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Stock Exchange Group



## London Stock Exchange Group plc

Bank Of America Merrill Lynch Conference  
October 2011



David Lester  
Director of Information Services  
London Stock Exchange Group

- Joined the Group in 2001
- Previous experience - Accenture and Thomson Reuters
- Responsible for LSE Information Services division (27% of Group Income)
- Chairman of Turquoise, MillenniumIT and ProQuote
- Chairman of FTSE International (50:50 jv with Financial Times)
- Led negotiations for acquisition of MillenniumIT, Turquoise and proposed merger with TMX Group



## Agenda

- Group strategy and progress
- Information Services
  - Operations
  - Recent performance
  - Market opportunities
- Capital Markets - Turquoise
- Q&A

# FY 2012 Q1

## - Interim Management Statement 20 July 2011



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- Strong increase in total income, up 14% on Q1 last year (up 12% at constant currency) to £190.2 million
- Primary markets revenues up 22%, with growth in number of new issues and money raised
- Turquoise progressing well - the no.2 MTF for pan-European lit and dark trading
- Post Trade Services total income up 58%; revenues up 7% on like-for-like basis

## - Pre-close statement - 29 September 2011

- Strong performance in first 5 months; expect to report good H1 results
- New initiatives:
  - Turquoise Derivatives launched - FTSE 100 Index Futures and Options
  - MTS market for UK Government bonds and European corporate bonds
  - Contract for clearing technology services for Central and Eastern European Capital Markets (OeKB)

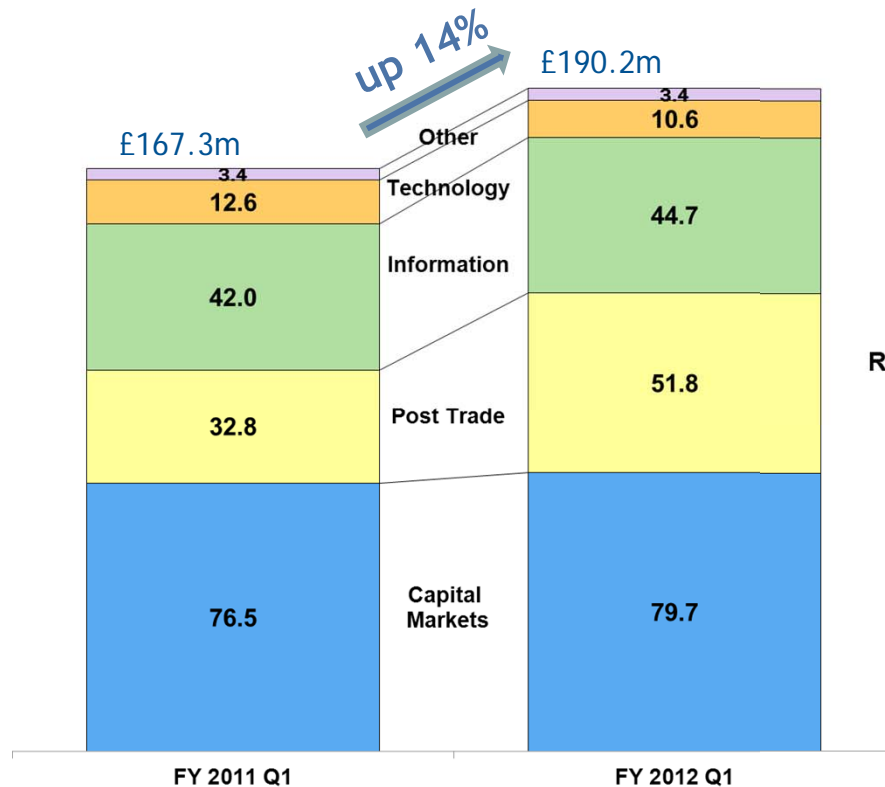
# Diversified Group income

## FY 2012 Q1: £190.2m

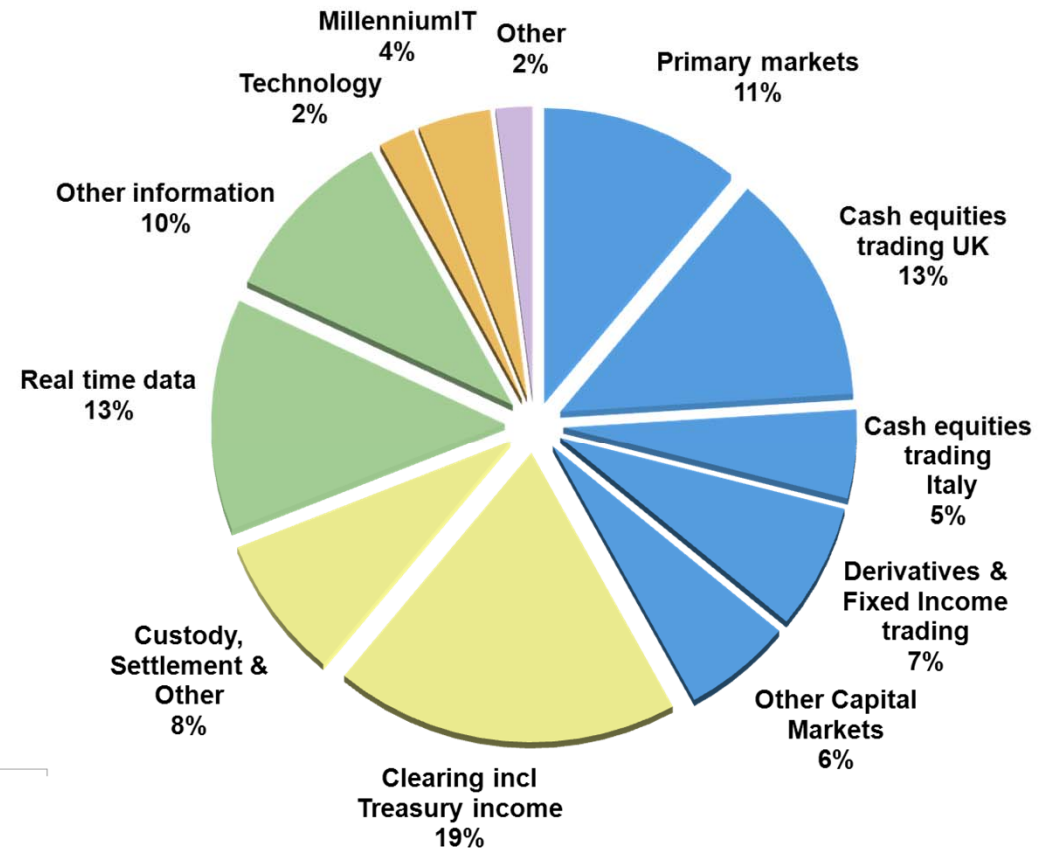


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### Total income £m



### Total income % FY 2012 Q1



Capital Markets	Post Trade	Information	Technology	Other
42%	27%	23%	6%	2%

# Delivering on our strategy



## Getting in shape

- **Driving efficiency**
  - Control operational costs
  - Implement new technology
  - Adjust business model and pricing to align with customer needs

## Leveraging our assets Developing opportunities

- **Building scale**
  - Service to international customers
  - Scale drives efficiencies
- **Increasing scope**
  - Increase diversification of products / markets
  - Service customer needs across multiple asset classes
- **Extending reach**
  - Organic and inorganic extension of services as capital markets globalise

# Information Services



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Group provides a diverse range of data and tools that enable decision making and operational efficiencies of an international client base

## Real time data

UK and Italian price, trading and analytical data

## Reference and historical data

SEDOL  
UnaVista  
Datalect  
RNS / NIS

## Desktop and workflow

ProQuote /  
Market Connect  
OMS / EMS  
RSP / FIX  
Website

## Global indices

FTSE  
International

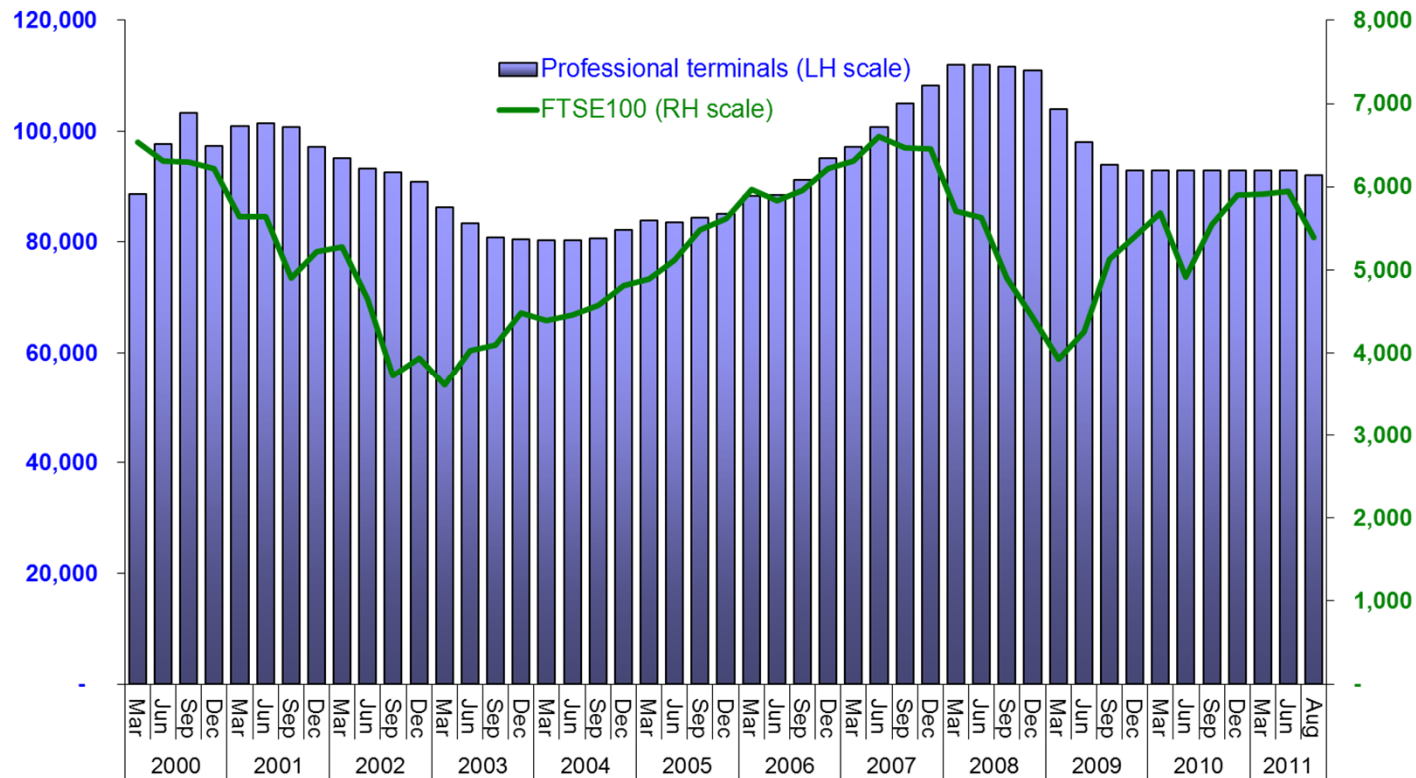
## Strategy

- Deliver information services that improve the efficiency of our industry
- Leverage our platform to expand scale and scope of product offering across the Group
- Tailor our offering to meet customers' needs
- Developing growth opportunities - organically, through partnerships or acquisitions - across range of areas

# Information Services



**LSE professional terminals**



- Real time data - terminals stable for last 18 months
  - 40% / 60% split UK / International
- New initiatives:
  - Non-displayed data fees implemented January 2011
  - Direct reporting service live 2011
  - Separate, low cost post trade data feed - to develop high quality data availability in multi-venue environment



# Information Services - other products



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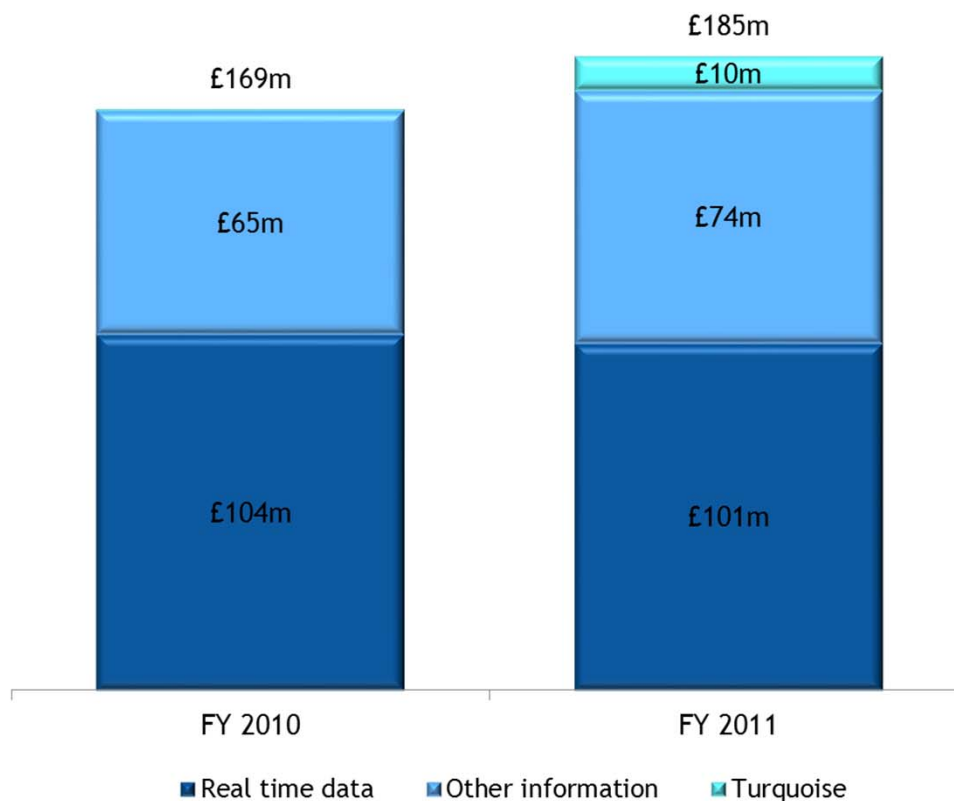
- **FTSE**
  - over \$5 trillion of assets benchmarked to FTSE indices globally (3rd largest index provider worldwide)
  - FTSE/Xinhua index now 100% owned - largest Chinese ETF benchmark
- **UnaVista**
  - post trade solutions: matching, validation and reconciliation
  - Swaps Portal launched
  - Transaction reporting to multiple regulators; FSA TRS acquisition to close Oct 2011
- **SEDOL**
  - Multi-asset global numbering system - 19m instruments from 80+ countries
- **ProQuote**
  - Efficient access for clients to market price, news, trading and company data; connects 135 brokers to network of 40 RSPs with c£5bn trading in August
- **RNS**
  - Real time regulatory news service - 180,000 company announcements last year

# Information Services



## FY 2011 - results

### Revenues



### Highlights

- Real time data professional terminals stable
  - UK 93,000 unchanged on 31 March 2010
  - Italy 139,000, down 3,000
  - Non-displayed data increasing (HFTs, MTFs, Algo)
- Revenue from Other Information products up 13%
  - FTSE - revenues up 18%
  - UnaVista - strong growth from launch
  - SEDOL - revenues up 13%
  - ProQuote - revenues up 5%
- Turquoise - Multilateral trading facility\*
  - Share of European trading Q4 4.0% (Q1 3.1%)
  - Gross revenues £10m (before maker rebates)

Note: Minor rounding differences, figures may not cast down

\* included in Information Services In FY 2011, now part of Capital Markets

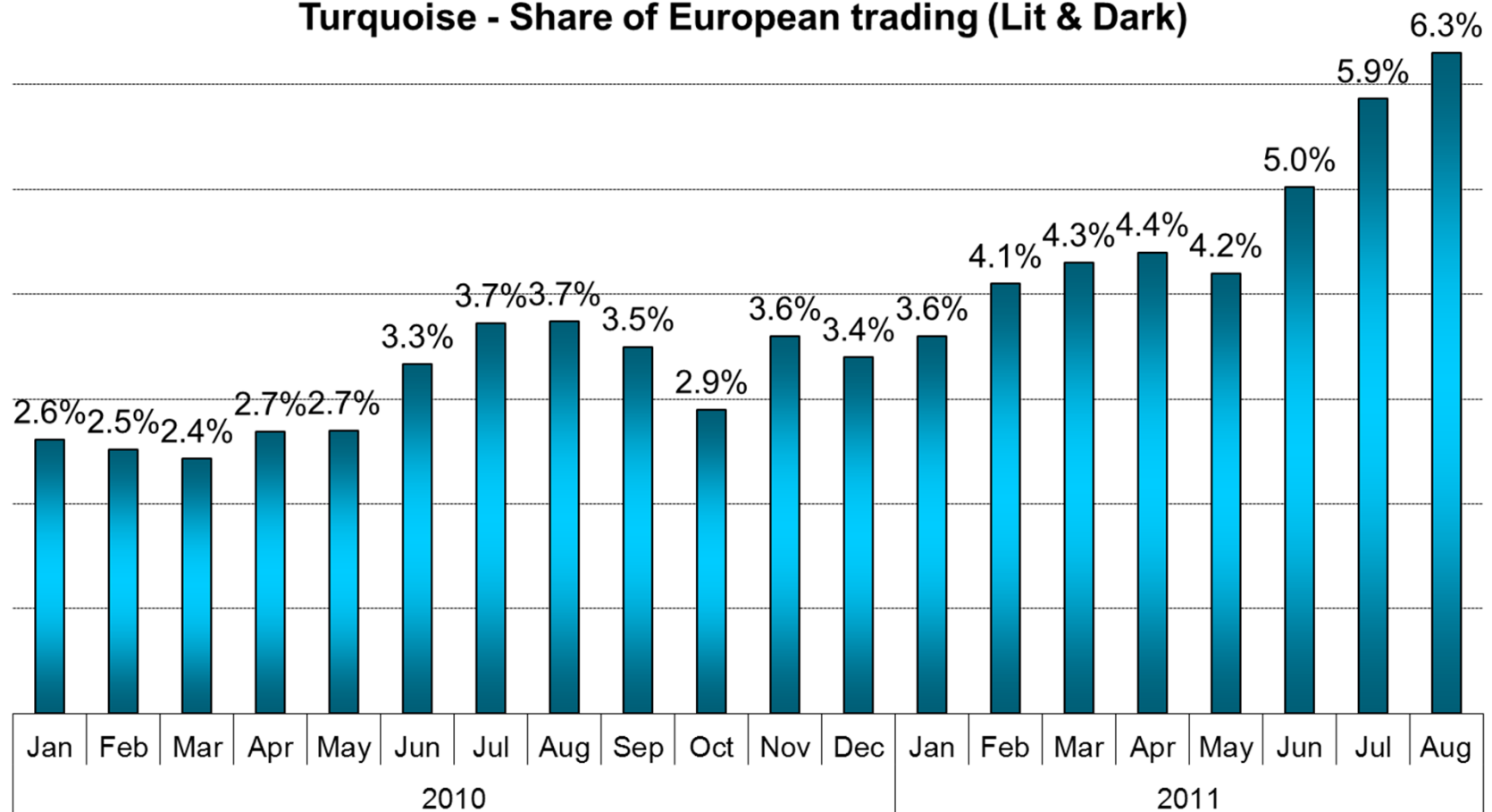


# Capital Markets - Turquoise



- Turquoise growing; now >6% of European cash equities trading - no 2 MTF in Europe
- 28% share of European MTF dark segment; no 2 in Europe
- Launch of Turquoise Derivatives - June 2011


**Turquoise - Share of European trading (Lit & Dark)**





# Strength in diversification

## Attractive and established building blocks for growth

 <b>Main Market</b>		#1 market globally for international listings	
 <b>London Stock Exchange</b>		#1 cash equity trading business in Europe	
 <b>ETFplus</b>		#1 ETF / ETC market in Europe by volume #1 electronic retail bond platform in Europe	
		#1 European MTF dark pool for cash and derivatives	
 <b>IDEX</b>			#3 derivatives exchange in Europe
		#1 electronic government fixed income trading market in Europe	
			Italian Post-trade - clearing, settlement, custody
			Global index provider; #1 provider of Chinese ETFs
			Core capital markets technology used both internally and by third parties, e.g. LME, ICAP, Tullet Prebon
<b>UnaVista</b>			Secure hosted platform for data validation, matching and reconciliation for over 7500 customers
<b>RNS</b>			Regulatory and financial communications channel with the professional investor
<b>SEDOL</b>			Unique global securities identifiers (over 19m unique identifiers)

## Current strategic focus

- **Primary markets:** Expand our global franchise - #1 global listing venue for international companies
- **Equities:** Modernise cash equity franchise - revised tariffs, new technology, lower cost post trade and new services
- **Derivatives:** Integrate derivatives assets to build European and Emerging Market scale
- **Fixed income:** Build upon assets to develop leading integrated Pan-European fixed income platform
- **Turquoise:** Establish as the leading multi-asset pan-European crossing network (including dark pool trading)
- **Information:** Expand range of non-real time data services providing efficiencies for clients
- **Post-trade:** Build upon Italian assets to create efficient, interoperable pan-European post-trade provider

# Summary



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## Financial Performance

- Solid FY 2011 financial results - total income up 7%, 4% reduction in operating expense and AEPS up 23%
- Q1 FY 2012 income up 14% to £190m
- Expect to deliver good H1 results

## Delivering on Strategy

- Getting in shape - key steps taken include:
  - Millennium Exchange roll out for Turquoise and SETS UK trading platform, SOLA for IDEM and Turquoise Derivatives
  - On-going focus on cost control, improving client service and increasing competitiveness
- Leveraging our assets and developing opportunities
  - Turquoise derivatives FTSE 100 Index Futures and Options launched
  - Launch of new Information, Technology and Post Trade products
- Growth opportunities
  - Many organic / inorganic development opportunities - disciplined approach to deliver shareholder value





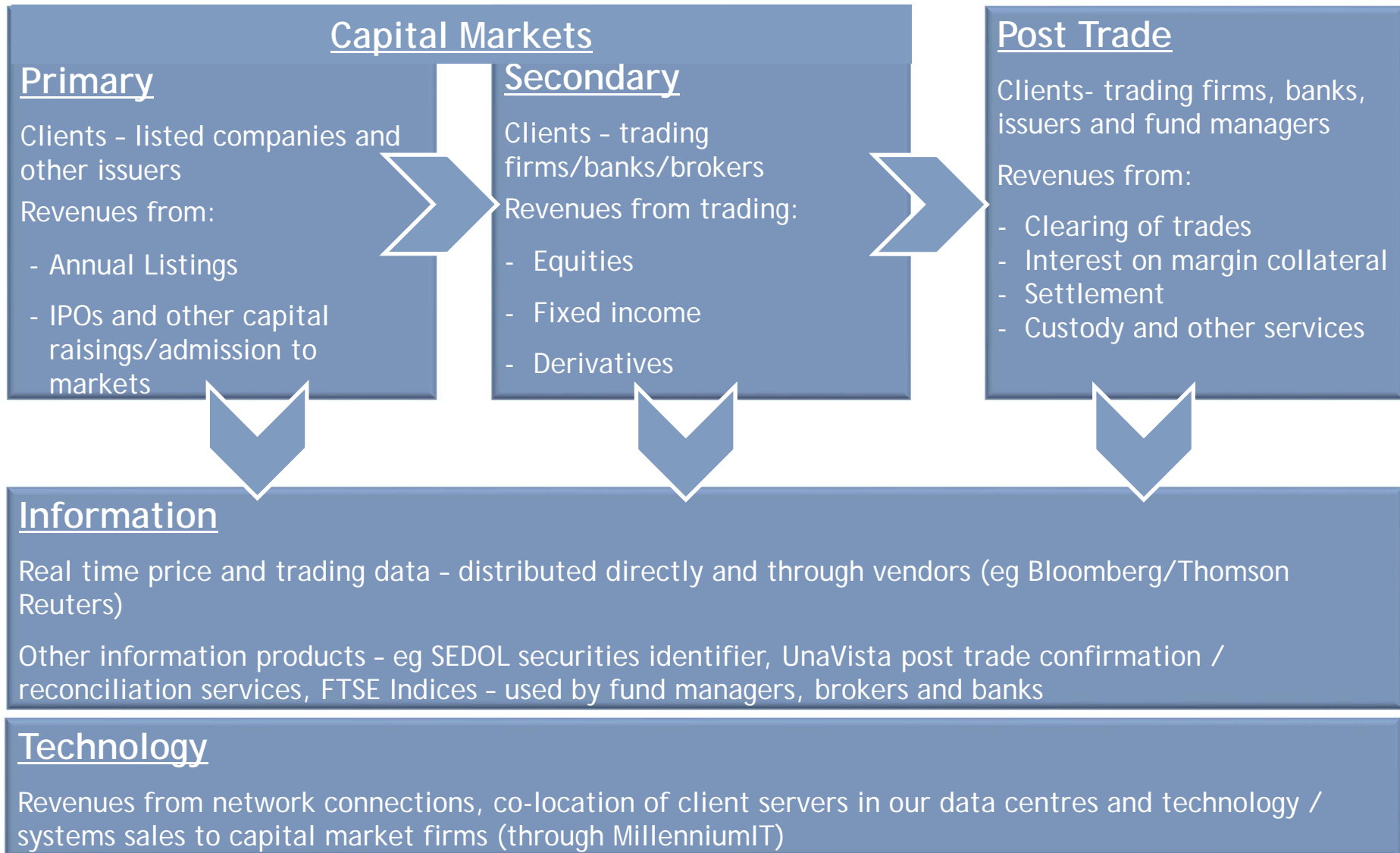
## Appendices

## Changing regulatory environment creates uncertainty and opportunity

- MIFID/MIFIR review *Proposal due 19 October 2011, Live 2013/14*
  - Transparency regimes for all non-equity trading - issues re “calibration” of regimes
  - Increased regulatory oversight of RMs, MTFs, BCNs (inc dark pools)
  - Possible restrictions on automated and High Frequency trading and of reviews of impact of technology on market integrity and efficiency
  - Improved quality of post trade data and introduction of consolidated tape
- EMIR (European Markets Infrastructure Regulation) *Live 2012*
  - OTC derivatives mandated to use CCP service - limited scope has impact on competition in exchange traded derivatives
  - UK isolated on scope and ESMA powers (and suing ECB)
  - Establishment of trade repositories
  - Harmonised requirements for CCPs
  - Mixed interest in interoperability
- FTT (Financial Transaction Tax)
  - EC proposed on 28 September - Parliament and many EU states support
  - For UK, is a tax on London unless universal as UK is majority of EU financial services - G20 previously rejected
  - UK has veto power, though FTT is part of EU budget process
- Other
  - Threat to London’s position as global financial centre
    - UK under-represented in Europe; FSA seat on European Securities Markets Authority: 8% of vote while the UK represents two-thirds of financials services activity in Europe
    - Deutsche Börse / NYSE Euronext merger - two existing EU derivatives players merging into a single, dominant player, all but eliminating competition in exchange traded derivatives
    - Re-organisation of UK regulatory structure creates uncertainty and introspection when focus is on EU
  - CRD IV (Capital requirements directive) for banks, firms, Banking Commission- impact on capital and liquidity
    - Extension of crisis management framework to cover market infrastructure including exchanges and CCPs
  - Target 2 Securities (T2S) - potential for reduced cross border settlement costs, postponed again *Live 2015*



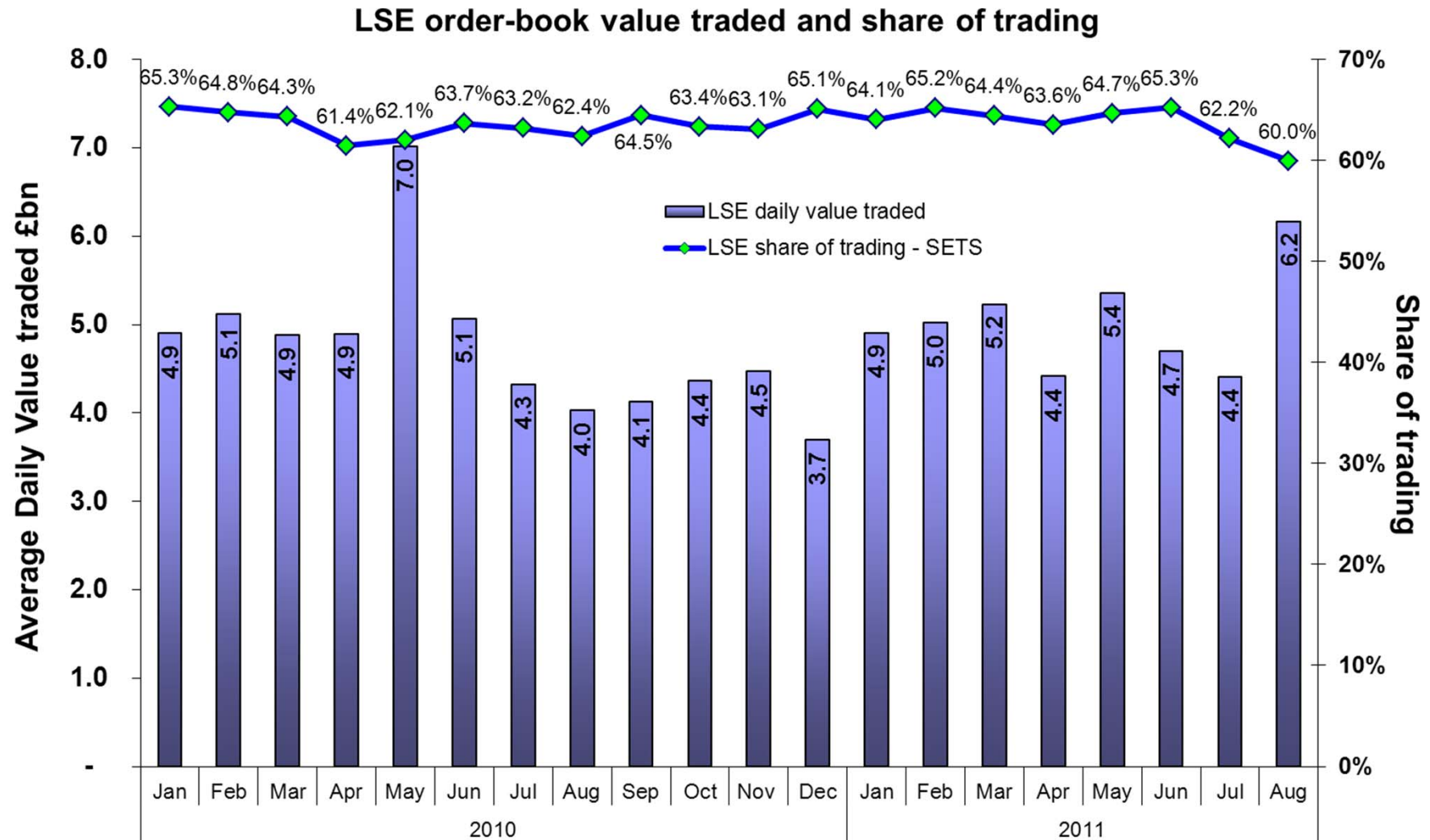
# Markets / business model



# Capital Markets - Share of trading



- UK and Italy share of trading 63.5% and 83.6% (Jan-Aug 2011, excluding Turquoise)



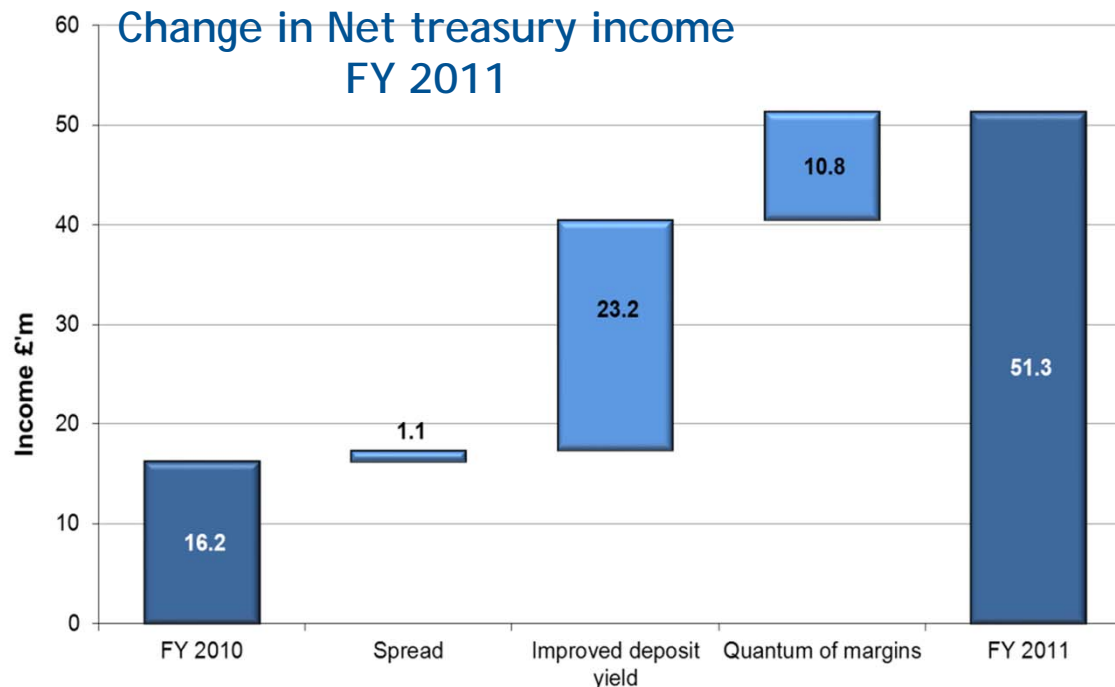
# Post Trade: Delivering on our strategy



## Clearing

Net treasury income benefiting from:

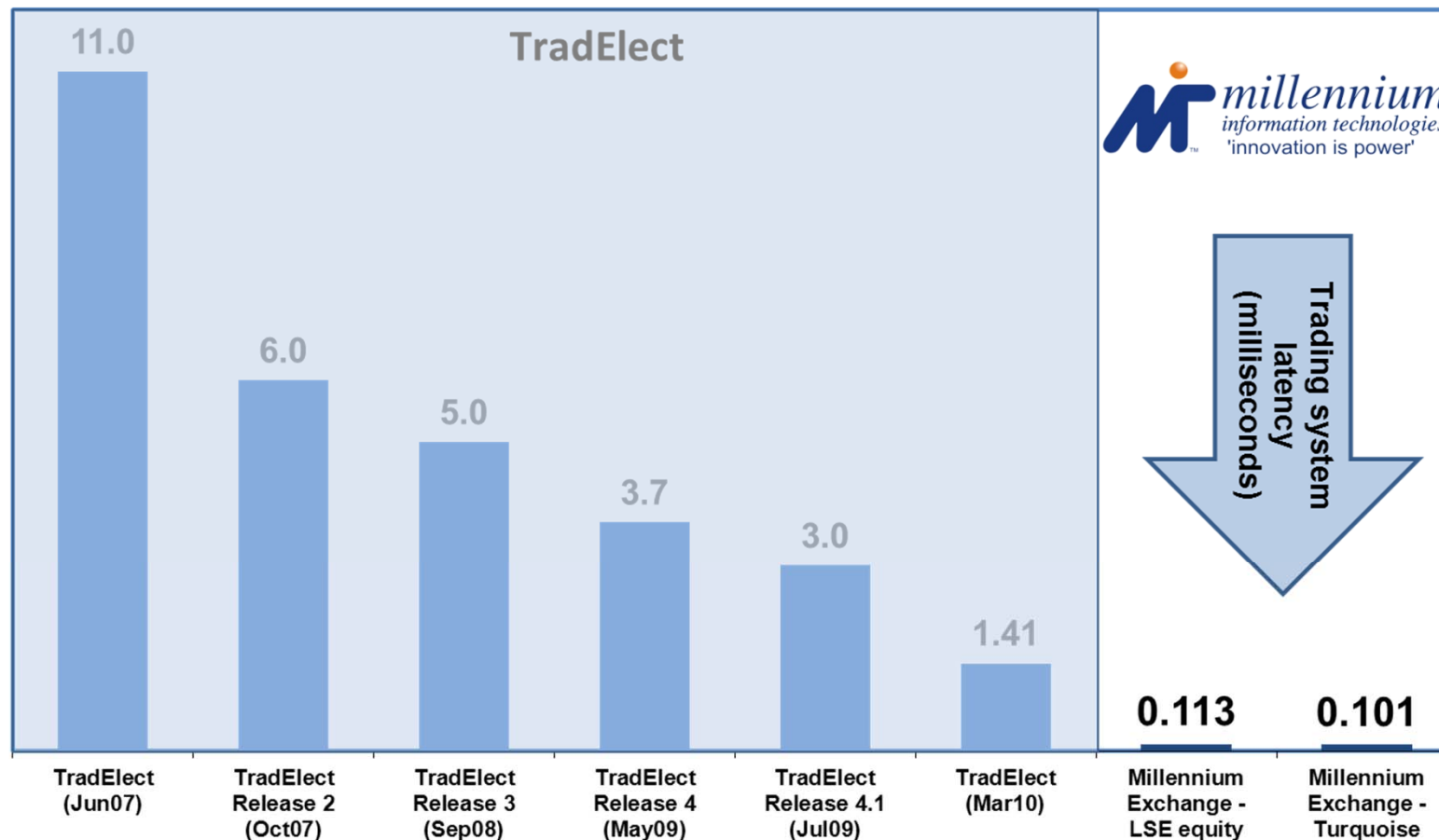
- Management changes - greater use of broader range of banks
- Investment made in risk and treasury management
- Increased margin collected from higher volumes, new markets and increased direct participation from non-Italian banks
- Relative low liquidity in Italian inter-bank loan market



# Technology Services



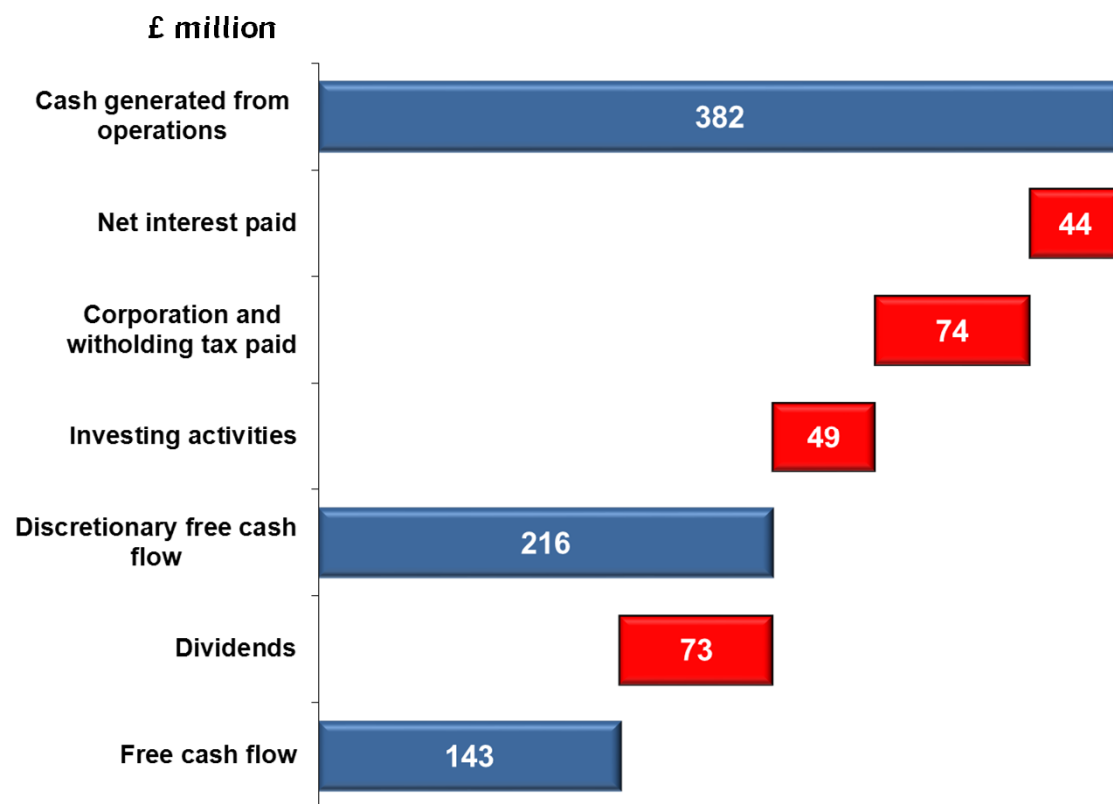
- Millennium Exchange successfully rolled out on Turquoise and LSE - and will be used by Johannesburg SE and Oslo Bors
- World leading consistent low latency performance
- IDEM roll out on SOLA and upgrade for Turquoise Derivatives



# Summarised cash flow



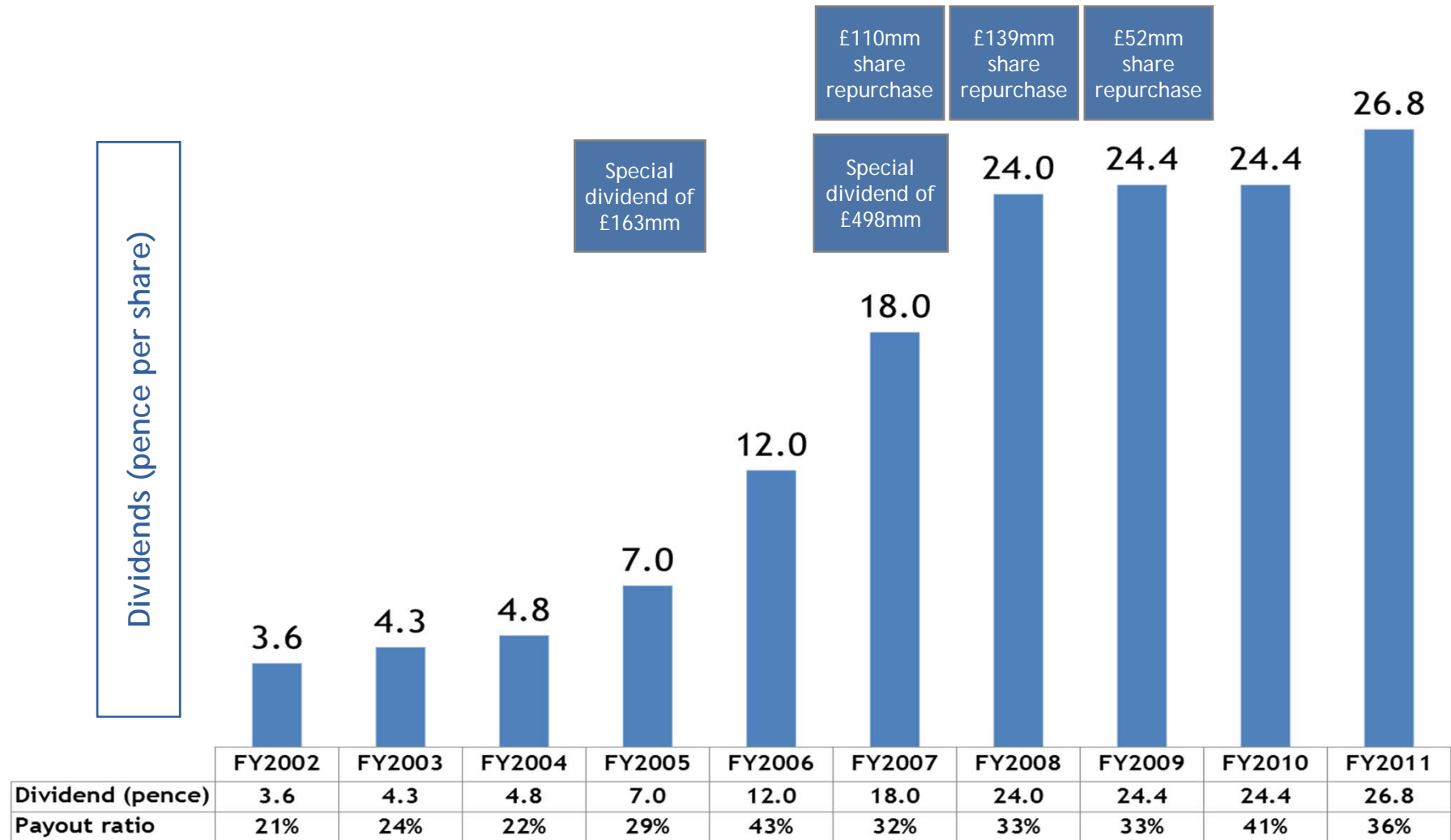
## Strong cash generation



## Investment activities

- £43m capex - includes trading platform implementations for Turquoise, UK equities and IDEM derivatives
- £5.5m invested in the acquisitions of ProMac and MTS France
- Free cash flow per share 80.4p (65.6p)

# Shareholder returns



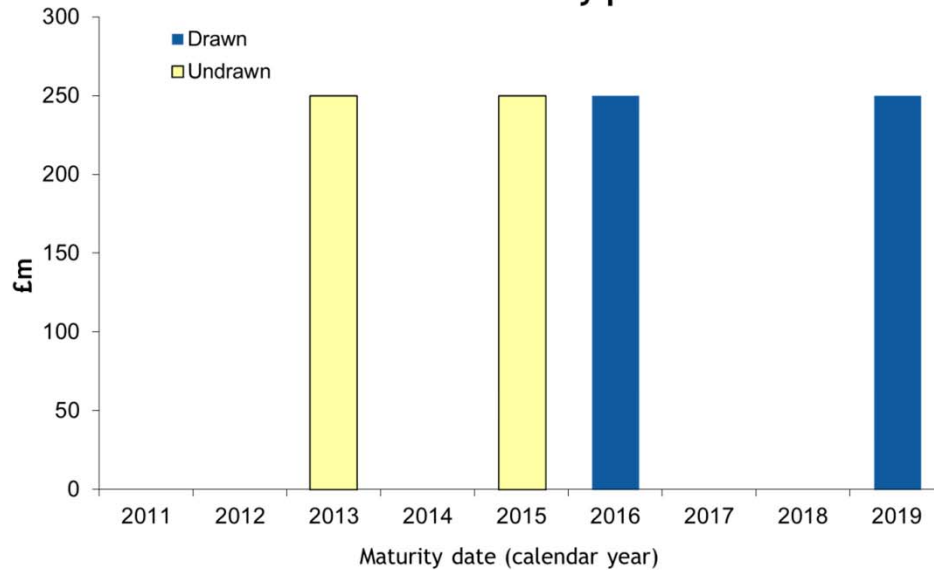
## Progressive dividend Policy

Total dividends paid as a percentage of "Adjusted basic earnings per share" as reported by LSEG, FY 2005+ IFRS, Pre FY 2005 UK GAAP

# Borrowings



**Debt maturity profile**



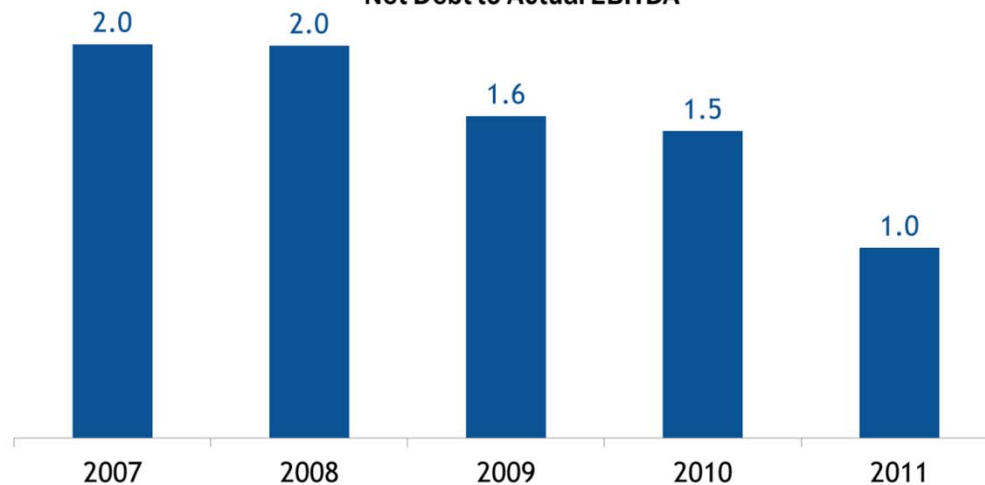
- Net borrowings £245m
- £125m cash reserved for regulatory and operational purposes

## LSEG ratings

(updated July 2011)

- S&P A- (stable)
- Moody's Baa2 (negative watch)

**Net Debt to Actual EBITDA**



# Annual Report 2011



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- London Stock Exchange Group Annual Report 2011

- Group at a glance - main types of revenue, customers and KPIs (page 4)
- What we do - description of our business segments (page 6)
- Strategy in action - strategic imperatives and drivers (page 14)
- Segmental review - introduction to our Executive Committee (page 15)
- Corporate Social Responsibility - our people, community and environment (page 30)
- Corporate Governance - compliance with the Combined Code (page 40)
- Remuneration report - details of Directors' remuneration and incentives (page 48)
- How the markets work - the process of trading, post trade and MiFID (page 102)
- Glossary (page 104)

<http://www.londonstockexchange.com/investor-relations/investor-relations.htm>



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