Rating Action: London Stock Exchange Group plc

MOODY'S ASSIGNS A3 CORPORATE FAMILY, Baa1 ISSUER RATING, Baa1 SENIOR UNSECURED DEBT RATING TO LONDON STOCK EXCHANGE GROUP plc, AND A2 ISSUUER RATING TO LONDON STOCK EXCHANGE plc

First-time ratings, all with stable outlook

London, 02 June 2006 -- Moody's Investors Service today assigned ratings to London Stock Exchange Group plc and London Stock Exchange plc as follows:

-- London Stock Exchange Group plc ("the Exchange Group" or LSE Group plc): Corporate Family Rating of A3

-- London Stock Exchange Group plc ("the Exchange Group" or LSE Group plc): Issuer Rating of Baa1

-- London Stock Exchange Group plc ("the Exchange Group" or LSE Group plc): Senior Unsecured Debt Issues Ratings of Baa1

-- London Stock Exchange plc ("the Exchange Operating Company or LSE plc"): Issuer Rating of A2

Moody's said that all these ratings have a stable outlook.

According to Moody's, these ratings reflect the solid franchise of LSE plc, the Exchange Operating Company, as a leading global exchange, with a good spread of business across major business lines - cash equity markets, issuer services, and information services -- with a low risk profile and strong cash generating ability. The ratings also reflect a seasoned management team with a good track record, particularly in cost management and the strength of a business model which has withstood competitive and product substitution challenges. The ratings agency pointed out that the most recent results for the financial year to March 2006 show an operating margin of over 41% compared to below 31% five years ago, since when earnings before interest tax, depreciation and amortisation (EBITDA) has risen by a compound average rate of just under 20% to reach almost GBP150 million.

However, Moody's highlighted that London Stock Exchange Group plc's intrinsic credit strengths are offset by the relatively high level of debt necessitated by the Scheme of Arrangement, which was put in place in May 2006 in order to enable a payment of GBP510 million to be made to shareholders of LSE plc, who have since become shareholders in LSE Group plc. As a result of the return of capital to shareholders which took effect on 22 May 2006, LSE Group plc's opening consolidated balance sheet shows some GBP350 million of gross financial debt to external parties, compared to almost zero for LSE plc, the Exchange Operating Company, at the close of its financial year on 31 March 2006. LSE Group plc's level of total or gross financial debt equates to just under 2.4x earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group on a proforma basis. Furthermore, also on a proforma basis, consolidated retained cash flow -- defined as cash flow after dividend payments but before capital expenditure - as a percentage of total financial debt could be between just under 5% and just under 20%, depending on the extent of execution of the additionally announced discretionary share buy-back programme of up to GBP50 million annually. In Moody's view, these consolidated ratios are in keeping with those of entities rated at the upper end of the Baa range or at the lower end of the A range.

Moody's said that the A3 Corporate Family Rating of LSE Group plc, as with other Corporate Family Group ratings, is an opinion on a corporate family's ability to honour all of its financial obligations and is assigned to a corporate family as if it had (i) a single class of debt and (ii) a single consolidated legal entity structure. A Corporate Family Rating does not reference a class of debt and thus does not reflect priority of claim. It also does not incorporate any degree of likely institutional or systemic support or intervention in a situation of distress.

Moody's said further that the Baa1 Issuer Rating of LSE Group plc and the A2 Issuer rating of LSE plc are opinions of the ability of these entities to honour senior unsecured financial obligations and contracts. Moody's rating symbols for Issuer Ratings are identical to those used to indicate the credit quality of long-term obligations. In the case of LSE Group plc, the issuer and senior unsecured debt ratings take into account the structural subordination of cash flow for the parent holding company with regards to the distribution of assets and cash flow within the corporate family and the relative non-proximity of the obligation of the parent holding company to these assets and cash flow. The senior unsecured debt issue rating of Baa1 is applicable to the planned issuance by LSE Group plc of notes redeemable in 2016 , with an envisaged issue amount of GBP250 million, which will form part of the GBP350 million of gross debt to external parties.

The ratings agency added that the A2 issuer rating of London Stock Exchange plc incorporates an expectation that the operating exchange, but not its parent company, could potentially benefit from external support in a situation of distress. In Moody's opinion, such institutional support reflects LSE plc's critical role in the UK financial markets. A situation of distress at LSE plc could disrupt market confidence, potentially leading to broader disruption of the financial markets and the economy as a whole. Moody's believes that UK authorities could feel compelled to support the exchange in such circumstances to avoid more widespread harm. However, we do not expect such support would be extended to the exchange's parent, LSE Group plc. Under the current strategy we expect this support to remain available over the medium-term.

In assigning a stable outlook to the ratings, Moody's indicated that it expects LSE plc and LSE Group plc to preserve the exchange's solid business franchise and to protect its operating margins. Moody's recognises the continuous pressure to contain fees but views as likely that the exchange will continue to benefit in volume terms the growth of capital markets in Europe as well as from barriers to entry. More specifically, Moody's anticipates that the group's underlying cash generating ability will continue to improve to an extent which ensures a positive level of free cash flow -- after all dividends and capital expenditure by the financial year to March 2008, and that the extent of the discretionary share buy-back will in part be determined by the need to have positive free cash flow generation, which would in turn enable reduction of the shorter term portion of financial debt.

The rating agency highlighted a number of factors that could lead to a rating upgrade -- these include (a) operating improvements and financial management decisions which would combine to reduce total financial debt to a sustained level below 2 times EBITDA; [b] improvements in cash flow generation and/or financial management decisions which would mean retained cash flows are significantly above 30% total financial debt in the medium term.

Conversely, Moody's indicated a number of factors which could lead to a downgrade -- in general these include [a] an increase in the amounts to be returned to shareholders beyond the levels currently announced and beyond ordinary dividend pay-outs, whether caused by a change in ownership or in order to forestall a change in ownership; [b] deterioration in the operating environment and/or financial management decisions which would mean the ratio of total financial debt to EBITDA would approach or surpass 3 times and remain at such levels; [c] any delays in improvements in cash flow generation which would mean retained cash flows are unlikely to exceed 20% of total financial debt in the medium term; [d] any significant leveraged acquisitions in the medium term. Furthermore, Moody's noted that Nasdaq Stock Markets Inc. (rated Ba3 with a negative outlook) has, over recent months, acquired an equity stake of 25.1% in LSE Group plc; any increase in this to a level which could have consequences on the financial management decisions of LSE Group plc, or change its status to one of being part of a more leveraged group, would likely have negative rating implications.

Incorporated in England and based in London, London Stock Exchange Group plc, has a new-incorporation balance sheet with total assets of GBP3.3 billion and total equity of GBP 2.8 billion. London Stock Exchange plc, had total assets of GBP414 million, total equity of GBP289 million and 501 employees as at 31 March 2006

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