

# London Stock Exchange plc

Building on our strengths

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Interim Report  
Six months ended 30 September 2000

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London **STOCK EXCHANGE**

# Building on our strengths



Don Cruickshank

In March, shareholders overwhelmingly endorsed our proposals to move to a commercial basis of operation by voting to become a public limited company and allowing shares to be transferable. From that time, the London Stock Exchange has been able to focus on its primary objective – to maximise shareholder value through the provision of high quality, competitively priced services to companies, intermediaries and investors.

We have continued to build on the strengths of our existing businesses during a period of significant growth in the UK equity market and strong performances from AIM and techMARK.

## Financial results

An excellent set of results has been recorded in the first half of the year. Turnover from continuing operations was £90.6 million, an increase of 20 per cent over the same period last year with strong performances from each of our major revenue streams.

Operating profit from continuing operations, before exceptional items, increased by 89 per cent from £15.4 million in 1999 to £29.1 million. Earnings per share for continuing operations before exceptional items were 76.4 pence compared with 44.1 pence per share for the same period last year.

After tax of £10.1 million, profit was £10.3 million and the Board will pay an interim dividend in January 2001 of 10.0 pence per share to shareholders on the register on 8 December 2000.

## Company services

We continue to improve both the structure of our markets and the services we offer to companies.

More than 50 companies have joined techMARK since its inception in November 1999. techMARK companies have accounted for a third of all money raised from equities on the main market during this period.

In February, the London Stock Exchange successfully introduced the second of its attribute markets, extraMARK, incorporating the first Exchange Traded Fund product, the iShares plc iFTSE 100.

## Trading services

The London Stock Exchange's markets have accommodated average trading volumes of 148,000 bargains a day – more than 40 per cent higher than during the same period last year.

We have expanded access to our trading systems for customers of information vendors such as Bloomberg and Thomson Financial (Global TOPIC), bringing the London market within easy reach of a wider range of investors.

Following extensive consultation with customers, we are working towards the introduction of the UK central counterparty. This initiative, in conjunction with CRESTCo and the London Clearing House, will make a significant contribution to reducing risk and, in the longer term, will reduce trading costs.

## Information services

London Stock Exchange data is currently available on over 104,000 terminals worldwide.

In September, the Regulatory News Service was successfully upgraded to allow companies to make announcements securely via the internet. We believe this will become the normal procedure for making and viewing company announcements in the future, widening access to information, to the particular benefit of private investors. Details of forthcoming and recent initial public offerings are also now available on our website.

We are continuing to introduce new information products for companies and private client brokers to meet the needs of their customers. In addition, many private investors are also taking advantage of our delayed news and prices services, available free through our website. Overall, our website now has around 340,000 user sessions, with approximately three million page impressions, per month.

## Board changes

I was pleased to join the Board as a non-executive director and then chairman in May after Sir John Kemp-Welch's retirement. Following the Annual General Meeting in September, Gavin Casey resigned as chief executive. We are grateful to him for his progressive leadership during the last four years. In the interim, before his successor is appointed, I have accepted the Board's request to take over executive responsibilities. I look forward to working with our strong management team to meet the challenges that lie ahead.

In order to strengthen the Board further, we believe it is a priority to ensure that the majority of non-executive directors are independent, in accordance with the UK Corporate Governance model.

## Current trading and prospects

The first half financial performance was broadly in line with the directors' expectations and trading at the start of the second half continues to be satisfactory. The directors view the prospects for the London Stock Exchange with confidence.

Don Cruickshank  
Chairman

19 October 2000



## Consolidated cash flow statement

Six months ended 30 September 2000

	Notes	Six months ended 30 September		Year ended
		2000 £m	1999 £m Restated	2000 £m
<b>Net cash inflow from operating activities</b>	10	31.5	18.7	45.0
<b>Returns on investments and servicing of finance</b>				
Interest received		6.0	4.5	10.6
Interest paid		(1.5)	(1.5)	(3.0)
Dividends received		–	–	0.1
<b>Net cash inflow from returns on investments and servicing of finance</b>		4.5	3.0	7.7
<b>Taxation</b>				
Corporation tax paid		(9.7)	0.4	(12.1)
<b>Capital expenditure and financial investments</b>				
Payments to acquire tangible fixed assets		(5.8)	(2.6)	(14.7)
Receipts from sale of tangible fixed assets		–	1.1	1.2
Receipts from sale of fixed asset investments		–	–	0.1
<b>Net cash outflow from capital expenditure and financial investments</b>		(5.8)	(1.5)	(13.4)
<b>Acquisitions and disposals</b>				
Payments to acquire shares in joint venture		–	–	(1.5)
<b>Net cash inflow before use of liquid resources and financing</b>		20.5	20.6	25.7
<b>Management of liquid resources</b>				
Increase in term deposits		(12.0)	(2.0)	(2.0)
<b>Financing</b>				
Redemption of A shares		(8.8)	(19.9)	(25.8)
<b>Decrease in cash in the period</b>		(0.3)	(1.3)	(2.1)

## Notes to the financial information

### 1. Basis of preparation

The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 March 2000, and are unaudited. The interim financial statements do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

Comparative figures for the year ended 31 March 2000 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. Analysis of turnover

	Six months ended 30 September		Year ended
	2000 £m	1999 £m Restated	2000 £m
<b>Continuing operations</b>			
Company services	15.5	12.1	25.7
Trading services	29.6	22.5	54.1
Information services	40.4	35.3	72.9
Other income	5.1	5.4	11.3
	90.6	75.3	164.0
<b>Discontinued operations</b>			
Competent authority	1.2	5.9	11.7
<b>Gross turnover</b>	91.8	81.2	175.7
Less: share of joint venture's turnover	(2.7)	(2.1)	(4.5)
<b>Net turnover</b>	89.1	79.1	171.2

### 3. Exceptional items

Exceptional items are for costs in respect of the Company reorganisation and demutualisation in the year to 31 March 2000, and in the current year for the proposed merger with Deutsche Börse and in defence of the bid from OM Gruppen.

### 4. Interest

<b>Interest receivable</b>			
Bank deposits	6.4	5.4	11.1
<b>Interest payable</b>			
On bank and other loans repayable after five years	(1.5)	(1.5)	(3.0)
Interest on discounted provision for leasehold properties	(0.9)	(0.9)	(1.8)
<b>Total</b>	(2.4)	(2.4)	(4.8)
<b>Net interest receivable</b>	4.0	3.0	6.3

## 5. Taxation

	Six months ended 30 September		Year ended 31 March
	2000 £m	1999 £m Restated	2000 £m
Corporation tax for the period at 30%	11.4	8.0	17.8
Deferred taxation	(0.7)	(1.7)	(3.1)
Adjustment for previous years:			
Corporation tax	(0.7)	–	(1.0)
Deferred taxation	–	–	0.8
Joint venture	0.1	–	0.1
<b>Taxation charge</b>	<b>10.1</b>	<b>6.3</b>	<b>14.6</b>

The effective rate of taxation in the six months to 30 September 2000 is higher than the standard rate of taxation primarily because certain expenses are disallowed for tax purposes.

## 6. Earnings per share

Earnings per share of 34.7p (1999, restated 50.5p, year ended 31 March 2000, 114.1p) are based on profit for the financial period of £10.3m (1999, restated £15.0m, year ended 31 March 2000, £33.9m) and a weighted average number of Ordinary shares in issue of 29.7m.

Adjusted earnings per share are in respect of continuing operations before exceptional items. Adjusted earnings per share of 76.4p (1999, restated 44.1p, year ended 31 March 2000, 119.2p) are based on adjusted earnings for the financial period of £22.7m (1999, restated £13.1m, year ended 31 March 2000, £35.4m) and a weighted average number of Ordinary shares in issue of 29.7m.

## 7. Provisions for liabilities and charges

	Pensions £m	Property £m	Total £m
1 April 2000	1.3	29.7	31.0
Utilised during the period	(0.1)	(1.6)	(1.7)
Interest on discounted provision	–	0.9	0.9
Surplus provision released	–	(0.2)	(0.2)
<b>30 September 2000</b>	<b>1.2</b>	<b>28.8</b>	<b>30.0</b>

### 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 in accordance with the accounting policy for pension costs.

### Property

The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting for those properties which are surplus to business requirements. The leases have a maximum term of 14 years to expiry.

## 8. Share capital

		30 September 2000	30 September 1999	31 March 2000
<b>Authorised</b>				
Ordinary shares of 5p each	– number	40,000,000	–	–
	– £	2,000,000	–	–
A shares of 5p each	– number	–	5,601	5,601
	– £	–	280	280
B shares of 5p each	– number	–	14,399	14,399
	– £	–	720	720
<b>Issued, called up and fully paid</b>				
Ordinary shares of 5p each	– number	29,700,000	–	–
	– £	1,485,000	–	–
A shares of 5p each	– number	–	1,477	880
	– £	–	74	44
B shares of 5p each	– number	–	14,399	14,399
	– £	–	720	720

All outstanding A shares were redeemed with effect from 12 April 2000. On 12 April 2000, the B shares held by the share trustee were purchased by the Company and cancelled, each remaining B share was reclassified as an Ordinary share and there was a bonus issue of 99,999 Ordinary shares for every Ordinary share held. This increased the number of shares in issue to 29.7m.

## 9. Reconciliation of movements in shareholders' funds

	Six months ended 30 September		Year ended 31 March
	2000 £m	1999 £m Restated	2000 £m
Profit for the financial period	10.3	15.0	33.9
Dividend	(3.0)	–	–
Redemption of A shares during the period	(8.8)	(19.9)	(25.8)
<b>Net addition to shareholders' funds</b>	<b>(1.5)</b>	<b>(4.9)</b>	<b>8.1</b>
Opening shareholders' funds	234.1	226.0	226.0
<b>Closing shareholders' funds</b>	<b>232.6</b>	<b>221.1</b>	<b>234.1</b>

## 10. Note to the consolidated cash flow statement

### Reconciliation of operating profit to net cash inflow from operating activities

	2000	1999	2000
Operating profit	16.1	18.1	41.9
Depreciation of tangible assets	9.5	12.0	22.2
Decrease/(increase) in debtors	3.8	0.3	(7.6)
Increase/(decrease) in creditors	3.8	(9.9)	(8.5)
Provisions utilised during the period	(1.7)	(1.8)	(3.0)
<b>Net cash inflow from operating activities</b>	<b>31.5</b>	<b>18.7</b>	<b>45.0</b>

# 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 9 and we have read the other information contained in the interim report for 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 Listing Rules of the Financial Services Authority (which the company applies as if its shares were listed) 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. 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 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 2000.

### **PricewaterhouseCoopers**

Chartered Accountants

London

19 October 2000

[www.londonstockexchange.com](http://www.londonstockexchange.com)

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