



London
STOCK EXCHANGE

London Stock Exchange

Preliminary Results 20 May 2004

Agenda

Introduction

Chris Gibson-Smith
Chairman

Financial Review

Jonathan Howell
Director of Finance

CEO Overview

Clara Furse
Chief Executive Officer

Q&A

Introduction

- Satisfactory results – turnover and earnings up against backdrop of variable market conditions
- Total dividend up **12%** to **4.8** pence per share
- Special dividend of **55 pence per share**
- Maintain financial flexibility to pursue growth opportunities



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Jonathan Howell

Director of Finance

Overview of results

Satisfactory financial performance in variable market conditions

	Year ended 31 March		Change
	<u>2004</u>	<u>2003</u>	
	£m	£m	%
Turnover			
Issuer Services	38.5	36.0	7
Broker Services	94.1	87.3	8
Information Services	101.0	102.2	(1)
Derivatives Services	6.1	-	-
Other income	10.7	11.8	(9)
	<hr/>	<hr/>	
Gross turnover	250.4	237.3	6
Net turnover	237.1	225.9	5
Operating costs	(155.5)	(144.3)	8
Operating profit			
- before exceptional items and goodwill amortisation	83.2	81.7	2
- after exceptional items and goodwill amortisation	81.6	70.0	17
Operating margin*	35%	36%	

* before exceptional items and goodwill amortisation

Overview of results (continued)

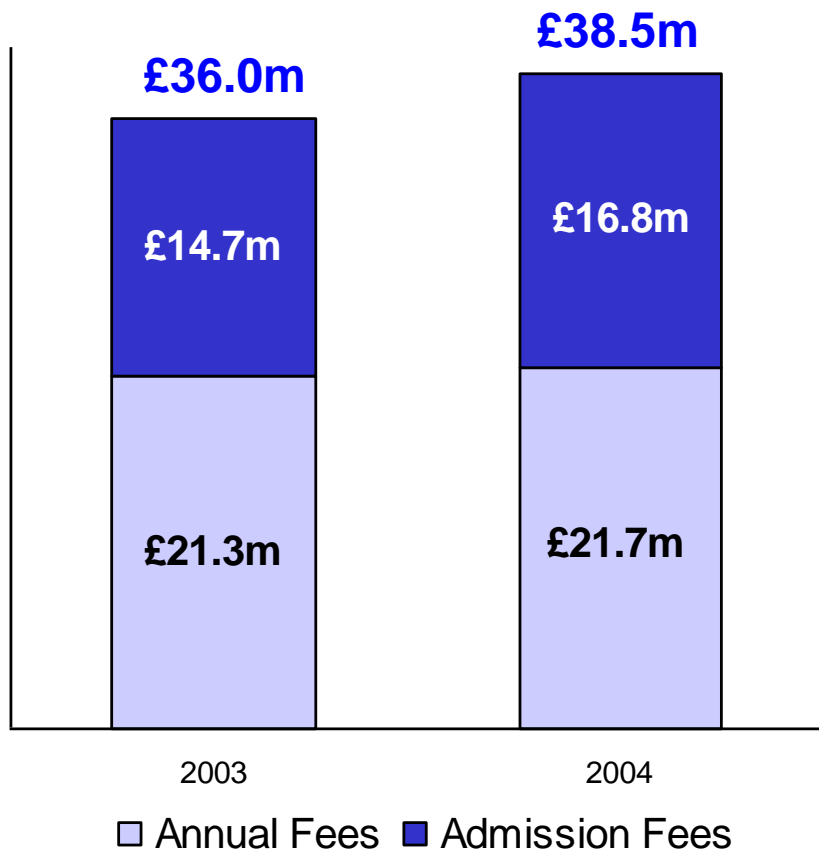
	Year ended 31 March		Change %
	2004 £m	2003 £m	
Operating profit*	83.2	81.7	2
Exceptional items	-	(11.6)	-
Profit before tax	89.1	79.5	12
Tax	(25.7)	(26.8)	4
Minority Interest	0.3	-	
Profit for the financial year	63.7	52.7	21
Earnings per share (pence)	21.7	18.1	20
Adjusted earnings per share* (pence)	21.3	20.9	2
Dividend per share (pence)	4.8	4.3	12

* before exceptional items and goodwill amortisation

Issuer Services

New issue activity mixed

Turnover up 7%



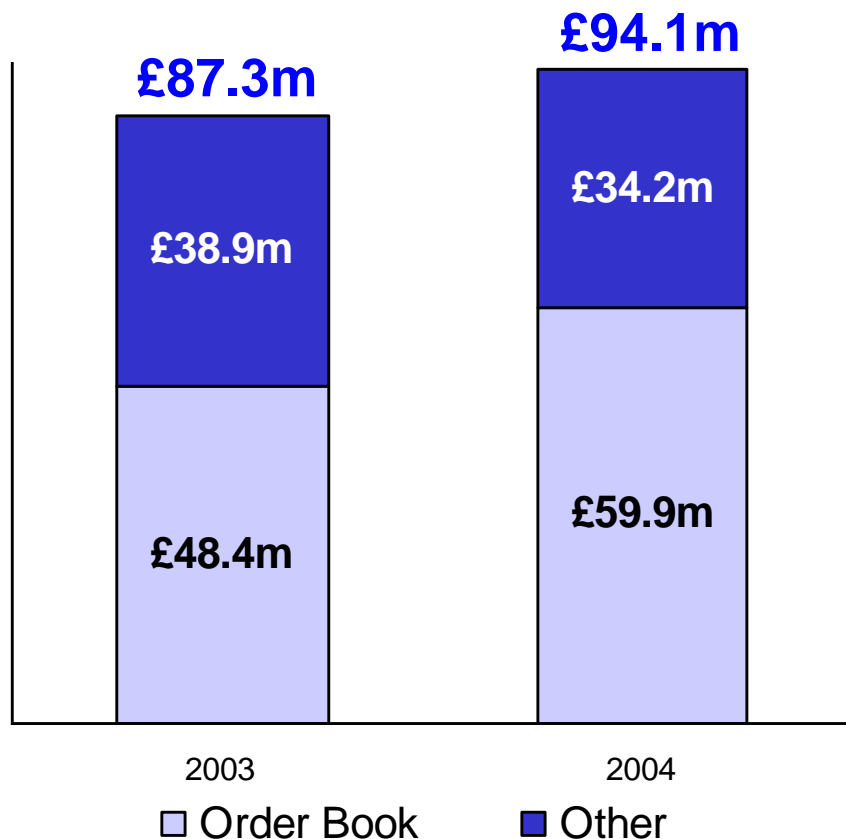
Key metrics

- New issues up from **202** to **236** of which:
 - **193** AIM (2003: 154) – up **25%**
 - **43** Main Market (2003: 48) – down **10%**
- Annual Fees up **2%** representing **56%** of Issuer Services' turnover (2003: 59%)
- **2,693** companies (2003: 2,777)

Broker Services

SETS volumes continue to grow

Turnover up 8%



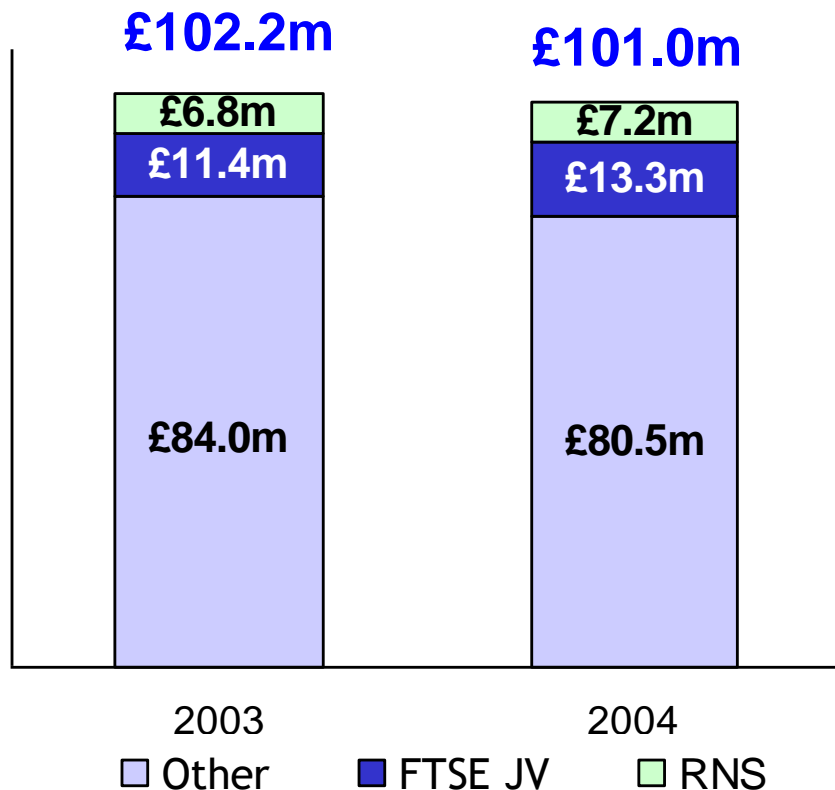
Key metrics

- Average daily equity bargains up **9%** to **234,000**
 - order book bargains up **26%** to **137,000** per day
 - off book bargains up **12%** to **57,000** per day
 - international bargains down **27%** to **40,000** per day
- Total value of equity bargains fell **4%** to **£4.1tn**
- SETS contributed **64%** of Broker Services' revenue

Information Services

Turnover impacted by fall in terminal numbers

Turnover down 1%



Key metrics

- Terminal population **90,000** (2003: 94,000)
- Professional investor terminals at **80,000** (2003: 88,000)
- Over **1,800** Proquote screens
- FTSE JV – Share of turnover **£13.3m** (2003: £11.4m)
- RNS turnover **£7.2m** (2003: £6.8m)

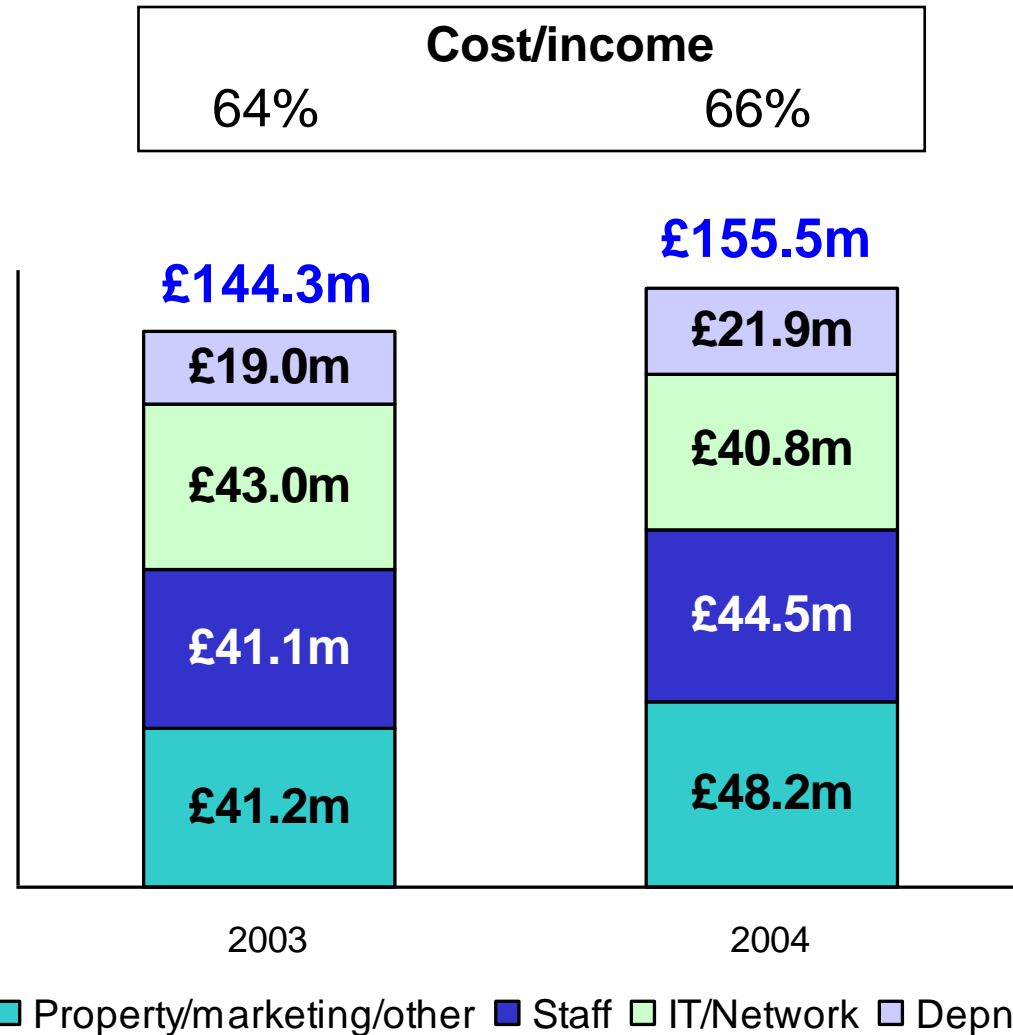
Derivatives Services

EDX

- New division – continuing diversification
- Contributed **£5.9m** to turnover for the first 9 months of operation
- Small loss as business develops OTC equity derivatives services

Operating and development costs

- Higher incremental costs in H2
- Staff costs – year end headcount **522** (2003: 501)
- Depreciation reflects continuing investment
- Delivered IT cost savings
- Property/marketing/other costs include migration costs and rent



Summarised Cash Flow

Strong cash flows from operating activities

	Year ended 31 March	
	2004	2003
	£m	£m
Net cash inflow from:		
- ongoing operating activities (after pension funding)	105.4	74.8
Taxation	(22.2)	(25.2)
Capital expenditure	(54.2)	(28.1)
Dividends paid	(12.9)	(11.1)
Free cash flow - pre one-off items	16.1	10.4
One-off items - exceptional items	-	10.4
- acquisitions	(15.5)	(11.3)
Free cash flow*	0.6	9.5

* Excludes receipts of sale of fixed asset investments

Summarised Balance Sheet

Balance sheet remains strong

	31 March 2004	31 March 2003
	<u>£m</u>	<u>£m</u>
Fixed assets		
Goodwill	24.3	14.1
Tangible assets & Investments	<u>176.6</u>	<u>137.9</u>
Total fixed assets	200.9	152.0
Current assets - debtors	61.1	64.3
- cash	227.9	211.0
Creditors: due within one year	(78.9)	(64.0)
Creditors: due after one year	(0.5)	-
Provisions	(38.4)	(41.6)
	<u> </u>	<u> </u>
Net assets	<u><u>372.1</u></u>	<u><u>321.7</u></u>

Special dividend and share consolidation

Rationale

- Strong cash flows and Tower disposal proceeds provide surplus funds for shareholders
- Financial flexibility maintained – including cash generation and **£300m** loan facility
- Adjusted EPS enhancement of **9%** (on pro forma 2003/04 basis)

Implementation

- Special dividend of **55 pence/share** – return of **c£162m**
- Consolidation of capital – **6 new shares** for every **7 existing shares**
- Payable **16 August** to shareholders on register **23 July**

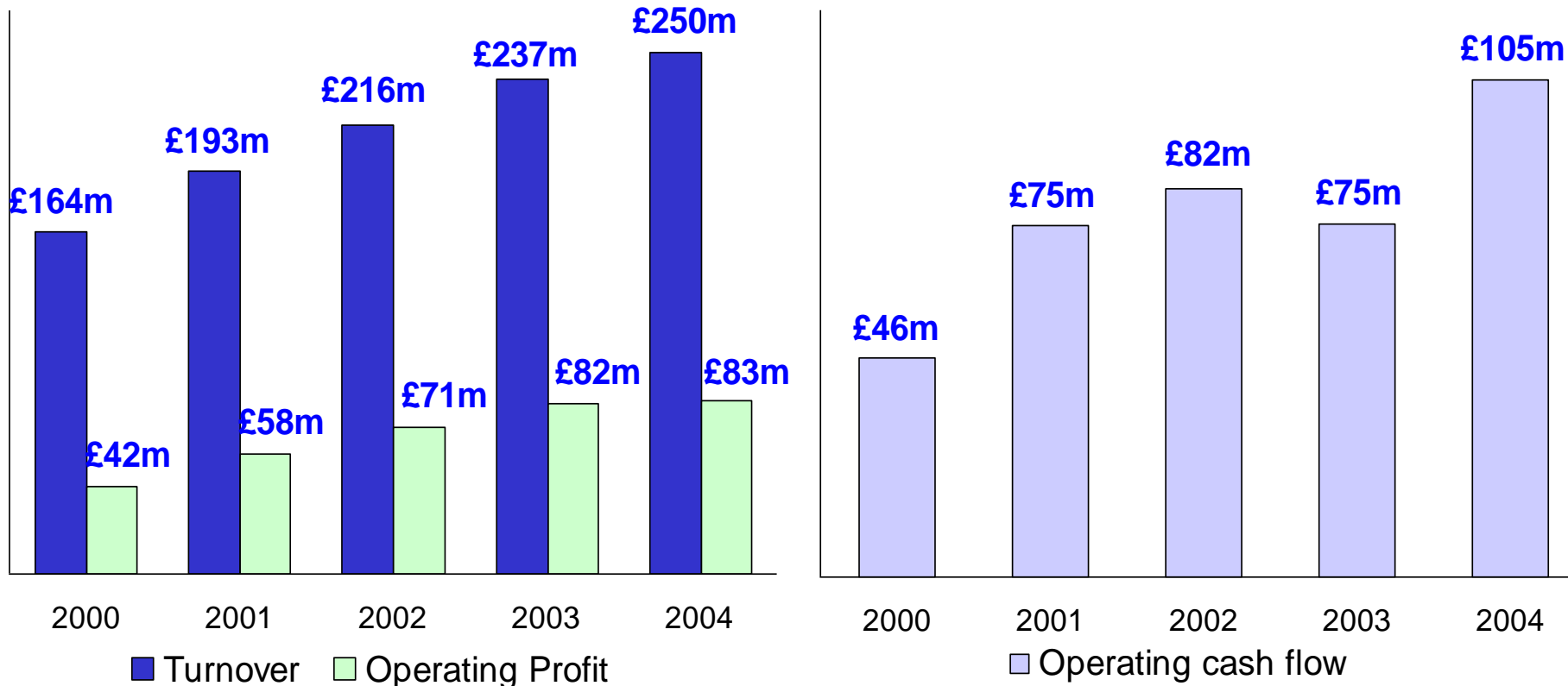
Pro forma balance sheet

	As at 31 March 2004	
	<u>Current</u>	<u>Pro forma</u>
	£m	£m
Total fixed assets	201	145
Current assets - debtors	61	88
- cash	228	100
Creditors	(80)	(80)
Provisions	(38)	(38)
Net assets	<u><u>372</u></u>	<u><u>215</u></u>

- Net assets decrease from **£372m** to **£215m**
- Cash of **c£100m** – maintains financial flexibility

Track Record

Strong financial progress over the last five years



- Turnover increased **52%** and operating profit almost doubled
- Operating cash flow more than doubled

Note: All figures from continuing operations before exceptional items and goodwill amortisation

Current trading conditions

- Reflect trends seen at end of last year:
 - AIM new issue activity remains strong and main market activity broadly in line
 - SETS volumes remain strong
 - Rate of decline of professional terminals shows signs of slowing



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Clara Furse

Chief Executive Officer

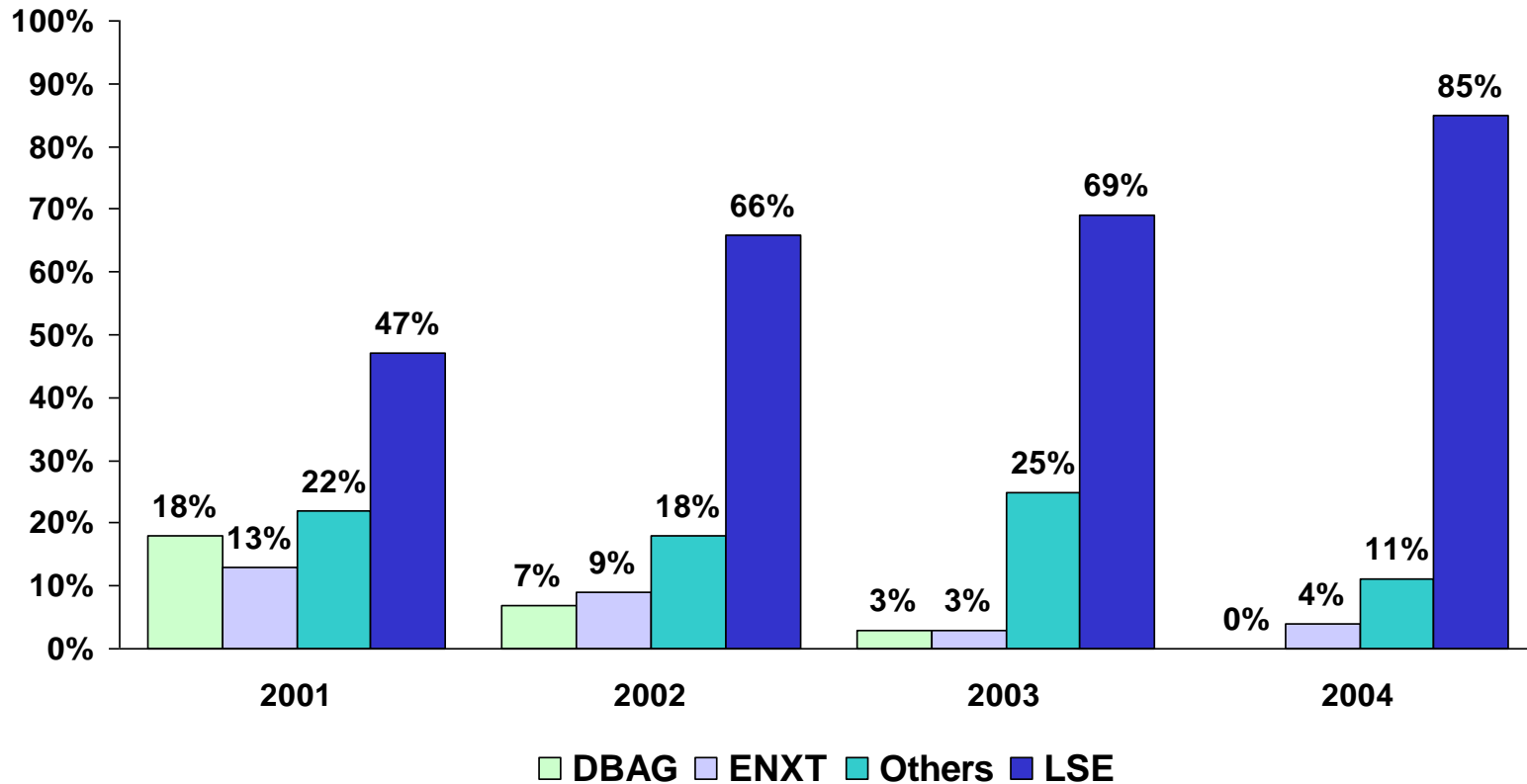
Introduction

Overview

- Highlight track record and strength of core business
- Reiterate strategy and unique attributes of London market model
- Demonstrate how our competitive positioning continues to improve

Our market:

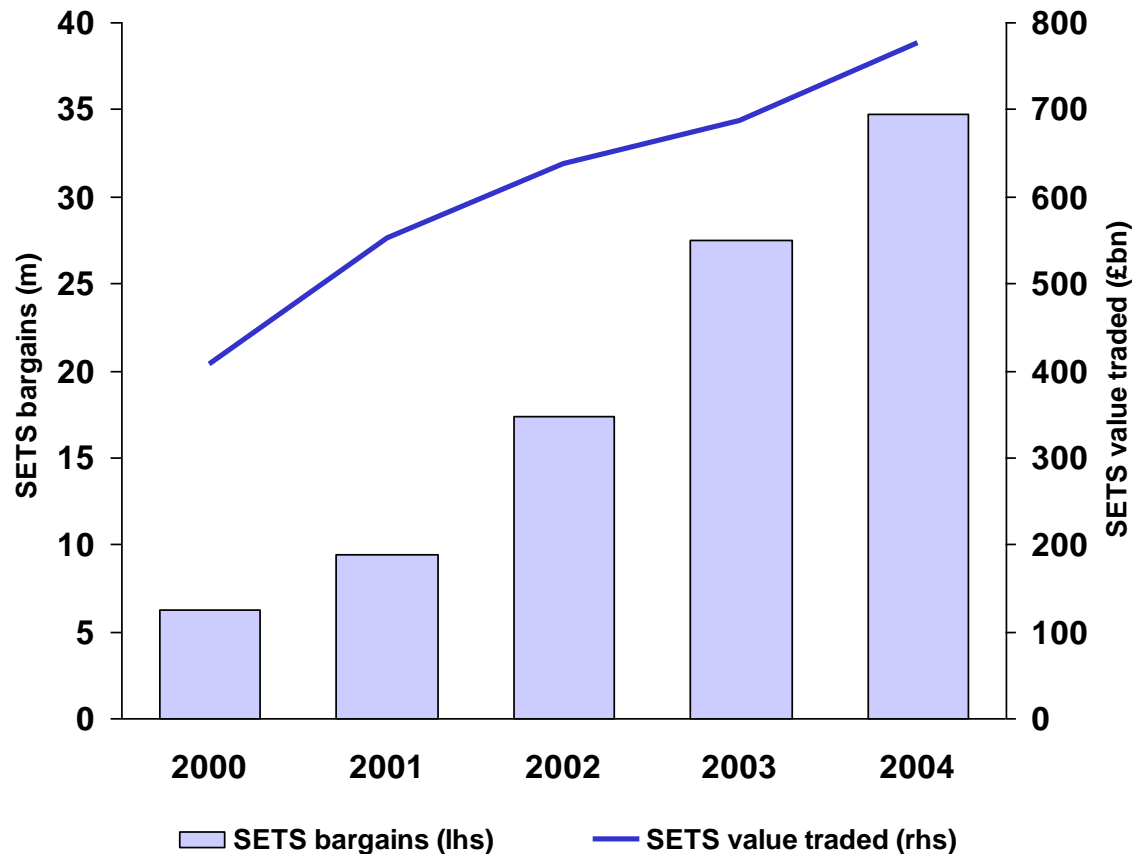
Europe's capital raising centre



- LSE captured **85%** of Western European IPOs

Our market:

SETS performs



- SETS volumes have increased at a compound annual growth rate of **41%** over a 5 year period

London Stock Exchange

We will compete globally to become the market of choice:

- Reinforce and extend position as **premier source** of equity market services in European time zone
- Operate a **diversified** business, capitalising on an innovative environment
- Deliver **superior value** to customers and shareholders

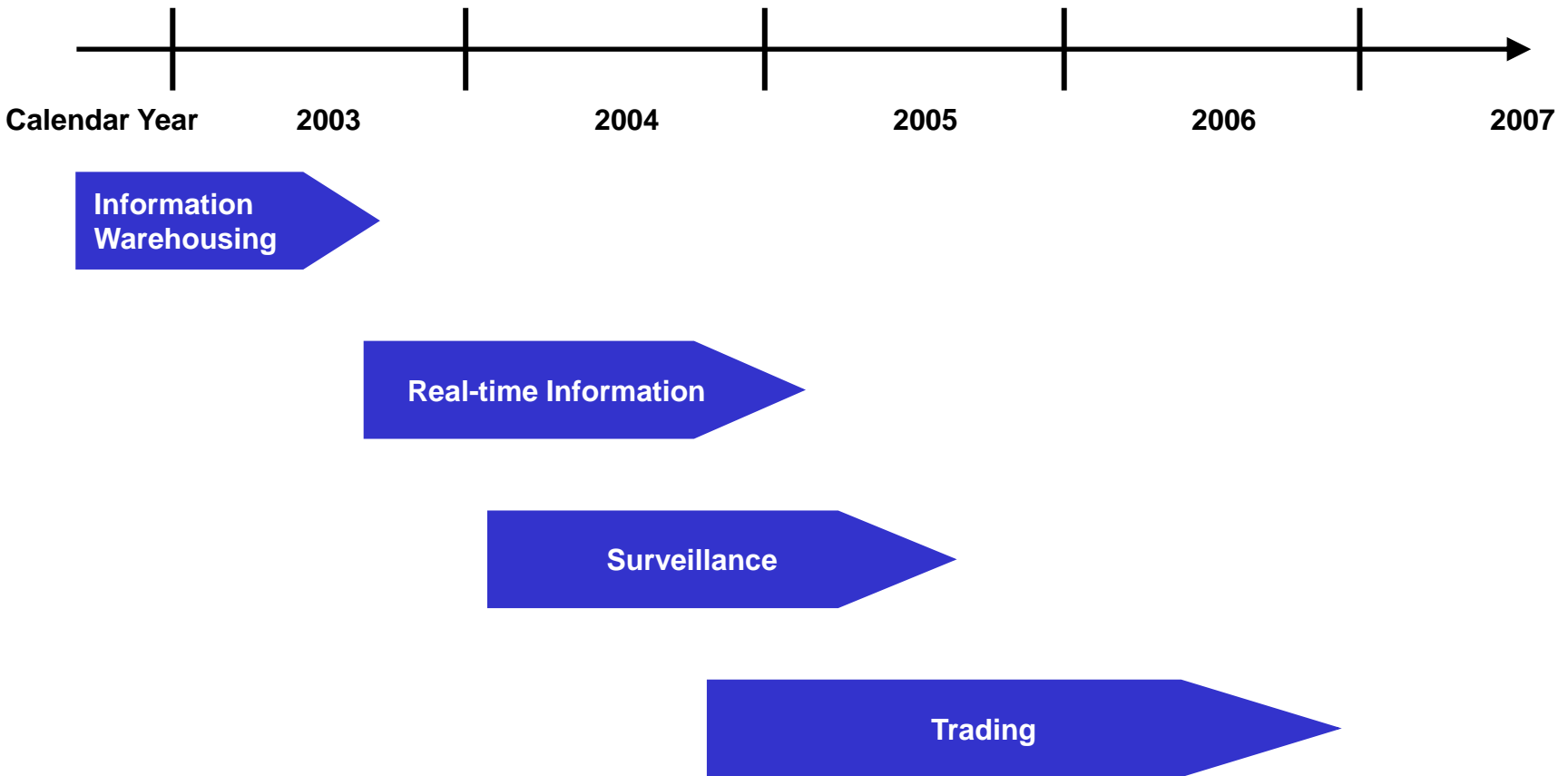
Opportunities

A developing single market in Europe

- **Regulatory changes** encouraging customers to examine how they conduct business
- **Evolving investment strategies** stimulating demand for greater product range
- **Consolidating post-trade infrastructure** providing choice among transaction venues

London Market Model

Technology Roadmap to be completed end of 2006



London Market Model

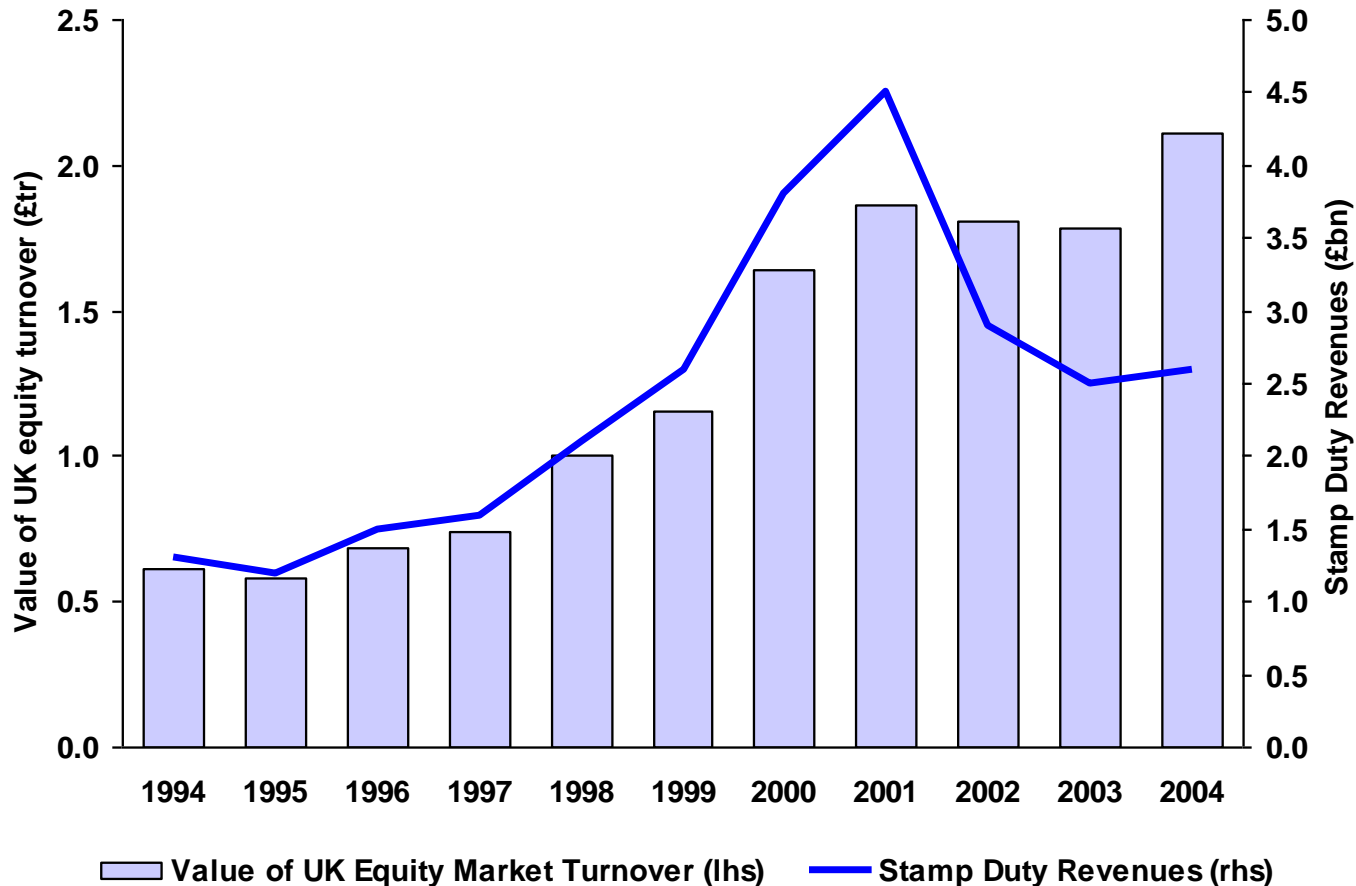
Impact of Technology Roadmap

- Changes **non disruptive** to customers
- **Multi-product** capability
- Target **20%** reduction in P&L technology costs by FY 2007/08
- Scalability at significantly **lower cost**

London Market Model

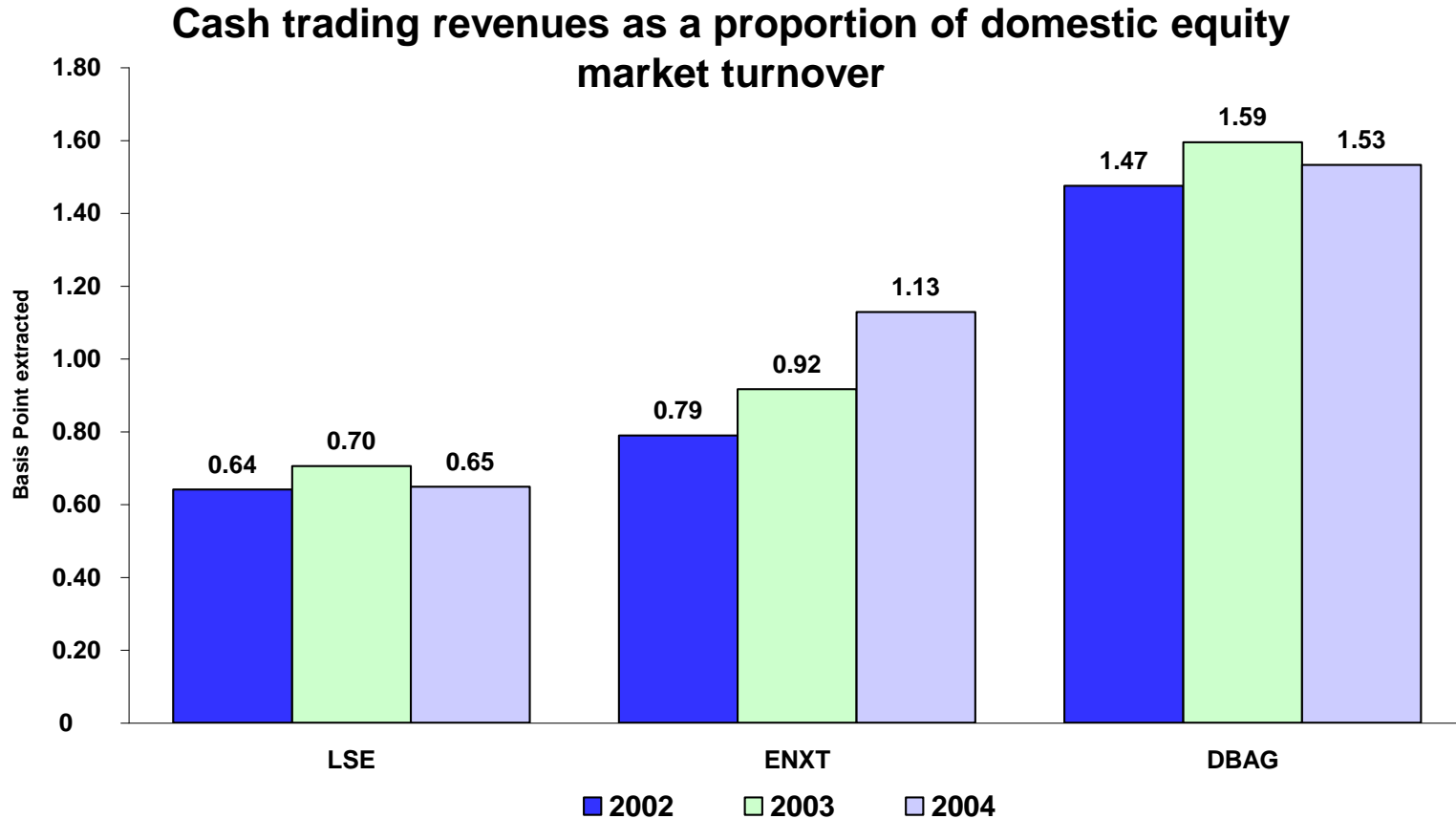
Marked structural change in trading

Stamp Duty Revenues and UK Equity Market Turnover (by value)



London Market Model

Pricing Advantage

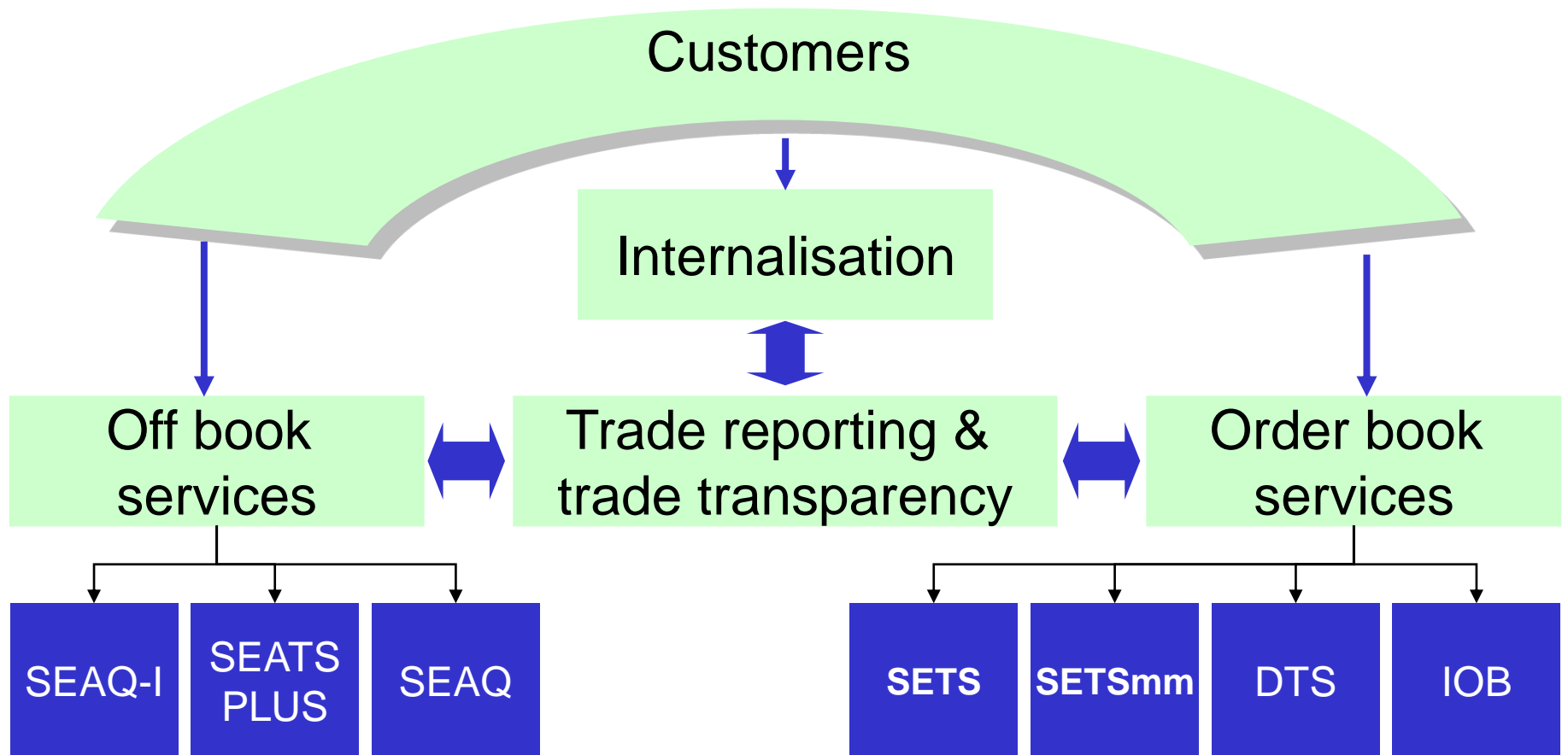


Sources: All data taken from exchanges' Annual Accounts and refers to financial year ends. FIBV (all equity turnover SINGLE counted)

- **42% lower than Euronext and 58% lower than Deutsche Borse**

London Market Model

Customers make the market



EUROSETS

Competing to create a European marketplace

- To be launched **24 May 2004**
- Customer feedback **positive**
- **85%** of market in Dutch equities signed up

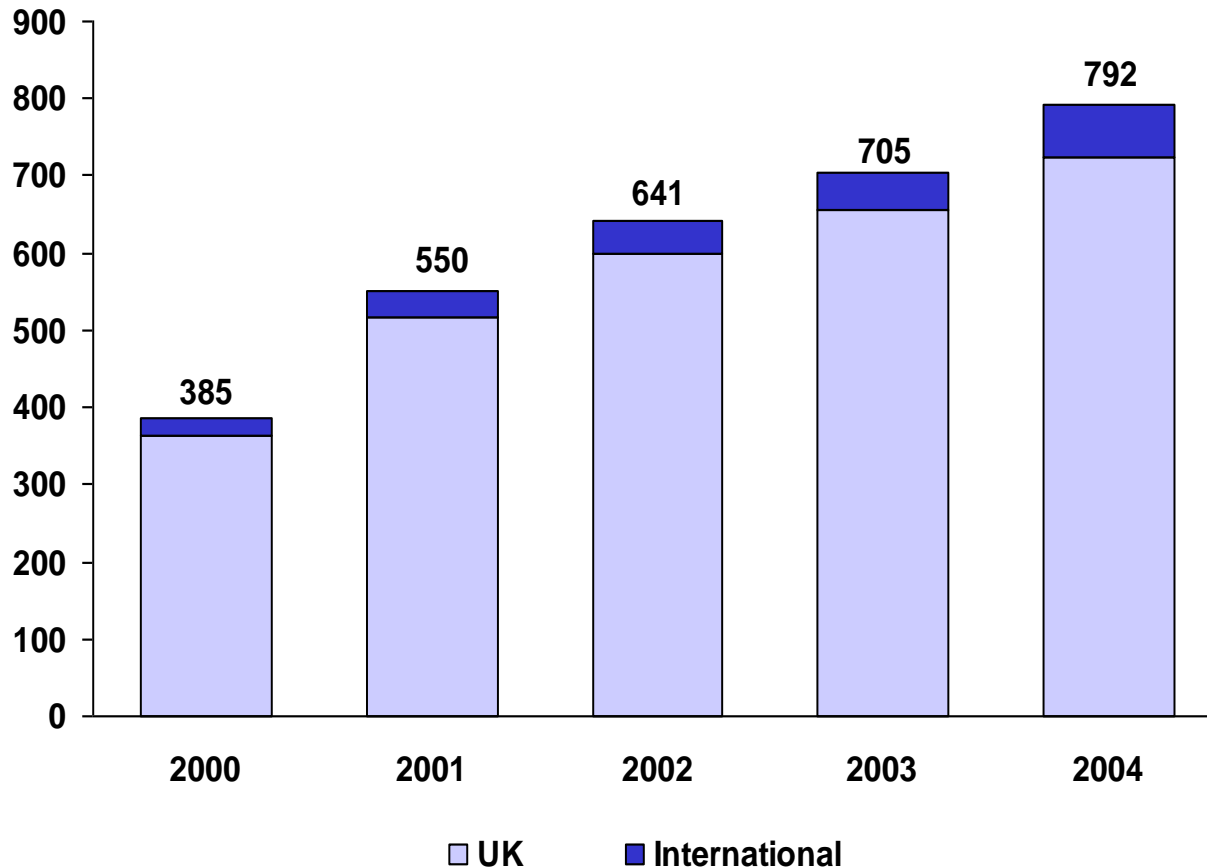
Highlights from a year of achievement

May 2003	AIM fast track admissions	✓	Reinforcing our position as the leading international equities market
May 2003	Level One Plus	✓	Exploiting the first stage of our Technology Roadmap
June 2003	Launch of EDX London	✓	Expanding our business into equity derivatives
Sep 2003	Iceberg orders	✓	Extending our trading services for UK equities
Nov 2003	SETSmm	✓	
Nov 2003	New clearing services agreement with LCH.Clearnet	✓	Generating a competitive market for clearing services
Jan 2004	Targeted international business development in China, Russia & India	✓	MoU's signed with Shanghai, Shenzhen, MICEX and RTS
Feb 2004	SEDOL	✓	Meeting customers' desire for greater efficiency and STP
Feb 2004	EDX London clearing migrated to LCH.Clearnet	✓	Opening up business expansion opportunities in equity derivatives
Mar 2004	Proquote screens up c80% in 1 st year of ownership	✓	Broadening our service offering and customer base
May 2004	Dutch trading service	✓	Competing for new markets

Business and product development

AIM is a phenomenon

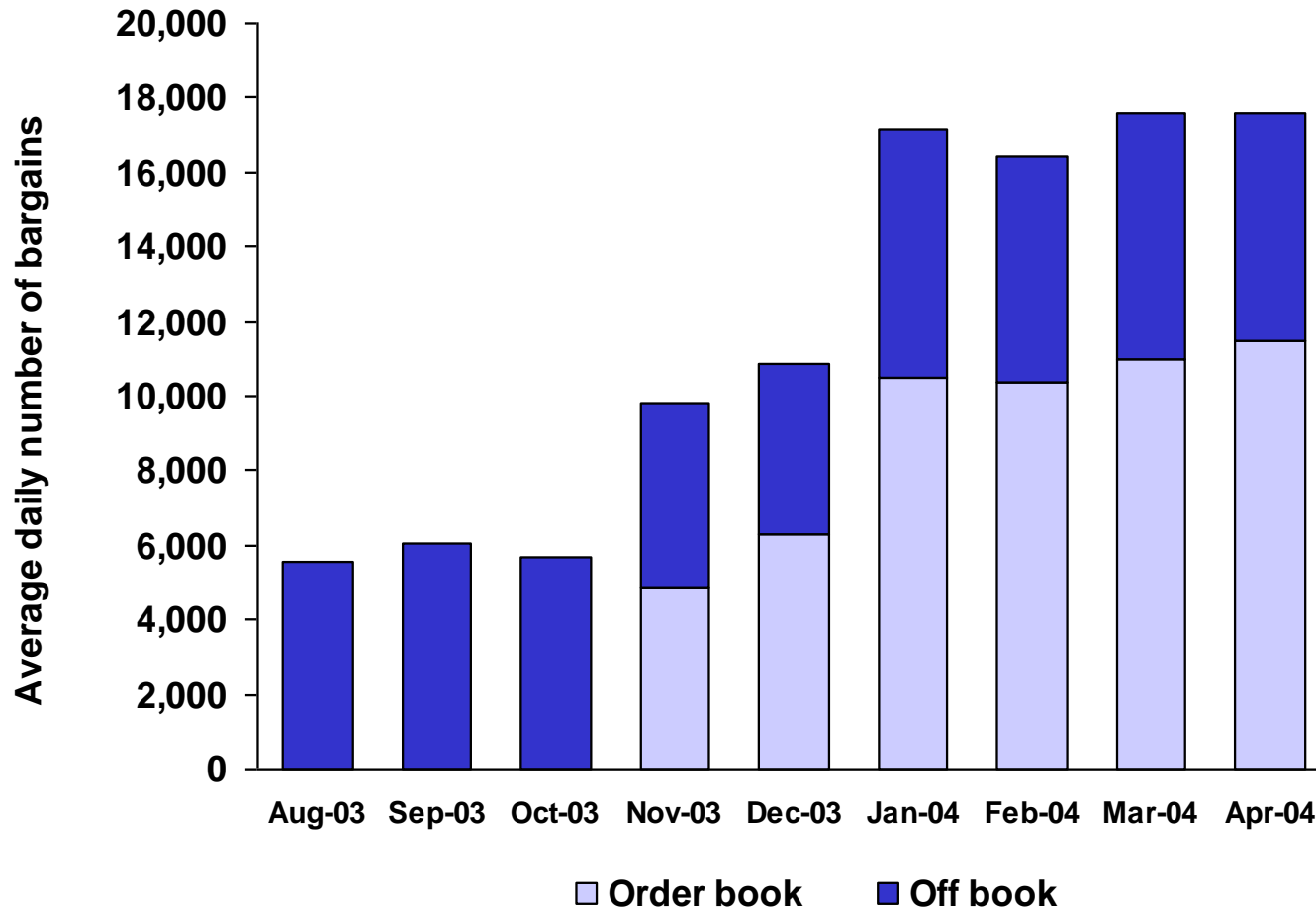
Number of AIM companies



Business and product development

Migration to the order book

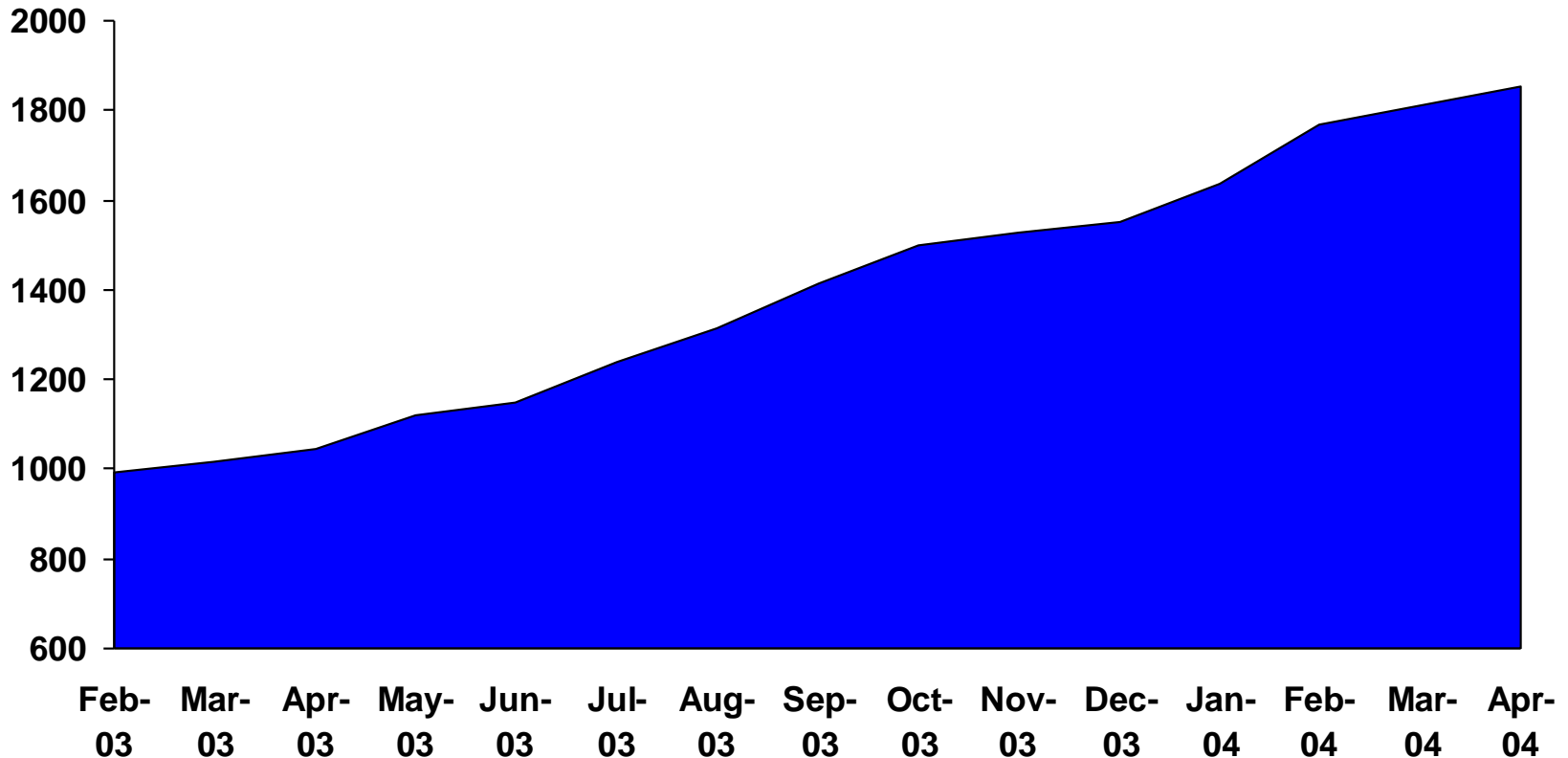
Average daily bargains in SETSmm securities



Proquote





80% growth in number of screens in first year

Number of Proquote screens



Business and product development

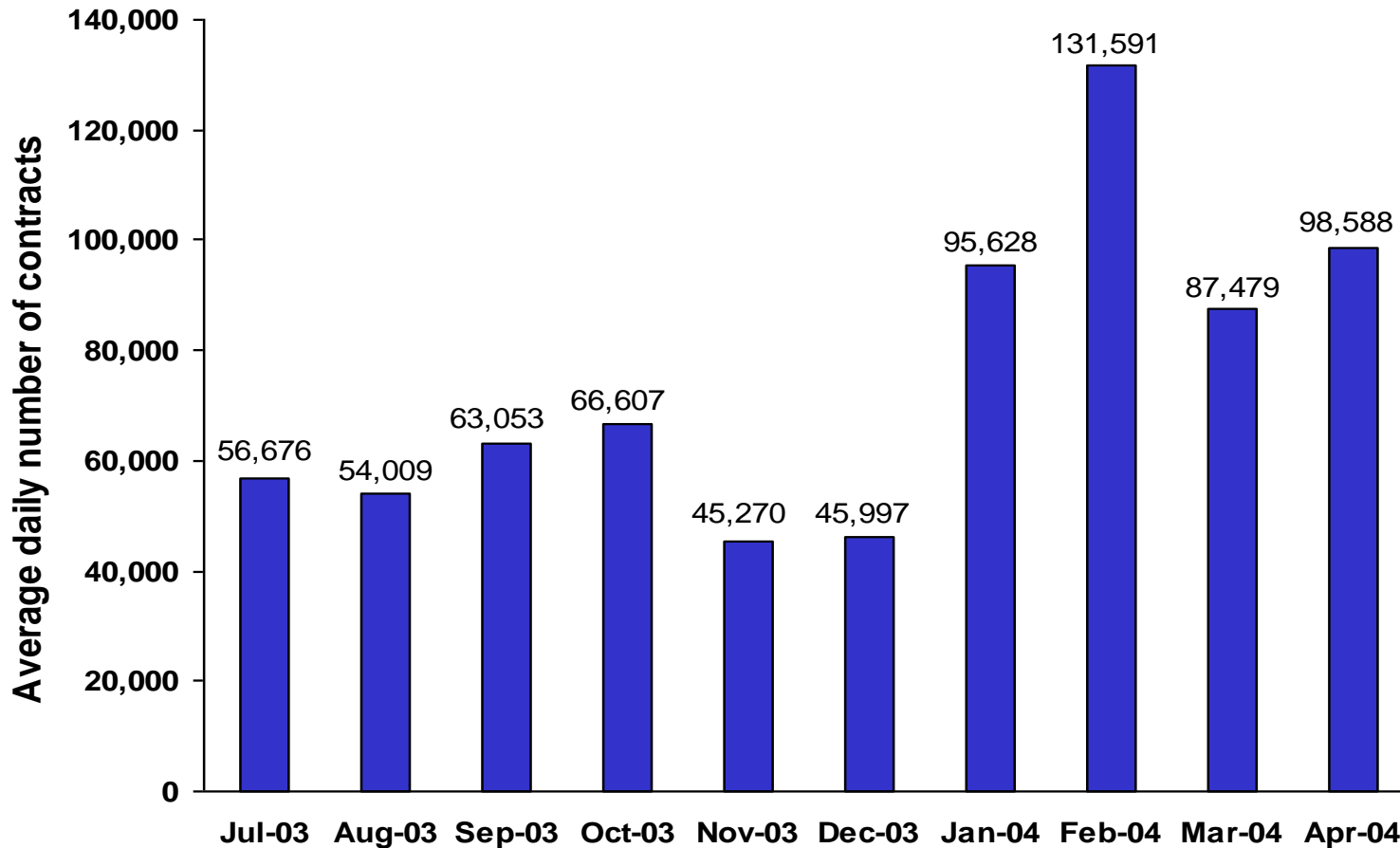
SEDOL extends our network

	700+ customers at 31 March 2004
	Global customer base – investment banks, fund managers, custodians
	250,000 SEDOL codes – to be expanded to 2 million covering all global asset classes (in next 18 months)
	Forecast revenues of c£5m in 2004/05

Business and product development

EDX is growing

EDX London average daily contracts



Summary

- Core business performing **as expected**
- Exchange improving its **competitive position**
- Focused on creating a superior **quality of market** based on:
 - **Operational excellence**
 - Embracing **competition**



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Appendix

Half year revenue and cost split

2003/04

2002/03

	<u>H1</u>	<u>H2</u>	<u>Full year</u>	<u>H1</u>	<u>H2</u>	<u>Full year</u>
	£m	£m	£m	£m	£m	£m
Issuer Services	18.4	20.1	38.5	19.2	16.8	36.0
Broker Services	43.7	50.4	94.1	43.7	43.6	87.3
Information Services	50.2	50.8	101.0	50.7	51.5	102.2
Derivatives Services	1.7	4.4	6.1	-	-	-
Other income	5.6	5.1	10.7	5.9	5.9	11.8
Gross turnover	119.6	130.8	250.4	119.5	117.8	237.3
Operating costs*	72.4	83.1	155.5	73.4	70.9	144.3
Operating profit**	41.7	41.5	83.2	40.5	41.2	81.7

* before exceptional items

** before exceptional items and goodwill amortisation

Property

Tower

- Sale of Tower for consideration of **£67.0m**:
 - **£3.4m** deposit upon exchange of contracts
 - **£30.4m** upon completion (July 2004)
 - **£33.2m** on 31 December 2005
- Net profit at least **£5m**

Paternoster Square

- Normal ongoing net cost to P&L of **c£10m**
- Total fit-out and relocation costs of **c£40m** – majority incurred in 2004
- Two tenants taken **32,000 sq ft** – **40%** of available sub-lettable space