London
STOCK EXCHANGE

Developing a global marketplace

INTERIM REPORT SIX MONTHS ENDED 30 SEPTEMBER 2002

Contents

Chairman's statement

The London Stock Exchange has delivered robust financial results for the half year and continues to make progress against the backdrop of difficult market conditions.

We continue to upgrade our systems and introduce new markets, products and services to benefit our customers. We now account for three quarters of all Western European Initial Public Offerings (IPOs), while SETS continues to attract record volumes. The internationalisation of our markets goes on apace with collaboration with the Hong Kong Stock Exchange and a local presence in the Nordic region.

We continue to shape changes in market infrastructure. In particular, we encouraged and supported the recent move by Euroclear and CrestCo to merge, creating Europe's largest settlement organisation.

Financial results

Financial performance in the first six months of the year has been robust, despite economic uncertainty and unsettled markets. Turnover increased to £119.5 million, up 12 per cent (2001: £106.8 million). Administrative expenses increased seven per cent to £73.4 million (2001: £68.4 million), reflecting additional IT support costs relating to the Exchange's new high capacity communications network and the roll out of new products. This resulted in an 18 per cent increase in operating profit to £40.5 million (2001: £34.2 million).

During the period, a net exceptional gain of £2.3 million was recognised. Profit after tax including the net exceptional gain increased to £32.3 million (2001: £22.6 million).

Adjusted earnings per share increased 17 per cent to 10.5 pence per share (2001: 9.0 pence per share). Earnings per share increased to 11.1 pence per share from 7.7 pence per share.

For the six months, operating cash flows were £53.8 million, up 30 per cent (2001: £41.5 million). At 30 September 2002, cash balances were £237.1 million (2001: £173.0 million).

Issuer Services

Despite a weak IPO market, Issuer Services contributed 16 per cent of total turnover for the half year, increasing from £13.8 million to £19.2 million. This increase largely reflected selective tariff changes which took effect on 1 April 2002.

The number of companies on our markets at 30 September 2002 was 2,849 (2001: 2,919). The Exchange receives an annual fee from each company on its markets and for the half year, annual fees contributed 55 per cent of Issuer Services' turnover (2001: 45 per cent).

The number of new listings on the Exchange's markets decreased 25 per cent to 128 (2001: 170).

Nevertheless, a total of £12 billion of new capital was raised on the Exchange's markets during the half year and the Exchange accounted for over 75 per cent of the IPOs in Western Europe, demonstrating the continued relative attractiveness of the Exchange's markets (2001: 58 per cent). In particular, AIM, our international market for growing companies, continued to attract new participants, including seven North American companies and PRI Group, the largest IPO in the seven year history of AIM. At 30 September 2002, 686 companies were traded on AIM, up 13 per cent over the same period last year (2001: 606).

During the half year, Issuer Services continued to make progress on extending the reach of the Exchange's markets. In particular, the Exchange announced a listing facilitation collaboration with the Hong Kong Stock Exchange and established a local presence in the Nordic region. Based in Stockholm, the office opened on 1 October 2002 and aims to accelerate the growth of the Exchange's Nordic business.

Broker Services

At £43.7 million, Broker Services' turnover for the half year increased 10 per cent (2001: £39.9 million) and accounted for 37 per cent of total turnover. This increase in turnover reflected high levels of trading activity on our markets, particularly on our electronic order book SETS.

During the first half of the year, the total number of equity bargains rose 11 per cent to 26.4 million (2001: 23.8 million), a daily average of 210,000 bargains (2001: 191,000). The total value of these bargains decreased 14 per cent to £2.4 trillion (2001: £2.8 trillion). In the same period, the daily average number of bargains transacted on SETS increased 59 per cent to 97,000 (2001: 61,000) and the average value of a SETS bargain decreased 29 per cent to £29,000 (2001: £41,000).

During the half year, over 60 per cent of the value traded in SETS listed securities was traded on the SETS order book. SETS contributed approximately 55 per cent of Broker Services' income for the half year (2001: 47 per cent).

The growth in SETS was off-set in part by a decline in the number of off book and international bargains reported to the Exchange. The daily average number of off book and international bargains was 54,000 (2001: 62,000) and 59,000 (2001: 68,000) respectively.

Broker Services continued to develop a number of initiatives including:

- Covered Warrants – successfully launched on 28 October 2002, the covered warrants market broadens the Exchange's product range and widens the investment choice of private investors. There are currently 170 warrants traded on the Exchange's markets through four issuers;
- RSP Gateway – first customers went live in July 2002. From 31 October 2002, brokers have access to prices in equities which account for over 76 per cent of retail trading by value, including all FTSE 100 securities, 120 FTSE 250 securities and covered warrants. During November, the service will be expanded to include trading in bonds; and
- Crest Network Service – successfully launched in July 2002, utilises Extranex, the Exchange's new high capacity internet protocol network, to provide brokers secure access to both the Exchange's trading system and the Crest settlement system using a single electronic link. The new service could reduce connection costs to Crest by up to 50 per cent.

Information Services

At £50.7 million (2001: £47.2 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 fell from 105,000 to 100,000 (2001: 109,000). Of those, approximately 94,000 terminals were attributable to our professional customer base, down from 96,000 at the end of the last financial year (2001: 101,000). The decline in terminals was off-set by demand for the Exchange's other information products. In particular, the Regulatory News Service (RNS) contributed £3.4 million to

Information Services' turnover following the start of commercial operations in April 2002 (2001: £1.0 million). RNS has secured a significant share of the highly competitive regulatory news distribution market, with over 90 companies in the FTSE 100 using RNS to release regulatory announcements.

In addition Information Services benefited from the income received from the Exchange's joint venture, FTSE. For the six months, the Exchange's share of FTSE turnover was £5.6 million, an increase of 33 per cent over the corresponding period last year (2001: £4.2 million).

During the period, the Exchange began development of the Corporate Data Warehouse, its new technology infrastructure aimed at exploiting strong market demand for Exchange originated data. The first phase of the new infrastructure, scheduled to be rolled out in the next financial year, will broaden the Exchange's existing information products by offering customers enhanced value added real time and historical UK equities market data.

Exceptional items

During the period, a net exceptional gain of £2.3 million was recognised. This reflects an exceptional VAT credit of £9.3 million off-set in part by a £7.0 million exceptional property charge.

Following successful negotiations with Customs and Excise, a retrospective change in the method for calculating VAT recoverable on expenditure has been agreed. This allowed for the recovery of VAT paid between 1997 and 2001 amounting to £9.3 million. This gain was off-set in part by a £7.0 million increase in provision for leasehold properties in respect of space to be sublet in our new headquarters at Paternoster Square, reflecting the widely reported decline in rental values in the commercial property market in recent months.

Interim dividend

The Directors propose an interim dividend of 1.3 pence per share (2001: 1.1 pence per share) to those shareholders on the register on 6 December 2002, for payment on 6 January 2003.

Board of Directors

In October, I announced that I would not seek to extend my term as Chairman beyond the next Annual General Meeting in 2003. Ian Salter, Deputy Chairman and Chairman of the Board's Nominations Committee, will lead the process of finding my successor.

Current trading and prospects

Since 30 September 2002, the Exchange's trading performance has been good despite uncertain market conditions. In particular:

- Issuer Services' turnover continues to be impacted by the weak IPO market with a 22 per cent decrease in the number of new and further issues on the Main Market compared to the previous October. The Exchange is however well positioned to benefit from any upturn;
- SETS trading volumes have remained strong, although current market volatility makes it difficult to forecast future trading activity; and
- although demand for other information products has been generally stable, there are no indications to suggest the recent rate of decline in terminal numbers has slowed.

Overall, the Directors expect a satisfactory outturn for the year given current market conditions.

Don Cruickshank

Don Cruickshank

Chairman
7 November 2002

Consolidated profit and loss account

Six months ended 30 September 2002

	Notes	Six months ended 30 September 2002 £m	Six months ended 30 September 2001 £m	Year ended 31 March 2002 £m
Turnover				
Group and share of joint venture		**119.5**	106.8	215.6
Less: share of joint venture's turnover		**(5.6)**	(4.2)	(9.0)
Net turnover	2	**113.9**	102.6	206.6
Administrative expenses				
Operating costs		**(73.4)**	(68.4)	(136.1)
Exceptional items	3	**2.3**	(3.6)	(3.6)
		(71.1)	(72.0)	(139.7)
Operating profit				
Before exceptional items		**40.5**	34.2	70.5
After exceptional items		**42.8**	30.6	66.9
Share of operating profit of joint venture and income from other fixed asset investments		**0.6**	0.4	1.0
Net interest receivable	4	**4.0**	3.9	7.3
Profit on ordinary activities before taxation		**47.4**	34.9	75.2
Taxation on profit on ordinary activities	5	**(15.1)**	(12.3)	(25.3)
Profit for the financial period		**32.3**	22.6	49.9
Dividends		**(3.7)**	(3.2)	(10.6)
Retained profit for the financial period		**28.6**	19.4	39.3
Earnings per share	6	**11.1p**	7.7p	17.1p
Diluted earnings per share	6	**11.0p**	7.7p	17.0p
Adjusted earnings per share	6	**10.5p**	9.0p	18.3p
Dividend per share		**1.3p**	1.1p	3.6p

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

Consolidated balance sheet

30 September 2002

	Notes	30 September 2002 £m	30 September 2001 £m	31 March 2002 £m
Fixed assets				
Tangible assets		**114.9**	115.7	115.4
Investments				
Investments in joint venture		**1.9**	2.4	1.5
Other investments	7	**10.8**	13.2	12.1
		12.7	15.6	13.6
		127.6	131.3	129.0
Current assets				
Debtors				
Debtors – amounts falling due within one year		**41.9**	35.6	38.9
Deferred tax – amounts falling due after more than one year		**7.3**	7.4	7.9
		49.2	43.0	46.8
Investments – term deposits		**233.0**	163.0	186.0
Cash at bank		**4.1**	10.0	3.9
		286.3	216.0	236.7
Creditors: amounts falling due within one year		**75.6**	63.8	62.7
Net current assets		**210.7**	152.2	174.0
Total assets less current liabilities		**338.3**	283.5	303.0
Provisions for liabilities and charges	8	**28.4**	22.1	21.7
Net assets		**309.9**	261.4	281.3
Capital and reserves				
Called up share capital		**14.9**	14.9	14.9
Reserves				
Revaluation reserve		**44.9**	46.8	45.8
Profit and loss account		**250.1**	199.7	220.6
Total equity shareholders' funds		**309.9**	261.4	281.3

Consolidated cash flow statement

Six months ended 30 September 2002

	Notes	Six months ended 30 September 2002 £m	Six months ended 30 September 2001 £m	Year ended 31 March 2002 £m
Net cash inflow/(outflow) from continuing operations:				
Ongoing operating activities	10(i)	**53.8**	41.5	82.4
Exceptional items	10(i)	**9.3**	(1.0)	(3.8)
Net cash inflow from operating activities		**63.1**	40.5	78.6
Returns on investments and servicing of finance				
Interest received		**4.7**	3.6	8.8
Dividends received		**1.2**	0.2	0.2
Net cash inflow from returns on investments and servicing of finance		**5.9**	3.8	9.0
Taxation				
Corporation tax paid		**(6.7)**	(0.3)	(15.8)
Capital expenditure and financial investments				
Payments to acquire tangible fixed assets		**(8.4)**	(7.5)	(15.8)
Payments to acquire own shares		**–**	(5.0)	(5.0)
Receipts from sale of fixed asset investments		**0.6**	–	0.7
Net cash outflow from capital expenditure and financial investments		**(7.8)**	(12.5)	(20.1)
Dividends paid		**(7.3)**	(6.4)	(9.7)
Net cash inflow before use of liquid resources and financing		**47.2**	25.1	42.0
Management of liquid resources				
Increase in term deposits	10(ii)	**(47.0)**	(20.0)	(43.0)
Increase/(decrease) in cash in the period	10(ii)	**0.2**	5.1	(1.0)

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 2002 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 2002 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
	2002 £m	2001 £m	2002 £m
Continuing operations			
Issuer Services	**19.2**	13.8	26.9
Broker Services	**43.7**	39.9	81.2
Information Services	**50.7**	47.2	94.9
Other income	**5.9**	5.9	12.6
Gross turnover	**119.5**	106.8	215.6
Less: share of joint venture's turnover	**(5.6)**	(4.2)	(9.0)
Net turnover	**113.9**	102.6	206.6

The comparative figures for 2001 have been restated to include RNS turnover of £1.0m 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. Exceptional items

	Six months ended 30 September		Year ended 31 March
	2002 £m	2001 £m	2002 £m
VAT repayment	**9.3**	–	–
Provision in respect of leasehold properties	**(7.0)**	–	–
Fees in respect of the Company's introduction to the Official List	**–**	(3.6)	(3.6)
	2.3	(3.6)	(3.6)

The VAT repayment represents a recovery of VAT paid between 1997 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 our new headquarters at Paternoster Square.

4. Net interest receivable

	Six months ended 30 September 2002 £m	2001 £m	Year ended 31 March 2002 £m
Interest receivable			
Bank deposit and other interest	**4.4**	4.5	8.5
Interest payable			
Interest on discounted provision for leasehold properties	**(0.4)**	(0.6)	(1.2)
Net interest receivable	**4.0**	3.9	7.3

5. Taxation

	Six months ended 30 September 2002 £m	2001 £m	Year ended 31 March 2002 £m
Current tax:			
Corporation tax for the period at 30%	**14.3**	11.8	25.2
Adjustments in respect of previous periods	**–**	(3.0)	(3.1)
	14.3	8.8	22.1
Deferred taxation	**0.6**	3.3	2.8
Joint venture	**0.2**	0.2	0.4
Taxation charge	**15.1**	12.3	25.3

The adjustments for previous periods were 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.

Factors affecting the current tax charge for the period

The current tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	Six months ended 30 September 2002 £m	2001 £m	Year ended 31 March 2002 £m
Profit on ordinary activities before tax	**47.4**	34.9	75.2
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**14.2**	10.5	22.6
Expenses disallowed for the purpose of tax provision (primarily professional fees and depreciation on expenditure not subject to capital allowances)	**0.6**	1.7	2.5
Accounting deduction less than capital allowances – timing difference	**(0.1)**	(0.4)	(0.5)
Movement in provisions	**(0.4)**	–	0.6
Adjustments to tax charge in respect of previous periods	**–**	(3.0)	(3.1)
Corporation tax charge	**14.3**	8.8	22.1

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 of share options and share awards under the Employee Share Ownership Plan (ESOP). Adjusted earnings per share excludes exceptional items to enable comparison of the underlying earnings of the business with prior periods.

	Six months ended 30 September 2002 £m	Six months ended 30 September 2001 £m	Year ended 31 March 2002 £m
Adjusted earnings per share	**10.5p**	9.0p	18.3p
Earnings per share	**11.1p**	7.7p	17.1p
Diluted earnings per share	**11.0p**	7.7p	17.0p
Profit for the financial period	**32.3**	22.6	49.9
Adjustments:			
Exceptional items	**(2.3)**	3.6	3.6
Tax effect of exceptional items	**0.7**	–	–
Adjusted profit for the financial period	**30.7**	26.2	53.5
Weighted average number of shares – million	**291.8**	292.1	291.8
Effect of dilutive share options and awards – million	**2.9**	2.2	2.1
Diluted weighted average number of equity shares – million	**294.7**	294.3	293.9

The weighted average number of shares excludes those held in the ESOP, reducing the weighted average number of shares to 291.8m. For diluted earnings per share, the weighted average number of shares assumes share options and share awards granted to employees either convert or vest.

7. Fixed asset investments

Other investments include £10.4m (September 2001: £12.8m; March 2002: £11.7m) 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.

8. Provisions for liabilities and charges

	Pensions £m	Property £m	Total £m
1 April 2002	0.9	20.8	**21.7**
Utilised during the period	(0.1)	(0.6)	**(0.7)**
Interest on discounted provision	–	0.4	**0.4**
Increase in provision	–	7.0	**7.0**
30 September 2002	0.8	27.6	**28.4**

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 subletting space which is surplus to business requirements. The leases have a maximum term of 12 years to expiry. The increase in provision is in respect of space to be sublet in our new headquarters at Paternoster Square.

9. Reconciliation of movements in shareholders' funds

	Six months ended 30 September 2002 £m	2001 £m	Year ended 31 March 2002 £m
Profit for the financial period	**32.3**	22.6	49.9
Dividends	**(3.7)**	(3.2)	(10.6)
Net addition to shareholders' funds	**28.6**	19.4	39.3
Opening shareholders' funds	**281.3**	242.0	242.0
Closing shareholders' funds	**309.9**	261.4	281.3

10. Notes to the consolidated cash flow statement

	Six months ended 30 September 2002 £m	2001 £m	Year ended 31 March 2002 £m
i) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	**42.8**	30.6	66.9
Depreciation of tangible assets	**9.6**	8.9	17.5
(Increase)/decrease in debtors	**(4.5)**	2.5	(0.7)
Increase/(decrease) in creditors	**15.5**	(0.5)	(3.3)
Provisions utilised during the period	**(0.7)**	(1.4)	(2.6)
Amortisation of own shares	**0.4**	0.4	0.8
Net cash inflow from operating activities	**63.1**	40.5	78.6
Comprising:			
Ongoing operating activities	**53.8**	41.5	82.4
Exceptional items (see note 3)	**9.3**	(1.0)	(3.8)
Net cash inflow	**63.1**	40.5	78.6

	At 1 April 2002 £m	Cash flows £m	At 30 September 2002 £m
ii) Analysis of changes in net funds			
Cash in hand and at bank	3.9	0.2	**4.1**
Current asset investments	186.0	47.0	**233.0**
Total net funds	189.9	47.2	**237.1**

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 10. 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.

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 2002.

PricewaterhouseCoopers
Chartered Accountants
London
7 November 2002

Shareholder information

Financial calendar

Interim dividend record date	**6 December 2002**
Interim dividend payment date	**6 January 2003**
Q3 trading statement (revenues only)	**January 2003**
Financial year end	**31 March 2003**
Preliminary results	**May 2003**
Annual General Meeting	**July 2003**

Investor Relations contact
For questions or requests for information about the London Stock Exchange plc, please contact:

London Stock Exchange
Attn: Investor Relations
London EC2N 1HP

Email irinfo@londonstockexchange.com
Shareholder helpline +44 (0)20 7797 3322
Website www.londonstockexchange.com

Registered Office
London Stock Exchange plc
London EC2N 1HP

Registered company number 2075721

Registrar
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

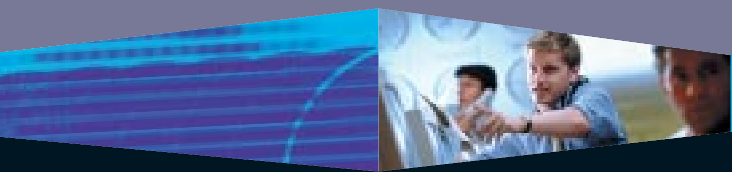
Telephone 0870 600 3964
International no. +44 (0)121 415 7059
Website www.shareview.co.uk

Lloyds TSB Registrars now offer a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk

Corporate broker
Cazenove & Co. Ltd
12 Tokenhouse Yard
London
EC2R 7AN

Telephone +44(0)20 7588 2828

London
STOCK EXCHANGE



Registered in England and Wales No 2075721

Design by Dragon
Printed by First Impression

London Stock Exchange plc
London EC2N 1HP
Telephone +44 (0)20 7797 1000

www.londonstockexchange.com