London Stock Exchange Group plc

Xavier Rolet - Chief Executive

Morgan Stanley Financials Conference
Managing for value in an uncertain economic and regulatory environment

25th March 2010
Agenda

Introduction to LSE - a diversified Group, and a business in transition

Strategy and Priorities

Actions taken so far - to become more efficient and deliver value

Opportunities for further development

Regulatory uncertainty

Way forward
Diversified revenues
Q3 FY 2010

Capital Markets: 45%
Information & Technology Services: 36%
Post Trade: 19%

Comparison with Q3 FY 2009:
Capital Markets: 47%
Information & Technology Services: 32%
Strategy and priorities

• A good business, strong in many places, but challenges to be met
• Actions already underway, benefits coming through

  1) Getting in shape
     - Lowering costs, re-focusing the business on major clients, transforming the technology, strengthening of management team

  2) Leveraging our assets
     - organic growth across range of assets - equities, derivatives, fixed income, information products and post trade services

  3) JVs, partnerships, other links to grow the Group’s scale and scope
Actions already undertaken

- Management team restructured and strengthened - addition of new Director of Post Trade, and new CIO

- Cost saving programme initiated - 12% headcount reduction - £11m pa savings from H2 FY 2010

- Tariff changes to UK equities and Italian derivatives - to reward best clients

- Addressing problem of high post trade costs in UK - Euroclear moved to net charging

- Acquisition of Millennium IT - to provide high performance trading system and cost savings of at least £10m pa from FY 2012 (trading platform migration brought forward to September 2010)

- Acquisition of Turquoise MTF - to form pan-European lit and dark trading platform in partnership with major banks - positive earnings from FY 2012

- Various organic and strategic actions underway in the Capital Markets, Post Trade and Information & Technology Services
Operating Costs

- Continued and on-going cost management
- Specific initiatives:

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<th>Annual benefit £m</th>
<th>From</th>
<th>Cost to deliver FY 2010 £m</th>
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<td>Borsa integration</td>
<td>13</td>
<td>FY 2010</td>
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<td>Staff reductions</td>
<td>11</td>
<td>H2 FY 2010</td>
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<td>Property</td>
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<td>FY 2012</td>
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- Up to £20m exceptional costs for Turquoise
- €:£ rate at 1.13 (average for past 11 months), FY 2009 costs would increase by £9.5m
- H1 FY2010: underlying costs (exc one-off items) at constant currency down 8% vs H1 of previous year
Millennium IT

- A new, high performance, scalable matching engine
- In-house software development expertise with dedicated R&D
- The ability to roll-out multiple new products and services
- Surveillance, ticker plant, desktop, SOR and post trade technology
- A reduction in software development charges
- A new revenue stream with a growing pipeline of existing and new clients
Turquoise

- Acquired February 2010 - provides basis for creation of pan-European trading venture through merger of Baikal and Turquoise MTFs
- Partnership with 12 leading global investment banks - LSE to retain controlling 51%
- Lit and dark pool pan-European trading and connections to other liquidity pools
- Neutral, exchange run venue designed to inspire confidence in region’s regulators and buyside clients
- MillenniumIT trading technology provides low cost and high performance system to support competitive service
- Earnings positive from FY 2012
Regulatory uncertainty

• Fall out from financial markets crisis - European regulation focused on:
  – risks to be better understood and mitigated - move to mandated use of CCP services for OTC derivatives
  – harmonised European CCP standards and requirements - interoperability and risk/margin management
  – capital requirements affecting risk and proprietary trading

• MiFID Review - (2010 -2011) will include:
  – more transparency for bonds and derivatives
  – better quality post trade data (to counter effects of fragmentation) - form of consolidated tape?
  – review of dark pools, internal crossing networks (OTC) and HFT
  – greater harmonisation of standards

• Other developments:
  – power shift to EU - less likely to support London
  – greater harmonisation and supervision powers in ESMA
  – new Internal Markets Commissioner - Michel Barnier
  – implications of Target 2 Securities (T2S) for pan-European settlement
  – domestic and EU transaction tax policies
Way Forward

We intend to be a top tier exchange:

- Client focused business
- Offense, not defence - on basis of more efficient services
- Leveraging the assets we have - scaling-up operations, extending product and geographic scope to accelerate organic growth
- Examine non-organic opportunities
Summary

• A good business, strong in many places, but challenges to be met

• Actions already underway, benefits coming through

• Getting in shape
  – streamlined management team
  – technology transformation/improvement
  – lowering costs
  – re-focusing the business

• Leveraging our assets
  – organic growth across range of assets - equities, derivatives, fixed income, information products and post trade services
  – jvs, partnerships, other strategic opportunities

• A dynamic market environment, many opportunities, regulatory developments will shape future actions
Appendix
Senior Management Team

Xavier Rolet* - CEO  
Doug Webb* - CFO  
Massimo Capuano* - Deputy Group CEO and CEO of Borsa Italiana  
Raffaele Jerusalmi - Director of Capital Markets  
Kevin Milne - Director of Post Trade Services  
David Lester - Director of Information Services and CEO of Turquoise  
Antoine Shagoury - CIO  
Tony Weeresinghe - CEO Millennium IT and Global Head of Development and Exchange Sales

* Executive Directors on main London Stock Exchange Group plc board
Net debt and borrowings

- Gross borrowing £608m at 30 September 2009
  - £975m committed facilities, £950m to 2012 or beyond
  - £250m Bond 2016 at a rate of 6.125%
  - £250m Bond 2019 at a rate of 9.125%
  - £250m syndicated revolving credit facility at rate of Libor +80bps - matures 2013
  - £25m bi-lateral revolving credit facility at a rate of Libor +80bps - matures 2011
  - £200m revolving credit facility at a rate of Libor +125bps - matures 2012

- £125m cash reserved for regulatory and operational purposes

LSEG Ratings
S&P A- (stable outlook)
Moody’s Baa2

£125m cash reserved for regulatory and operational purposes
Share register - March 2010

- Institutional investors: 38%
- Borse Dubai: 21%
- Former BI shareholders (in aggregate): 18%
- QIA: 15%
- Market Participants / Hedge Funds: 2%
- LSE Member firms: 2%
- Other: 4%
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