.9	30.7
Profit after taxation	**1.2**	1.1	2.1
Total equity at period end	**4.5**	3.3	4.5
Amounts recognised in the financial information of the Group:			
Royalties receivable	**2.1**	2.0	4.1
Dividends receivable	**1.0**	1.3	1.3

10. Trade and other receivables

	30 September 2005 £m	30 September 2004 £m	31 March 2005 £m
Current assets			
Trade receivables	**17.3**	14.4	17.2
Deferred consideration on disposal of Stock Exchange Tower – due December 2005	**32.8**	–	31.8
Other receivables	**0.4**	1.7	5.5
Prepayments and accrued income	**28.6**	27.5	27.4
	79.1	43.6	81.9
Non-current assets			
Deferred consideration on disposal of Stock Exchange Tower – due December 2005	**–**	30.9	–
Total trade and other receivables	**79.1**	74.5	81.9

11. Provisions

	Property £m	Contingent consideration £m	Other £m	Total £m
1 April 2005	34.8	5.2	–	40.0
Exceptional charge during the period	–	–	3.4	3.4
Utilised during the period	(2.3)	–	–	(2.3)
Interest on discounted provision	0.8	–	–	0.8
Revised estimate of contingent consideration	–	0.7	–	0.7
30 September 2005	**33.3**	**5.9**	**3.4**	**42.6**
Non-current	27.1	–	–	27.1
Current	6.2	5.9	3.4	15.5
	33.3	**5.9**	**3.4**	**42.6**

Property
The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting space which is surplus to business requirements. The leases have between nine and 23 years to expiry.

Contingent consideration
Contingent consideration relates to the equity derivatives business acquired from OM London Exchange.
The contingent consideration has been estimated at £5.9m and can be up to a maximum of £11.2m, payable by March 2006.

Other
Other provisions relate to onerous operating contracts in respect of EDX London Ltd.

12. Retirement benefit obligations

The Group operates separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes are held separately from those of the Group.

	30 September		31 March
Defined benefit assets and obligations	**2005 £m**	2004 £m	2005 £m
Fair value of assets	**208.5**	181.8	191.3
Present value of funded obligations	**(225.0)**	(200.1)	(210.0)
Balance sheet liability	**(16.5)**	(18.3)	(18.7)

	Six months ended 30 September		Year ended 31 March
Movement in defined benefit net liability during the period	**2005 £m**	2004 £m	2005 £m
1 April 2005	**(18.7)**	(18.4)	(18.4)
Current service cost	**(0.7)**	(0.7)	(1.5)
Net finance cost	**(0.2)**	(0.3)	(0.5)
Contributions paid	**2.0**	2.3	4.3
Actuarial gain/(loss)	**1.1**	(1.2)	(2.6)
30 September 2005	**(16.5)**	(18.3)	(18.7)

13. Consolidated statement of changes in equity

	Attributable to equity holders of the Company			
	Share capital £m	Retained earnings £m	Minority interest £m	Total equity £m
1 April 2004	14.9	329.7	1.0	345.6
Total recognised income and expense for the financial period	–	35.4	(0.2)	35.2
Final dividend relating to the year ended 31 March 2004	–	(10.0)	–	(10.0)
Special interim dividend paid August 2004	–	(162.5)	–	(162.5)
Employee share schemes and own shares	–	3.2	–	3.2
30 September 2004	**14.9**	**195.8**	**0.8**	**211.5**
Total recognised income and expense for the financial period	–	27.8	(0.3)	27.5
Interim dividend relating to the period ended 30 September 2004	–	(5.1)	–	(5.1)
Employee share schemes and own shares	–	1.8	–	1.8
Issue of share capital in subsidiary undertaking	–	–	0.6	0.6
31 March 2005	**14.9**	**220.3**	**1.1**	**236.3**
Total recognised income and expense for the financial period	–	25.2	(3.8)	21.4
Final dividend relating to the year ended 31 March 2005	–	(12.6)	–	(12.6)
Employee share schemes and own shares	–	2.1	–	2.1
30 September 2005	**14.9**	**235.0**	**(2.7)**	**247.2**

The minority shareholder has committed to subscribe additional equity in excess of this negative balance of £2.7m as at 30 September 2005.

14. Net cash flow generated from operations

	Six months ended 30 September		Year ended 31 March
	2005 £m	2004 £m	2005 £m
Profit before taxation	**29.4**	49.9	92.2
Depreciation and amortisation	**13.4**	13.2	28.7
Impairment loss and provision for EDX London Ltd	**23.1**	–	–
Profit on disposal of Stock Exchange Tower	**–**	(4.5)	(6.7)
Net finance income	**(3.4)**	(3.8)	(6.5)
Investment income	**(0.3)**	(0.1)	(0.1)
Share of profit after tax of joint venture	**(0.6)**	(0.6)	(1.1)
Decrease/(increase) in trade and other receivables	**4.4**	(2.4)	(8.2)
Increase in trade and other payables	**12.7**	9.6	3.4
Defined benefit pension obligation – contributions in excess of expenses charged	**(1.3)**	(1.6)	(2.8)
Provisions utilised during the period	**(2.3)**	(1.5)	(5.3)
Share scheme expense	**0.9**	0.8	1.8
Cash generated from operations	**76.0**	59.0	95.4

15. Transition disclosures

Set out below are reconciliations between UK GAAP and IFRS for total equity at 1 April 2004 (date of transition to IFRS), 30 September 2004 and 31 March 2005. In addition, reconciliations are provided between profit attributable to equity holders under UK GAAP and IFRS for six months ended 30 September 2004 and year ended 31 March 2005.

More detailed reconciliations of the comparative balance sheets and income statements were published in the IFRS restatement on 21 July 2005.

Reconciliation of total equity	Notes	1 April 2004 £m	30 September 2004 £m	31 March 2005 £m
Total equity – UK GAAP		365.7	235.5	251.6
Employee benefits	(a)	(22.9)	(22.9)	(23.2)
Freehold properties	(b)	(6.6)	(6.0)	(5.2)
Leases	(c)	(0.8)	(1.3)	(1.7)
Goodwill	(d)	–	0.8	1.7
Share based payments	(e)	0.2	0.3	0.5
Dividends	(f)	10.0	5.1	12.6
Total equity – IFRS		**345.6**	**211.5**	**236.3**

15. Transition disclosures (continued)

Reconciliation of profit attributable to equity holders	Notes	Six months ended 30 September 2004 £m	Year ended 31 March 2005 £m
Profit attributable to equity holders – UK GAAP		34.8	62.2
Employee benefits	(a)	0.9	1.5
Freehold properties	(b)	0.6	1.4
Leases	(c)	(0.5)	(0.9)
Goodwill	(d)	0.7	1.5
Share based payments	(e)	(0.2)	(0.7)
Profit attributable to equity holders – IFRS		**36.3**	**65.0**

Explanation of reconciling differences between UK GAAP and IFRS

a) IAS 19 Employee benefits
The Group has elected to recognise the defined benefit pension scheme deficit in full in the Group balance sheet at transition date (1 April 2004). The charge to the income statement is the current period's service charge and a financing charge for unwinding the discount applied to obligations and the expected return on pension scheme assets.

The impact on the income statement is to increase operating profit for the year ended 31 March 2005 by £2.7m (six months ended 30 September 2004: £1.6m) and reduce net finance income for the year ended 31 March 2005 by £0.5m (six months ended 30 September 2004: £0.3m). After the associated tax there is an increase in profit attributable to equity holders for the year ended 31 March 2005 of £1.5m (six months ended 30 September 2004: £0.9m).

The impact on the balance sheet is to reduce total equity at 31 March 2005 by £23.2m (30 September 2004: £22.9m; 1 April 2004: £22.9m).

b) IAS 16 Freehold properties
Under the transitional arrangements set out in IFRS 1 the Group has elected to restate freehold properties other than the Stock Exchange Tower to their fair value at the date of transition, resulting in a reduction in the balance sheet carrying amount. This lower carrying amount, together with the requirement to update residual values to reflect current prices, has the effect of reducing depreciation compared with UK GAAP.

The impact on the income statement is to reduce the depreciation charge in respect of remaining freehold properties for the year ended 31 March 2005 by £1.7m (six months ended 30 September 2004: £0.7m). In relation to the Stock Exchange Tower, there is a reduction in depreciation charge and corresponding reduction to the profit on sale of the Tower for the year ended 31 March 2005 and six months ended 30 September 2004 of £0.5m. After the associated tax there is an increase in profit attributable to equity holders for the year ended 31 March 2005 of £1.4m (six months ended 30 September 2004: £0.6m).

Total equity is £5.2m lower at 31 March 2005 (30 September 2004: £6.0m; 1 April 2004: £6.6m) as a result of the restated values of freehold properties as at 1 April 2004, partly offset by the lower depreciation charge in the year ended 31 March 2005.

c) IAS 17 Leases
All leases have been reviewed and remain as operating leases. Lease incentives under IFRS are spread over the term of the lease, whereas, under UK GAAP they were spread over the period to the first rent review. This results in an increased charge to the income statement and consequent higher balance sheet accrual.

The impact on the income statement is to reduce operating profit for the year ended 31 March 2005 by £1.3m (six months ended 30 September 2004: £0.7m). After the associated tax there is a reduction in profit attributable to equity holders for the year ended 31 March 2005 of £0.9m (six months ended 30 September 2004: £0.5m).

Total equity at 31 March 2005 is £1.7m lower (30 September 2004: £1.3m; 1 April 2004: £0.8m).

15. Transition disclosures (continued)

d) IFRS 3 Goodwill
Under IFRS 3, goodwill is not amortised but is tested annually for impairment. On the balance sheet, under IFRS, goodwill is held at the UK GAAP carrying amount at transition date less any subsequent impairments.

The effect is to increase operating profit for the year ended 31 March 2005 by £2.0m (six months ended 30 September 2004: £0.9m). After the associated tax and minority interest, the increase in profit attributable to equity holders for the year ended 31 March 2005 is £1.5m (six months ended 30 September 2004: £0.7m).

The impact on the balance sheet is to increase total equity at 31 March 2005 by £1.7m (30 September 2004: £0.8m; 1 April 2004: nil).

e) IFRS 2 Share based payments
Under IFRS, charges to the income statement are based on the fair value of the instrument granted determined using an option pricing model. Under UK GAAP, the charge was based on the difference between the market price on the date of grant and the exercise price. The balance sheet is adjusted to reflect the additional deferred tax arising from the increased charge to the income statement.

This reduces operating profit for the year ended 31 March 2005 by £1.0m (six months ended 30 September 2004: £0.3m). After the associated tax there is a reduction in profit attributable to equity holders for the year ended 31 March 2005 of £0.7m (six months ended 30 September 2004: £0.2m).

Recognition of deferred tax on the additional charge to the income statement results in an increase in total equity at 31 March 2005 of £0.5m (30 September 2004: £0.3m; 1 April 2004: £0.2m).

f) IAS 10 Dividends
Under IAS 10, dividends are recognised in the financial statements when declared rather than in the period to which they relate.

The impact on the balance sheet is to increase total equity by the amount of dividends declared after 31 March 2005 of £12.6m (30 September 2004: £5.1m; 1 April 2004: £10.0m).

Explanation of adjustments to the cash flow statement
Under UK GAAP the cash flow statement presented the movement in cash balances, analysed between nine categories of cash flow. Under IFRS, the cash flow statement presents the movement in cash and cash equivalents, analysed between operating, investing and financing activities. The principal consequences of these differences are that cash and cash equivalents under IFRS includes term deposits which were included in management of liquid resources under UK GAAP, and corporation tax paid, interest received and interest paid are classified within operating activities for IFRS purposes.

As software developments are reported as intangible assets under IFRS, expenditure on these is separately reported in the cash flow statement as purchase of intangible assets.

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2005 which comprises the consolidated interim balance sheet as at 30 September 2005 and the related consolidated interim statements of income, cash flows and recognised income and expense for the six months then ended and the related notes. 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.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards (IFRS). This interim financial information has been prepared in accordance with the basis set out in the IFRS restatement document, which was published on 21 July 2005.

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in note 1, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with IFRS. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 March 2006 are not known with certainty at the time of preparing this interim financial information.

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 group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. 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 and therefore provides a lower level of assurance. 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 prior 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 2005.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 November 2005

Financial Calendar

Ex-dividend date for interim dividend	7 December 2005
Interim dividend record date	9 December 2005
Interim dividend payment date	6 January 2006
Q3 trading statement (revenues only)	end January 2006
Financial year end	31 March 2006
Preliminary results	May 2006
Annual General Meeting	July 2006

The financial calendar is updated on a regular basis throughout the year.
Please refer to our website www.londonstockexchange-ir-com/lse/services/calendar for up-to-date details.

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Registered in England and Wales No 2075721

Design by Addison Corporate Marketing Ltd
Printed by St. Ives Westerham Press Ltd

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