

▶▶ *LCH seeks to be the first choice
central counterparty clearing
house for exchange-traded and
over-the-counter markets* ◀◀

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Half year highlights

- ▶▶ *Turnover - £107.8 million (2002 - £89.6 million)*

- ▶▶ *Profit before tax - £15.7 million (2002 - £9.8 million)*

LCH EnClear[®],

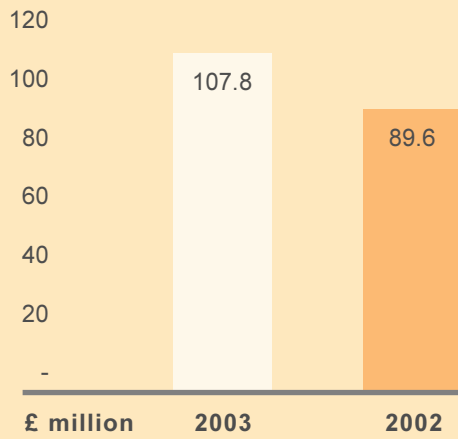
LCH EquityClear[®],

LCH RepoClear[®]

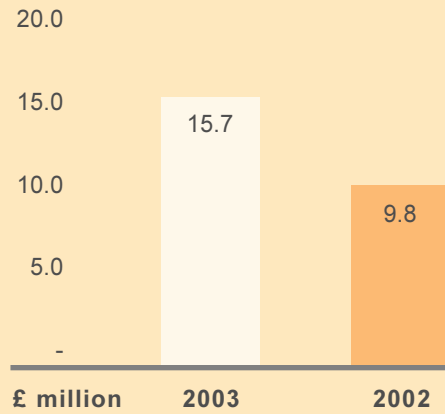
and LCH SwapClear[®]

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The London Clearing House Limited.

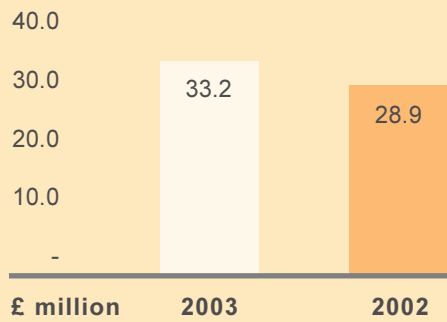
Turnover - First Half



Profit before tax - First Half



Administrative expenditure - First Half



Chief Executive's Report



LCH has continued to strengthen its market position across all its business streams with the futures and options business stream continuing to handle greater volumes during the first six months of the 2003 financial year. In May 2003 LCH EquityClear went live with a new clearing service to virt-x, the pan-European stock exchange, together with SIS x-clear, the newly established Swiss central counterparty. EquityClear also reduced its tariff in January 2003. LCH RepoClear and LCH SwapClear continued to build real market presence. Growth in the number of contracts cleared and their underlying value firmly positions LCH as the largest central counterparty in Europe by value cleared, and unquestionably the leading global central counterparty by range of services provided.

On June 25, the proposed merger of LCH and Clearnet was announced to form the LCH.Clearnet group, which will be Europe's leading independent group of Central Counterparty Clearing Houses ("CCP"). The merger with Clearnet is a very important step for LCH and I am pleased to report that a comfortable majority of members have indicated that they will vote in favour of the transaction. The LCH.Clearnet group will provide the broadest range of products offered by any CCP. LCH.Clearnet is expected to provide users with significant cost saving opportunities in their own businesses and will create value for both users and shareholders through efficiency improvements, including cost reductions. LCH.Clearnet believes that these benefits can be achieved without an overall increase in fees and tariffs charged by LCH and Clearnet in the absence of unforeseen circumstances. The merger is subject to shareholder, regulatory and competition authority approvals and is expected to complete before the end of the year.

LCH is also continuing its dialogue with several of its exchange customers to update their clearing arrangements. Discussions are under way with London Metal Exchange ("LME") and International Petroleum Exchange ("IPE") and also with London Stock Exchange ("LSE"). We are continuing to support LSE initiatives in Dutch equities (to be traded on SETS) and equity derivatives through EDX, the equity options trading platform launched in June by London Stock Exchange.

Financial performance

The first six months of the 2003 financial year was another strong period of growth with turnover increasing by 20% to £107.8 million (2002: £89.6 million) and profit before tax increasing by 60% to £15.7 million (2002: £9.8 million) with significant contributions from all business streams. The amount of collateralised assets under management has grown substantially over the last six months. This, coupled with outstanding investment returns, has resulted in higher treasury income. LCH now has over £9 billion of collateral assets under management, an increase of 18% on April 2002. Treasury income of £11.2 million was 27% higher than 2002 (£8.8 million).

...Financial performance

Income from clearing fees across all business streams was £38.0 million (2002: £28.7million).

Futures & Options:	£20.6 million	(2002: £16.9 million)
EquityClear:	£6.0 million	(2002: £3.1million)
RepoClear:	£4.3 million	(2002: £2.4million)
SwapClear:	£7.1 million	(2002: £6.3million)

The new business streams are now major contributors to fee income, representing 46% of LCH's clearing fee income (2002: 41%).

Administrative expenditure in the period has increased by 15% to £33.2 million (2002: £28.9 million). Included within administrative expenditure is £3.7 million in respect of the LCH.Clearnet merger (2002: £0.9 million).

Excluding LCH.Clearnet merger expenditure, administrative expenditure has increased by 5% to £29.5 million (2002: £28.0 million). Staff costs increased by 10% to £12.6 million due to the full effect of the increase in headcount during 2002. Headcount numbers have remained stable over the last six months and are now broadly sufficient to carry LCH forward as it grows. The IT Strategy will, however, lead to a temporary increase in IT Headcount in the second half of 2003.

LCH's IT Strategy programme of rationalising clearing services with a new technical architecture across a wider range of products is now well underway. The first stage of development is the building of the RepoClear clearing service, due to go live in 2004. Included within administrative expenditure is £4.8 million of expenditure on the IT strategy.

At the end of April 2003, the default fund stood at £342.9 million, within an allowed maximum of £400 million. Members are currently being consulted on an increase in the size of the fund.

Business streams report

Futures & Options

The first six months of 2003 continued to see record levels of clearing volumes, particularly from Euronext.liffe where volumes increased by 39% compared to the same period for 2002. LCH is currently working with LME on the changes to its SELECT electronic trading system to ensure a successful implementation of a new trading structure in 2004. LCH Enclear is now operational with clearing services for Endex, an Amsterdam based power exchange, successfully launched in December 2002. Additional clearing services for IntercontinentalExchange have also commenced with further natural gas and electricity contracts now being cleared.

LCH EquityClear

The EquityClear business stream has also seen record levels of clearing volumes in the first six months on the London Stock Exchange SETS order book. Volumes have been averaging over 120,000 bargains a day with a peak of over 182,000 on 12 March 2003. EquityClear reduced tariffs from January 2003.

A new clearing service to virt-x, the pan-European stock exchange, went live in May 2003. Working with SIS x-clear, the newly established Swiss central counterparty, this complex model has the ability to settle into Crest, EuroClear and SIS SegalInterSettle. This has been well received by the market, with average daily volumes of over 23,000 being cleared in May.

EquityClear has commenced work on providing a clearing system, due to go live at the end of 2003, to the new EDX equity option trading platform. LCH is currently working on a proposal to clear Dutch equities traded on the London Stock Exchange SETS order book.

LCH RepoClear

The fixed income clearing service continues to grow with clearing fee income increasing by 79% to £4.3 million (2002: £2.4 million). The substantial increase in fee income is due to an increase in fees in September 2002 and to the launch of new products over the last twelve months.

RepoClear broke a number of records in March with a nominal volume of just over €3 trillion registered and over €6 trillion going into netting. In April 2003 RepoClear announced that EuroMTS and LCH will be enhancing the links between themselves to allow market participants on the EuroMTS platform to clear its quasi-government bond sector. RepoClear has now started clearing US dollar denominated Eurobonds.

LCH SwapClear

The SwapClear service continues to grow with average monthly one-sided trades registered of 8,759 (2002: 588) for the first six months. Work is underway to develop a direct link into Swapswire which should be launched by the end of the first quarter 2004.

Outlook

Since 30 April, LCH's performance has remained strong with continued volume growth particularly in futures and options and the equities business streams. Overall, the board expects another good year with the continued introduction of new clearing services, although expenditure on the IT Strategy Programme is expected to be higher in the second half of the year.

Profit and Loss

**Profit and loss account
for the six months ended 30 April 2003**

	Note	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Turnover	2	107,790	89,631	188,287
Interest paid to clearing members	2	(58,910)	(50,977)	(105,659)
		48,880	38,654	82,628
Administrative expenditure	3	(33,199)	(28,901)	(59,008)
Profit on ordinary activities before tax		15,681	9,753	23,620
Tax on profit on ordinary activities	4	(5,034)	(3,670)	(8,006)
Retained profit for the financial period		10,647	6,083	15,614

Balance Sheet

As at 30 April 2003

	Note	As at 30 April 2003 £'000	As at 30 April 2002 £'000	As at 31 October 2002 £'000
Fixed Assets				
Tangible assets	5	14,219	13,277	13,228
Current Assets				
Debtors and other amounts receivable	7	41,453,979	26,170,915	42,520,888
Cash at bank and in hand		4,504,977	3,332,385	3,755,032
		45,958,956	29,503,300	46,275,920
Creditors: amounts falling due within one year	8	(41,718,239)	(28,015,936)	(40,323,881)
Net current assets		4,240,717	1,487,364	5,952,039
Total assets less current liabilities		4,254,936	1,500,641	5,965,267
Creditors: amounts falling due after more than one year	9	(4,174,388)	(1,436,700)	(5,895,366)
Net Assets		80,548	63,941	69,901
Capital and Reserves:				
Called up share capital		36,700	39,100	36,700
Share premium account		11,812	12,983	11,812
Capital redemption reserve		3,571	-	3,571
Retained earnings		28,465	11,858	17,818
		80,548	63,941	69,901

The Capital and Reserves includes £1 of non-equity share capital.

Cashflows

**Statement of cashflows for the
six months ended 30 April 2003**

	Note	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Net cash inflow/(outflow) from operating activities before movement in margins held	10	18,867	(515)	17,844
Margin monies net cash inflow/(outflow)		765,817	(634,579)	(250,801)
(Decrease)/increase in the default fund		(1,400)	2,945	10,183
Net cash inflow/(outflow) from operating activities		783,284	(632,149)	(222,774)
Taxation		(6,016)	(1,886)	(5,384)
Capital expenditure	5	(4,221)	(5,939)	(6,576)
Net cash inflow/(outflow) before management of liquid resources and financing		773,047	(639,974)	(234,734)
Management of liquid resources		(1,041,134)	(83,694)	253,390
Financing		-	-	(3,571)
(Decrease)/increase in cash		(268,087)	(723,668)	15,085
Analysis of changes in net funds		30 April 2003 £'000	Cashflow £'000	31 October 2002 £'000
Cash		1,754,612	(268,087)	2,022,699
Liquid resources - Short term deposits		2,750,365	1,018,032	1,732,333
Bank overdrafts and loans		-	23,102	(23,102)
Net funds		4,504,977	773,047	3,731,930

Gains and Losses

Statement of total recognised gains and losses For the year ended 30 April 2003

	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Profit for the period	10,647	6,083	15,614
Redemption of Share Capital	–	–	(3,571)
Total recognised gains and losses relating to the period	10,647	6,083	12,043
Prior year adjustment	–	–	2,121
Total recognised gains and losses	10,647	6,083	14,164

Notes

1 Notes to the interim financial information

a) Basis of preparation

The unaudited results for the half year to 30 April 2003 have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounting policies applied are those set out in the 2002 annual report and accounts.

The comparatives shown for the year ended 31 October 2002 have been extracted from the audited statutory financial statements for the year ended 31 October 2002. These statutory financial statements were issued with an unqualified audit opinion and have been filed with Companies House.

In preparing the financial statements for the year ended 31 October 2002, the company adopted FRS 19 'Deferred Tax' and the transitional arrangements of FRS 17 'Retirement Benefits'. The adoption of FRS 19 resulted in a change in accounting policy for deferred tax,

...Notes

which is now recognised on a full provision basis. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has resulted in a prior year adjustment. Shareholders funds at 1 November 2001 increased by £2.1m, the tax charge for the year ended 31 October 2002 decreased by £0.8m and the profit for the year ended 31 October 2002 increased by £0.7m.

2 Turnover and interest paid to clearing members

Turnover analysis	Six months	Six months	Year ended
	ended 30 April	ended 30 April	31 October
	2003	2002	2002
	£'000	£'000	£'000
Interest on shareholders' funds	1,489	1,172	2,501
Interest on default fund	6,438	6,678	13,437
Treasury earnings	60,261	50,256	103,167
	68,188	58,106	119,105
Clearing fees	38,007	28,712	63,162
Other income	1,595	2,813	6,020
	39,602	31,525	69,182
	107,790	89,631	188,287
Interest paid to clearing members analysis			
Treasury earnings	50,530	42,642	88,588
Default fund	8,380	8,335	17,071
	58,910	50,977	105,659

Turnover and interest paid to clearing members

Turnover and operating profit are derived from the provision of services to clearing members and exchanges, including interest received on deposits and accommodation charges.

3 Administrative expenditure

Administrative expenditure includes	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Staff costs	12,552	11,387	23,428
Depreciation of assets owned by the company	3,230	3,530	7,090
Hire of plant and machinery	6	45	84
Property lease rentals	854	920	1,841
Auditors' remuneration	40	40	80
Interest on bank overdrafts and loans repayable within 5 years	16	54	153
Loss on disposal of fixed assets	-	-	85

4 Tax on profit on ordinary activities

The tax charge is made up as follows:	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
United Kingdom corporation tax charge:			
Current year	6,754	4,519	8,580
Prior year	-	-	87
	6,754	4,519	8,667
Deferred tax credit	(1,720)	(849)	(661)
Tax on profit on ordinary activities	5,034	3,670	8,006

5 Tangible assets

	Leasehold refurbishment	Computer and office equipment, software and other fixed assets	Total
	£'000	£'000	£'000
Cost:			
Balance at 1 November 2002	2,325	30,445	32,770
Additions	100	4,121	4,221
Disposals	-	-	-
Balance at 30 April 2003	2,425	34,566	36,991
Depreciation:			
Balance at 1 November 2002	830	18,712	19,542
Charge for the period	122	3,108	3,230
Disposals	-	-	-
Balance at 30 April 2003	952	21,820	22,772
Net book value 30 April 2003	1,473	12,746	14,219
Net book value 31 October 2002	1,495	11,733	13,228

6 Balances with members

Included within balances with members in notes 7,8 and 9 are the following balances at 30 April 2003	Assets £'000	Liabilities £'000
RepoClear transactions	35,802,610	(35,802,610)
SwapClear transactions	3,965,467	(3,965,467)
London Metal Exchange transactions	171,487	(171,487)
EquityClear transactions	736,275	(736,275)
LIFFE Traded Options transactions	503,763	(503,763)
Initial margin	254,205	(4,348,800)
	41,433,807	(45,528,402)

The net balances due from members recorded in the balance sheet of £41,434 million are fully secured by non-cash collateral or guarantees held by the Company. At 30 April 2003, the total net amount of non-cash collateral held, including in respect of initial margin, was £42,666 million of which the total amount of guarantees held was £1,159 million. Included within the non-cash collateral is the net amount of debt securities received as collateral for the Company's assets in respect of RepoClear transactions, which has in turn been passed on to RepoClear counterparties to secure the Company's liabilities in respect of RepoClear contracts.

7 Debtors and other amounts receivable

	Note	30 April 2003 £'000	30 April 2002 £'000	31 October 2002 £'000
Balances with members	6	41,433,807	26,153,129	42,500,848
Other debtors		12,756	13,026	13,399
Deferred tax		4,502	2,970	2,782
Prepayments and accrued income		2,914	1,790	3,859
		41,453,979	26,170,915	42,520,888
Of above, the following amounts are due after one year:				
Balances with members		3,831,464	1,099,614	5,551,042
Deferred tax		4,502	2,970	2,782
		3,835,966	1,102,584	5,553,824

8 Creditors: amounts falling due within one year

	30 April 2003 £'000	30 April 2002 £'000	31 October 2002 £'000
Bank overdrafts and loans	-	-	23,102
Balances with members	41,696,938	27,998,517	40,278,586
Trade creditors	4,911	7,241	5,447
Other creditors including taxation and social security	7,284	7,079	7,282
Accruals	9,106	3,099	9,464
	41,718,239	28,015,936	40,323,881

9 Creditors: amounts falling due after one year

	30 April 2003 £'000	30 April 2002 £'000	31 October 2002 £'000
Balances with members	3,831,464	1,099,614	5,551,042
Default fund	342,924	337,086	344,324
	4,174,388	1,436,700	5,895,366

10 Reconciliation of operating profit to net cash flows from operating activities before movement in margin monies held

	Six months ended 30 April 2003 £'000	Six months ended 30 April 2002 £'000	Year ended 31 October 2002 £'000
Operating profit	15,681	9,753	23,620
Depreciation charges	3,230	3,530	7,090
Loss on disposal of fixed assets	-	-	85
Decrease/(increase) in debtors	1,588	(5,087)	(7,532)
Decrease in creditors	(1,632)	(8,711)	(5,419)
Net cash inflow/(outflow) from operating activities before movement in margin monies held	18,867	(515)	17,844