



London
STOCK EXCHANGE

**Share in
the world's
capital
market**



Reject Macquarie's offer

This document is important and requires your immediate attention

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A compelling value creation story

Forecast SETS growth by FY 2008	100%
£510 million capital return	200p per share
Share buyback programme	£50m p.a.
Proposed FY 2006 dividend up 71%	12p
Declining cost base	£10m
2005 adjusted EPS	32p
2005 adjusted EPS pro forma ¹	38p
Compound annual shareholder return since listing in 2001	19% p.a.

Do not underestimate the value of your unique asset

Reject the offer

Do not complete any form of acceptance

¹Pro forma for the £510 million capital return and lower cost base.



London
STOCK EXCHANGE

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Oscar Fanjul, Non-Executive Director
Peter Meinertzhagen, Non-Executive Director
Nigel Stapleton, Non-Executive Director
Robert Webb QC, Non-Executive Director

17 February 2006

To London Stock Exchange shareholders and, for information only, to holders of employee share options and participants of London Stock Exchange Share Schemes

Dear Shareholder,

I wrote to you on 19 January 2006 to explain why your Board recommends that you reject Macquarie's unsolicited offer. In that document, we outlined how our successful strategy will continue to promote the internationalisation of our markets and accelerate SETS growth, with the latter benefiting from structural change in the pattern of equity trading. Today, I outline further value enhancements which, when combined with our forecast for strong growth, underline the exciting prospects for your company.

Your Board continues to recommend strongly that you reject Macquarie's ill-considered offer.

Current trading and prospects

In January 2006, SETS growth accelerated further with value traded increasing by **63 per cent**. This follows Q3 growth in SETS value traded of 33 per cent.

SETS trading, a key revenue driver, is expected to grow strongly with the average number of trades per day forecast to increase by at least **50 per cent** in financial year 2007² and at least **100 per cent** in financial year 2008².

² Relative to financial year 2005.

On 10 January 2006, the Exchange announced its third quarter results, which demonstrated continuing high growth with adjusted EPS for the nine months to 31 December 2005 of 25.5 pence, up 43 per cent. The success of our strategy and the management team's ability to capitalise on our unique strategic position will ensure an excellent outcome for the current financial year. Continued strong trading and ongoing structural change in our markets should keep us on course to deliver a very strong performance in financial years 2007 and 2008.

Delivering value to shareholders

Reflecting our confidence in the Exchange's growth prospects and our commitment to enhancing shareholder value, your Board is today announcing an increased capital return, increased dividend and ongoing cost efficiencies.

The Exchange will double the previously announced £250 million capital return to **£510 million**³, equivalent to a total of **200 pence per share**. In addition, the Exchange will implement a share buyback programme of up to **£50 million** per annum and will propose a 71 per cent increase in the full year dividend to **12 pence**.

Following a period of important investment in technology and infrastructure, we committed last November to a flat cost base into financial year 2007. We can now confirm that we will deliver a further £7 million of cost efficiencies in financial year 2007, with the full run rate of **£10 million** to be achieved in financial year 2008⁴.

On a pro forma basis, these value enhancements would have increased our 2005 adjusted EPS to 38 pence, representing adjusted EPS accretion of **18 per cent**.

Delivering value to customers

The close and productive relationship between the Exchange and all of its users is central to the success of London's equity markets. We work with and for our customers in improving market quality and, as a result, transaction costs continue to reduce dramatically. When completed in early 2007, our Technology Road Map (TRM) is expected to provide customers with the fastest, most reliable and scaleable equity trading platform in the world.

Macquarie's offer is ill-considered

Your Board believes that Macquarie's proposal could harm the quality, efficiency, stability and international competitiveness of the UK equity market:

- Macquarie's offer is funded by an unprecedented and inappropriate level of debt for an exchange
- Macquarie demonstrates no understanding of our business or strategy
- Its business model is totally at odds with our proven strategy
- It incorrectly states that we have low growth prospects and it overlooks the re-rating and exciting potential of the sector

³Implementation of the capital return is subject to the London Stock Exchange no longer being in an offer period and to shareholder and court approval.

⁴Cost efficiencies in financial year 2008 are calculated by reference to planned costs for that year. One off profit and loss implementation costs of £6 million to be taken in financial year 2006.

Superior shareholder returns

Your Board also believes that the current share price does not fully reflect the stand-alone value of the Exchange given its established performance, let alone its prospects and the fact that its P/E multiple remains at a discount to its listed peers. Your Board's primary objective is to deliver superior shareholder returns from current share price levels. Your Board is confident of achieving this objective.

Recommendation

The Board of the Exchange, which has been so advised by Merrill Lynch and Lehman Brothers, its financial advisers, **strongly recommends that Exchange shareholders continue to reject Macquarie's offer and take no action in respect of their shareholdings.** In providing advice to the Directors of the Exchange, Merrill Lynch and Lehman Brothers have taken into account the commercial assessments of the Directors. The Directors will not be accepting the offer in respect of their own shareholdings.

Yours sincerely

A handwritten signature in black ink that reads "C. S. Gibson-Smith". The signature is written in a cursive, flowing style.

Chris Gibson-Smith
Chairman

Unique strategic position

In our circular of 19 January 2006, we demonstrated that we have a compelling proposition for customers and shareholders

A unique strategic position

- A leading global exchange brand with outstanding technology
- At the heart of the City of London, the largest equity market in Europe and the third largest in the world
- In an exciting sector at the beginning of a transformational phase of corporate development

An exceptional customer franchise

- We create value with and for a customer base with increasingly global ambitions
- Our market efficiency goal dramatically reduces transaction costs
- We are an international market and our pro-competitive market structure and regulation consistently set the standard for others

Strong growth prospects

- Strong marketing of our global brand has helped to secure our position as the world's IPO venue of choice
- Continuous investment in technology drives SETS growth, with revenues showing a four year CAGR of 29 per cent
- In each of the last two years, the growth in both volume and value traded on SETS has exceeded growth on both Eurex and Euronext.liffe
- The total value of UK equity trading has grown at a CAGR of 16 per cent over the last 20 years through bull and bear markets



Our three main business areas are growing strongly

Issuer Services

We are the international listing venue of choice. In 2006, important international companies continue to join our markets. Comstar United Telesystems and Trader Media East from Russia, the leading South Korean retailer Lotte Shopping, and China based Bodisen Biotech have all joined our markets since the beginning of the year, raising in total more than **£2.5 billion**.

Information Services

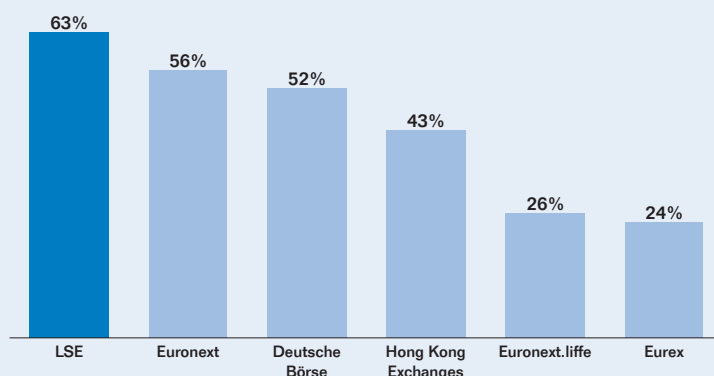
Demand for our real-time data increased again in January reaching **100,000 terminals** worldwide. New initiatives in connectivity, data warehousing, e-commerce, reference data and end-user software services continue, and are expected to deliver additional growth in Information Services.

Broker Services

SETS growth in January 2006 was stellar, setting an all-time trading record with value traded increasing **63 per cent** on January 2005 to £118 billion.

In January 2006, the growth of value traded on SETS exceeded the growth in equity value traded on major global listed exchanges as well as growth on both Eurex and Euronext.liffe.

Trading growth in January 2006



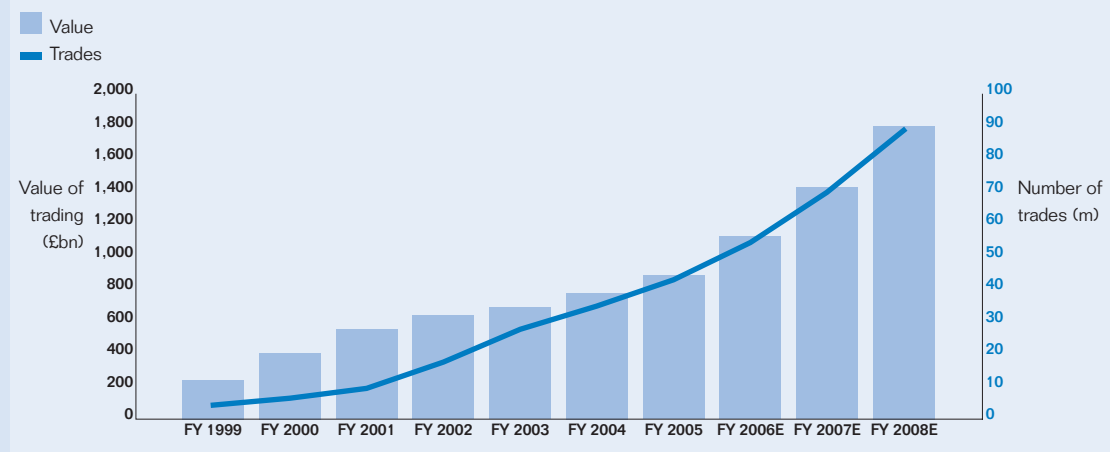
Forecast for SETS growth

Average number of trades per day on SETS expected to increase by at least 50 per cent in financial year 2007⁵

Average number of trades per day on SETS expected to increase by at least 100 per cent in financial year 2008⁵

SETS trading grew rapidly in 2005 and is accelerating as new trading patterns evolve.

SETS growth (FY 1999-2008E)



The average number of daily trades grew 27 per cent in 2005 and achieved a record number in January 2006, up 38 per cent on the previous year.

At the same time, having stabilised during 2005, the average trade size has now increased, up 13 per cent in January 2006 on the previous year.

The nature of UK equity trading is undergoing a secular shift to high volume electronic trading. Technology investment is the crucial factor driving this structural change. In late 2005, the introduction of Infolect, a key component of TRM, and capacity upgrades to SETS, provided a marked stimulus to the number of SETS trades.

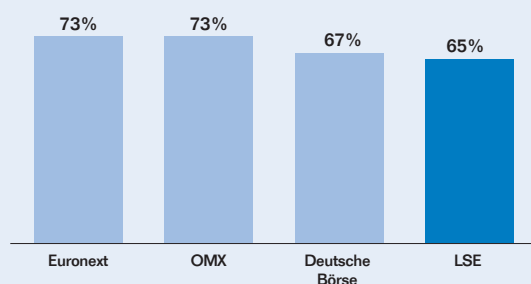
The completion of TRM in early 2007 and the introduction of the new trading platform will deliver a step change in capacity, and provide an 80 per cent uplift in performance.

⁵ Relative to financial year 2005.

A record of tight cost control

We have the lowest cost-income ratio of the major listed European exchanges.

Cost-income ratios for major listed European exchanges (2004)



A declining cost base

Following a period of important investment in technology and infrastructure, we committed last November to a flat cost base into financial year 2007. We can now confirm that we will deliver a further £7 million of cost efficiencies in financial year 2007, with the full run rate of £10 million to be achieved in financial year 2008⁶.

These efficiency savings derive from a progressive offshoring of technology functions, ongoing integration of our business processes, and property related and other savings.

While continuing to invest for growth

The £36 million so far invested in TRM is stimulating growth in electronic trading, while significantly reducing the cost of operating our markets.

Our international marketing investment is key to growth. In financial year 2007, we are planning to roll out our AIM *for* Europe initiative and establish an office in mainland China.

⁶ Cost efficiencies in FY 2008 are calculated by reference to planned costs for that year. One off profit and loss implementation costs of £6 million to be taken in FY 2006.

A compelling value creation story

200 pence per share capital return and increased dividend

We lead other exchanges in terms of balance sheet efficiency. In line with our record of good capital management, we returned £162.5 million in August 2004. Now we are doubling the previously announced capital return to **£510 million⁷ (200 pence per share)**. This reflects our continuing strong performance and underlines our confidence in your company's growth prospects.

The return to shareholders of £672.5 million or 264 pence per share represents **34 per cent** of current market capitalisation.

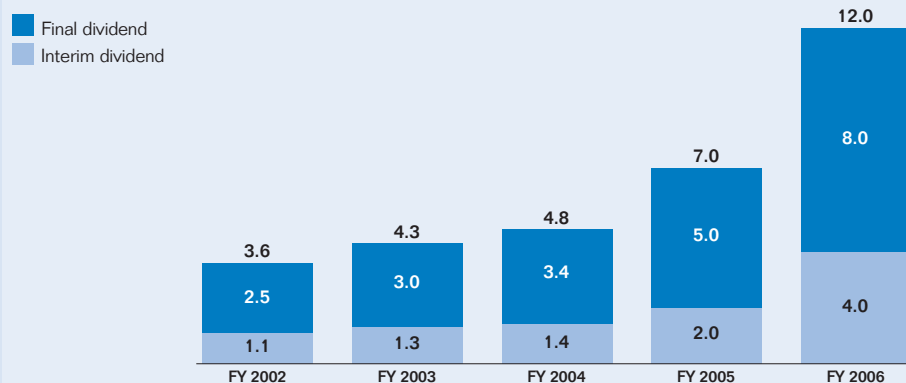
Pro forma 2005 adjusted EPS accretion

Pre capital return adjusted EPS as reported	31.9p
Post capital return adjusted EPS	34.0p
Post capital return and lower cost base adjusted EPS	37.7p
Adjusted EPS accretion from capital return	6.6%
Adjusted EPS accretion from capital return and lower cost base	18.2%

Following the return of capital, the Exchange will initiate a share buyback programme of up to **£50 million per annum**.

The Exchange's proposed total dividend of 12 pence for financial year 2006 represents a **71 per cent increase** over financial year 2005 and a **35 per cent CAGR** in dividends since financial year 2002.

Dividend per share (pence)



⁷ Implementation of the capital return is subject to the London Stock Exchange no longer being in an offer period and to shareholder and court approval.

Macquarie disregards the facts

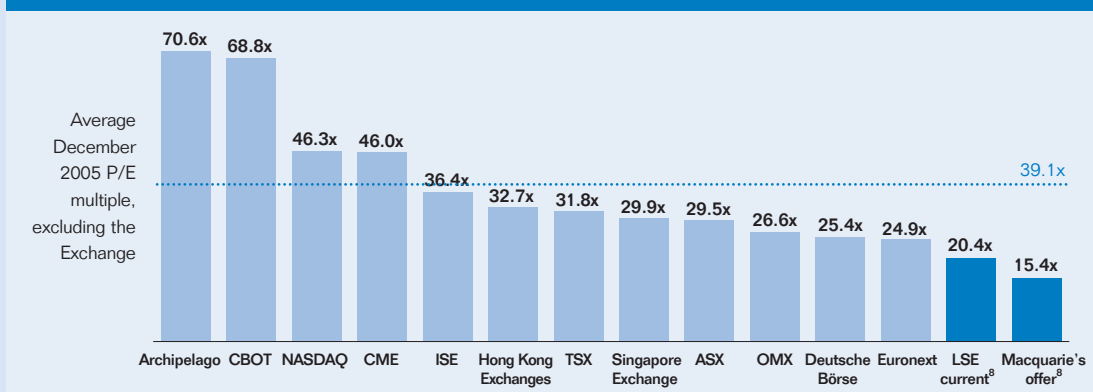
Macquarie references its offer to a 16 month old share price. This is irrelevant.

Share prices across the sector continue to rise

All independent research analysts have revised upwards their stand-alone prices for the Exchange since our Q3 Trading Statement, reflecting our performance and strong growth prospects.

Macquarie's offer of 580 pence represents a multiple of just 15.4 times the Exchange's 2005 adjusted EPS pro forma for the £510 million capital return and cost efficiencies. Its offer is blatantly opportunistic as it is significantly below the trading multiples of all other major listed exchanges.

December 2005 calendarised P/E multiples



Your Board believes that your company's current share price does not fully reflect the stand-alone value of the Exchange given its established performance, let alone its prospects and the fact that its P/E multiple remains at a discount to its listed peers.

Rich opportunities in the exchange sector

The sector is at the beginning of a transformational phase of corporate development. This presents the Exchange with unprecedented opportunities. Your company has a combination of strengths which means that it is the natural centre for the development of the world's first global exchange business.

In particular, consolidation has the potential to release significant additional value for customers through the integration of markets and for shareholders in the form of synergies.

Macquarie's proposal would deny shareholders the value arising from the future strategic development of the sector

⁸ Based on the pro forma 2005 adjusted EPS of 37.7 pence.

Your Board believes that Macquarie's proposal could harm the quality, efficiency, stability and international competitiveness of the UK equity market

An unprecedented and inappropriate level of debt for an exchange

- Macquarie's offer is funded by an extraordinary level of debt – more than 80 per cent – to be serviced “*from dividend flow and tax grouping payments from the LSE*”
- The burden of interest and Macquarie's focus on its funds' performance would limit long term investment. The market would pay the price of an acquisition by Macquarie

No understanding of our business or strategy

- Macquarie's proposed “strategy” is “*to achieve efficiencies in the LSE's existing cost base*” and to “*focus on the London cash market*”. This appears to be a narrow cost cutting and cash extraction proposition
- Our market efficiency goal is not understood and a commitment to it is nowhere to be found
- Macquarie's narrow financial focus would risk isolating the Exchange from the development of global capital markets, damaging the City's standing as the world's most international financial services centre

A flawed business model

- Macquarie Bank seeks businesses that “*have some protection from the full rigours of competition*” (Allan Moss, Macquarie Bank CEO, quoted in *The Economist*, 15 October 2005)
- Macquarie calls the Exchange a “*community asset*”, its euphemism for businesses where it believes customers are captive, investment can be low, and where prices or fees can be significantly increased
- Any such approach to our market would risk damaging the culture of innovation and reversing the efficiency gains we have achieved over many years

An incoherent or disingenuous proposal

- Macquarie appears not to understand our business or strategy. Against a backdrop of record trading levels, strong Q3 results and stand-alone price increases from all independent research analysts, Macquarie continues to insist that the Exchange is a “*fundamentally low growth business with utility-like characteristics*”
- Unusually for a private equity consortium which includes hedge fund investors, Macquarie claims it intends to own the Exchange for more than 25 years

Other views on Macquarie and its offer

"We foresee a lot of suspicion from users and shareholders about Macquarie's expertise in managing a stock exchange and incentives not to raise pricing. The lack of any cost take-out synergies weakens any ability to share acquisition benefits with market users. In addition, we foresee strong suspicion about the intentions of the other members of Macquarie's bidding consortium."

Daniel Garrod, Citigroup, 18 January 2006

"Macquarie suffers from a fundamental problem that afflicts all private equity bids. Whatever valuation the Australian investment bank applies to the Stock Exchange, the company must be worth a great deal more for, be under no illusion, like all private equity bidders Macquarie would not be attempting to buy if it didn't expect to generate spectacular returns. Even a little above average would be seen as a failure. To accept any offer from private equity is just to give long-term value away to someone else."

Jeremy Warner, The Independent, 15 December 2005

"Threadneedle Asset Management has invested in the LSE because of its unique brand and strategic position, its strong cash flows and its future growth potential. The MLX offer fails to reflect these factors. We accept that there are other potential ownership structures that may deliver additional future value to stakeholders in the LSE but the MLX structure does not appear to be one of them."

Michael Taylor, Threadneedle Asset Management, 16 December 2005

Stake in London Stock Exchange: 13.7 per cent

"We believe the LSE remains fundamentally undervalued versus peers in the stock exchanges space."

Rupak Ghose, Credit Suisse, 11 January 2006

"Shareholders must therefore know that what matters is not just the price paid but the guarantee of efficient, long-term stewardship. There are real questions about whether Macquarie can give such a guarantee. It has never run a stock exchange before and its handling of the bid itself has been spasmodic. Its present offer undervalues the LSE, but a higher offer carries the danger that the imperative will not be the development of London as a financial centre but financial engineering."

Leader, The Times, 10 December 2005

"Macquarie are treating [the Exchange] like a utility and if they get hold of it, they will put the prices up. We think the bid is cheeky and we don't like it."

Brian Winterflood, quoted in The Daily Telegraph, 12 January 2006

"... Macquarie is painting itself into a corner. It will find it hard to justify paying a higher price for a company it already dubbed a "utility". The Aussies should withdraw and reflect on a badly executed plan."

Damian Reece, Deputy City Editor, The Daily Telegraph, 20 January 2006

Macquarie's offer fails in every respect

No value today

No value tomorrow

No customer proposition

No industrial logic

No vision



**Do not surrender your stake
in the world's capital
market**

APPENDIX 1 – ADDITIONAL INFORMATION

1. First Circular

- 1.1 This document should be read in conjunction with the First Circular which was sent to shareholders and, for information purposes only, to holders of employee share options and participants of London Stock Exchange Share Schemes on 19 January 2006. Copies of the First Circular are available on the London Stock Exchange's website at www.londonstockexchange-ir.com or from the London Stock Exchange at 10 Paternoster Square, London EC4M 7LS, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as Macquarie's offer remains open for acceptance. Copies of the First Circular are also available for inspection as described in paragraph 7 of this Appendix 1.
- 1.2 Save as disclosed in this document, as at 14 February 2006 (being the latest practicable date prior to the posting of this document), the Directors are not aware of any material change in the information contained in the First Circular and in particular to the information set out in Appendix 1 of the First Circular in relation to: (i) interests and dealings; (ii) dealing arrangements; (iii) Directors' service contracts; and (iv) material contracts.

2. Responsibility

The Directors accept responsibility for the information contained in this document except that the only responsibility accepted by the Directors in respect of information relating to the consortium led by Macquarie, which has been compiled from published sources, is to ensure that it has been correctly and fairly reproduced and presented. Subject as aforesaid, to the best of the knowledge and belief of the Directors (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

3. Q3 Trading Statement

- 3.1 The Directors confirm that the unaudited financial information set out in the Q3 Trading Statement remains valid for the purposes of Macquarie's offer. Each of Merrill Lynch, Lehman Brothers and PwC has confirmed in writing that it has no objection to its letter included in the First Circular relating to the unaudited financial information as set out in the Q3 Trading Statement continuing to apply.
- 3.2 Certain adjustments have been made to the EPS calculations and other items set out in the Q3 Trading Statement in order to calculate the pro forma 2005 adjusted EPS which reflects the impact of the capital return and the cost efficiencies described in this document. Details of the relevant adjustments and the underlying assumptions are described in page reference 9(b) of Appendix 2 of this document.

4. Consents

Each of Merrill Lynch, Lehman Brothers and PwC has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears.

5. Further information

Proposed capital return and share buyback

- 5.1 On 3 November 2005, the London Stock Exchange announced the intention to undertake a capital return of £250 million and to commence an ongoing share buyback programme following the return of capital. The London Stock Exchange announced on the same day as the date of this document that the proposed capital return of £250 million will be increased to £510 million and the implementation of a share buyback programme of up to £50 million per annum following the return of capital. Implementation of the capital return is subject to the London Stock Exchange no longer being in an offer period and to shareholder and court approval. It is expected that the capital return will be funded by approximately £160 million from existing cash resources and £350 million of debt.

Dividends

- 5.2 The London Stock Exchange announced on the same day as the date of this document that the Board intends to recommend to the next annual general meeting of shareholders a final dividend in respect of the year ending 31 March 2006 of 8 pence per London Stock Exchange share. An interim dividend of 4 pence per London Stock Exchange share was paid on 6 January 2006.

Other

- 5.3 The London Stock Exchange notes section 5 on page 9 of the Offer Document stating that Macquarie aims to work with the current senior management team to further develop the London Stock Exchange. The London Stock Exchange can confirm that no member of senior management has made any statement in this regard.

6. Material contracts

- 6.1 On 9 February 2006, the London Stock Exchange entered into an agreement (the "Facility Agreement") with The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC, for a loan facility amounting to £250 million (the "Facility") on the following terms:
- 6.1.1 The Facility is available to fund a return of capital to shareholders. The Facility Agreement provides that members of the London Stock Exchange Group may become borrowers and guarantors under the Facility. If any holding company of the London Stock Exchange becomes a party to the Facility Agreement, the borrowings under the Facility will be secured by a charge over the London Stock Exchange shares owned by such holding company. The Facility is available as a revolving facility until the earlier of: (i) 31 October 2006; and (ii) the date which is six months after the first utilisation of the Facility. Thereafter, any outstandings under the Facility may be converted into term loans for a maximum period of eighteen months.
- 6.1.2 The borrowings under the Facility bear interest at a floating rate plus mandatory costs (if any). Repayments under the Facility are to be made on the last day of the relevant interest period(s) and any term loans are to be repaid on the last day of the relevant term out period. A commitment fee is payable on undrawn commitments under the Facility. A term-out fee will be payable on any amounts termed out.

- 6.1.3 The borrowers must, if required by a two-thirds majority of lenders, prepay all indebtedness under the Facility following the occurrence of a change of control of the London Stock Exchange or a holding company of the London Stock Exchange (if any) under the terms set out in the Facility Agreement. The Facility must be repaid in full from the proceeds of any bond issue.
- 6.1.4 The Facility Agreement contains certain customary covenants which restrict the obligors (being any borrowers or guarantors under the Facility) and in certain cases their subsidiaries (subject to agreed exceptions and materiality carve outs) from, amongst other things: (i) creating security; (ii) disposing of assets; (iii) mergers; (iv) substantially changing the general nature of the business of the London Stock Exchange Group; and (v) incurring subsidiary borrowings. The Facility also requires the London Stock Exchange Group to maintain certain specified financial covenants.
- 6.1.5 The Facility Agreement contains certain customary representations and warranties and events of default.
- 6.2 On 9 February 2006, the London Stock Exchange entered into an agreement (the "Revolving Facility Agreement") with The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC, for a revolving loan facility amounting to £200 million (the "Revolving Facility") on the following terms:
- 6.2.1 The Revolving Facility is for general corporate purposes including to fund a return of capital to shareholders. The Revolving Facility Agreement provides that members of the London Stock Exchange Group may become borrowers and guarantors under the Revolving Facility. If any holding company of the London Stock Exchange becomes a party to the Revolving Facility Agreement, the borrowings under the Revolving Facility will be secured by a charge over the London Stock Exchange shares owned by such holding company. The final maturity date of the Revolving Facility is the fifth anniversary of the date of the Revolving Facility Agreement.
- 6.2.2 The borrowings under the Revolving Facility bear interest at a floating rate plus mandatory costs (if any). Repayments under the Revolving Facility are to be made on the last day of the relevant interest period(s), up to the maturity date of the Revolving Facility. A commitment fee is payable on undrawn commitments under the Revolving Facility.
- 6.2.3 The borrowers must, if required by a two-thirds majority of lenders, prepay all indebtedness under the Revolving Facility following the occurrence of a change of control of the London Stock Exchange or a holding company of the London Stock Exchange (if any) on the terms set out in the Revolving Facility Agreement.
- 6.2.4 The Revolving Facility Agreement contains certain customary covenants similar to those contained in the Facility Agreement described above and customary representations and warranties and events of default.

7. Documents on display

Copies of the written consents referred to in paragraphs 3 and 4 of this Appendix 1, the material contracts referred to in paragraph 6 of this Appendix 1, the First Circular and the documents listed in paragraph 7 of Appendix 1 of the First Circular are available for inspection at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS and at the registered office of the London Stock Exchange at 10 Paternoster Square, London EC4M 7LS during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for so long as Macquarie's offer remains open for acceptance.

APPENDIX 2 – BASES OF CALCULATION AND SOURCES OF INFORMATION

1. General

1.1 Unless otherwise stated, in this document:

- 1.1.1 closing prices and consensus earnings estimates are as at the close of market on 14 February 2006 (being the latest practicable date prior to the posting of this document);
- 1.1.2 share price data is sourced from Datastream;
- 1.1.3 consensus earnings estimates are sourced from Reuters and are adjusted for exceptional items and goodwill amortisation where applicable;
- 1.1.4 calculations are prepared on the basis of there being 254,996,460 London Stock Exchange shares in issue as at 14 February 2006 (being the latest practicable date prior to the posting of this document) and up to a further 7,718,756 London Stock Exchange shares to be issued pursuant to the exercise of options or the grant of awards granted prior to 14 February 2006 (being the latest practicable date prior to the posting of this document) under the London Stock Exchange Share Schemes;
- 1.1.5 financial information (including adjusted EPS) relates to the 12 months ended 31 December, except where the information specifically refers to "financial year" or "FY", in which case the information relates to the financial year of the London Stock Exchange ending 31 March in the relevant year; and
- 1.1.6 references to interim and final dividends are expressed on a pence per London Stock Exchange share basis.

1.2 Unless otherwise stated, the financial information concerning the London Stock Exchange has been extracted from the Q3 Trading Statement, other published interim and annual reports and accounts of the London Stock Exchange for the relevant periods and other information made publicly available by the London Stock Exchange.

1.3 Unless otherwise stated, information contained in this document regarding market position, sector, division and product analysis, stock exchange trading, listings and IPOs and the international financial market in relation to the London Stock Exchange, its competitors and these markets generally is based on the London Stock Exchange's management estimates and calculations sourced from publicly available information, including Main Market and Secondary Market fact sheets, AIM Market Statistics and the London Stock Exchange's and its subsidiaries' internal market and trading databases and where applicable is presented by reference to calendar years rather than financial years.

1.4 Unless otherwise stated, information regarding Macquarie's offer is sourced from the Offer Document and other material made publicly available by Macquarie, Macquarie Bank or any other person mentioned in the Offer Document.

1.5 The relevant bases of calculation and sources of information contained in this document which repeat information contained in the First Circular are set out in Appendix 3 of the First Circular.

2. Page references

The relevant bases of calculation and sources of information are provided below by reference to page numbers of this document. Where such information is repeated in this document, the underlying bases and sources are not.

Page 1

- (a) The reference to SETS growth is the expected growth in the average number of trades per day on SETS. Forecast SETS growth by FY 2008 is relative to FY 2005.
- (b) The reference to the £510 million capital return being equivalent to 200 pence per share is based on the number of London Stock Exchange shares in issue as at 14 February 2006 (being the latest practicable date prior to the posting of this document).
- (c) The reference to the proposed FY 2006 dividend refers only to the interim and final ordinary dividends.
- (d) The reference to the declining cost base of £10 million is presented on a pre-tax annual basis and represents £7 million of cost efficiencies in FY 2007 (versus the prior commitment to flat costs in that year) and £10 million of cost efficiencies in FY 2008 (by reference to the planned FY 2008 cost base which is subject to an inflationary increase versus the cost base for FY 2007). One off profit and loss implementation costs of £6 million to be taken in FY 2006.
- (e) The reference to 2005 adjusted EPS of 32 pence is as reported in the Q3 Trading Statement (rounded up from 31.9 pence).
- (f) The reference to 2005 adjusted EPS pro forma of 38 pence is based on adjusted EPS for the 12 months ended 31 December 2005 as reported in the Q3 Trading Statement and the weighted average number of London Stock Exchange shares in issue for the 12 months ended 31 December 2005 and is adjusted for the impact of the capital return and lower cost base as described in page reference 9(b) of this Appendix 2.
- (g) Compound annual shareholder return since listing on 20 July 2001 of 19 per cent per annum is based on the closing price for a London Stock Exchange share as at 14 February 2006 (being the latest practicable date prior to the posting of this document) and includes all ordinary and special dividends paid as at 14 February 2006 (being the latest practicable date prior to the posting of this document). Data is sourced from Datastream.

Page 2

- (a) The reference to SETS growth of 63 per cent is based on the value traded on SETS in January 2006 compared with January 2005. The reference to SETS value traded growth of 33 per cent is based on growth from Q3 FY 2005 to Q3 FY 2006.

Page 4

- (a) The reference to the London Stock Exchange's P/E multiple remaining at a discount to its listed peers is based on the December 2005 calendarised P/E multiples of major listed exchanges, which are calculated in accordance with the methodology described in page reference 10(c) of this Appendix 2.

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- (a) The number of terminals worldwide is rounded to the nearest thousand.
- (b) Trading information on Euronext, Deutsche Börse, Hong Kong Exchanges, Euronext.liffe and Eurex is sourced from the Federation of European Securities Exchanges or the websites of the relevant exchange.

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- (a) The cost-income ratio for each exchange is calculated by dividing the sum of expenses (excluding exceptional items, goodwill amortisation and adding back costs relating to own work capitalised, where applicable), by the sum of revenues (excluding exceptional items and revenues relating to own work capitalised, where applicable). The ratios for Euronext, OMX and Deutsche Börse are based on financial statements for the 12 months ended 31 December 2004 and the ratio for the London Stock Exchange is based on financial statements for the 12 months ended 31 March 2005 (restated under International Financial Reporting Standards).

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- (a) The reference to the London Stock Exchange's return to shareholders of £672.5 million excludes ordinary dividends and comprises the £162.5 million returned to shareholders in August 2004 and the £510 million proposed return to shareholders announced on the same day as the date of this document (which increases by £260 million the £250 million proposed return to shareholders announced on 3 November 2005). The reference to the £672.5 million return to shareholders equating to 264 pence per share is based on the number of London Stock Exchange shares in issue as at 14 February 2006 (being the latest practicable date prior to the posting of this document). The reference to the return to shareholders as a percentage of market capitalisation is based on the number of London Stock Exchange shares in issue and the closing price for a London Stock Exchange share as at 14 February 2006 (being the latest practicable date prior to the posting of this document).
- (b) The references to the capital return increasing adjusted EPS by 6.6 per cent to 34.0 pence and the capital return and lower cost base increasing adjusted EPS by 18.2 per cent to 37.7 pence are based on adjusted EPS for the 12 months ended 31 December 2005, the weighted average number of London Stock Exchange shares in issue for the 12 months ended 31 December 2005, the £10 million cost efficiencies to be achieved in FY 2008 and assumes, for illustrative purposes only, that the capital return is undertaken either as a share buyback of London Stock Exchange shares or a special dividend. In the case of a buyback, the share price is based on the closing price for a London Stock Exchange share as at 14 February 2006 (being the latest practicable date prior to the posting of this document). In the case of a special dividend, it is assumed that any special dividend is immediately followed by a consolidation of the London Stock Exchange's share capital equivalent to the amount of the capital return. Accordingly, on the basis of a capital return of £510 million undertaken as a share buyback, the number of London Stock Exchange shares in issue would reduce by c.66 million. The capital return is assumed to have been undertaken on 1 January 2005. The full year financing impact of the capital return is assumed to be £17 million. The full year benefit from cost efficiencies is assumed to be £7 million post tax.
- (c) The references to London Stock Exchange dividends include only ordinary dividends.

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- (a) The reference to all independent research analysts refers to independent research analysts that regularly publish reports on the London Stock Exchange that include a stand-alone valuation.
- (b) Macquarie's offer representing a multiple of 15.4 times is calculated by dividing Macquarie's offer of 580 pence by 37.7 pence being the adjusted EPS pro forma for the £510 million capital return and £10 million cost efficiencies.
- (c) For companies who have published their financials results for the 12 months to 31 December 2005 by 14 February 2006 (being the latest practicable date prior to the posting of this document), earnings used to calculate the December 2005 P/E multiples are before exceptional items and sourced from 2005 results press releases or filings. Earnings estimates for those companies that have not published or do not have a December year-end have been sourced from Reuters with the exception of the Singapore Exchange, ASX and the London Stock Exchange. The calendarisation for the Singapore Exchange and ASX to December 2005 is sourced from Reuters and their respective company filings. December 2005 calendarised P/E multiple for the London Stock Exchange is sourced from the Q3 Trading Statement and calculated by dividing the closing price of a London Stock Exchange share on 14 February 2006 (being the latest practicable date prior to the posting of this document) by the adjusted EPS pro forma for the £510 million capital return and £10 million cost efficiencies of 37.7 pence, calculation of which is described in page reference 9(b) of this Appendix 2.

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- (a) The statement from Daniel Garrod is sourced from Citigroup research report entitled "European Stock Exchanges – Merge and Relever" dated 18 January 2006.
- (b) The statement from Michael Taylor is sourced from Threadneedle Asset Management's RNS announcement dated 16 December 2005 entitled "Re Offer for LSE by Macquarie". Threadneedle Asset Management's holding of London Stock Exchange shares representing 13.7 per cent was sourced from the latest Rule 8.3 announcement issued by Threadneedle Asset Management on 13 February 2006.
- (c) The statement from Rupak Ghose is sourced from Credit Suisse research report entitled "London Stock Exchange – A growth story" dated 11 January 2006. The report makes reference to the closing price of a London Stock Exchange share on 9 January 2006 of 624 pence.

APPENDIX 3 – DEFINITIONS

adjusted EPS	earnings per share before exceptional items
adjusted EPS accretion	percentage increase in adjusted EPS
AIM	the London Stock Exchange's market for smaller and growing companies
Archipelago	Archipelago Holdings, Inc.
ASP	the London Stock Exchange Annual Share Plan
ASX	Australian Stock Exchange Limited
Broker Services	a division of the London Stock Exchange which provides services for brokers to trade securities
CAGR	compound annual growth rate
CBOT	CBOT Holdings, Inc.
City Code	The City Code on Takeovers and Mergers
CME	Chicago Mercantile Exchange Holdings Inc.
Companies Act	the Companies Act 1985, including any statutory modification or re-enactment thereof for the time being in force
Deutsche Börse	Deutsche Börse AG
Directors or the Board	the directors of the London Stock Exchange whose names are set out in paragraph 2 of Appendix 1 of the First Circular
ESOS	the London Stock Exchange Executive Share Option Scheme
Eurex	an electronic futures exchange based in Frankfurt and jointly owned by Deutsche Börse and SWX
Euronext	Euronext N.V.
Euronext.liffe or LIFFE	a recognised investment exchange that deals with futures and options and a wholly owned subsidiary of Euronext
Financial Services Authority or FSA	the UK Financial Services Authority
financial year or FY	the financial year of the London Stock Exchange ending 31 March in the relevant year
First Circular	the circular from the London Stock Exchange to shareholders dated 19 January 2006
hedge fund	a type of investment fund typically characterised by absolute return strategies, high trading volumes, performance fees and diverse investment management techniques such as the use of short-selling and leverage
Hong Kong Exchanges	Hong Kong Exchanges and Clearing Limited
Infolect	the London Stock Exchange's real-time information service used to disseminate market data to customers
Information Services	a division of the London Stock Exchange which distributes price and trading data
initial public offering (IPO)	a flotation where an issuer's securities are offered to the public to raise funds
ISE	International Securities Exchange, Inc.
ISP	the London Stock Exchange Initial Share Plan
issuer	any company or other legal person or undertaking (including a public sector issuer) any class of whose securities has been admitted or is, or is proposed to be, the subject of an application for admission to trading on a stock exchange
Issuer Services	a division of the London Stock Exchange which provides services to issuers on the London Stock Exchange's markets
Lehman Brothers	Lehman Brothers Europe Limited
London Stock Exchange or LSE or Exchange	London Stock Exchange plc, a public limited company incorporated in England and Wales with registered number 2075721
London Stock Exchange Group	the group of companies which includes the London Stock Exchange
London Stock Exchange Share Schemes	the ISP, ASP, ESOS, LTIP, SAYE and SIP
London Stock Exchange shares	the ordinary shares of 5 5/6 pence each in the capital of the London Stock Exchange existing from time to time
LTIP	the London Stock Exchange Long Term Incentive Plan 2004
Macquarie or MLX	Macquarie London Exchange Investments Limited
Macquarie Bank	Macquarie Bank Limited
Macquarie's offer or offer	the cash offer for the London Stock Exchange by Macquarie made pursuant to the Offer Document
Main Market	the London Stock Exchange's principal market for listed companies from the UK and overseas
market capitalisation	used to indicate the value of a company by multiplying the number of shares in issue by the current share price
Merrill Lynch	Merrill Lynch International
NASDAQ	The Nasdaq Stock Market, Inc.
Offer Document	the document dispatched to shareholders on 10 January 2006 containing the terms and conditions of Macquarie's offer
OMX	OMX AB

P/E or P/E ratio or P/E multiple or Price/Earnings ratio	a measurement of a company's rating, calculated by dividing the share price by the annual earnings per share
PwC	PricewaterhouseCoopers LLP
Q3	the three month financial period of the London Stock Exchange ending 31 December and which refers to financial year 2006 unless otherwise specified
Q3 Trading Statement	the trading statement issued by the London Stock Exchange on 10 January 2006
RNS	the London Stock Exchange's Regulatory News Service
SAYE	the London Stock Exchange SAYE Option Scheme
SETS	the electronic order book operated by the London Stock Exchange for the most liquid securities
Shareholder or shareholder	a registered holder of London Stock Exchange shares
Singapore Exchange	Singapore Exchange Limited
SIP	the London Stock Exchange Share Incentive Plan
Technology Road Map or TRM	the London Stock Exchange's programme to deliver new trading systems technology to the London Stock Exchange's markets
terminals	computer terminals used by firms which receive London Stock Exchange real time trading data
trading platform	the technology infrastructure in a stock exchange that is used to support its trading services
TSX	TSX Group Inc.
US	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
value traded	the total number of shares traded multiplied by their respective matching prices

For the purposes of this document, "subsidiary" and "undertaking" have the respective meanings given to them by the Companies Act.

