Grow with the world’s capital market
Reject Nasdaq’s Offer

• Our exceptional growth continues
  – New SETS forecast – at least 180 per cent increase in FY 2008 to at least 480,000 bargains per day

• Our focus on shareholder value continues
  – Increase of up to £250 million in our existing share buyback programme

• Yet Nasdaq persists in undervaluing the world’s capital market

Nasdaq’s offer is wholly inadequate
A culture of competing for liquidity

- The LSE operates in a **pro-competitive** regulatory environment that ensures choice of execution venue

- SETS market share of total Exchange business has grown from 52 per cent in 2000 to 68 per cent of a much larger market in 2006 due to product innovation, new technology, declining transaction costs and its exceptional reliability

- Average daily volumes on SETS have nearly doubled in the last two years and quintupled in the last five years

**Average SETS trades per day**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average SETS trades per day (1000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2002</td>
<td>69</td>
</tr>
<tr>
<td>FY 2003</td>
<td>109</td>
</tr>
<tr>
<td>FY 2004</td>
<td>137</td>
</tr>
<tr>
<td>FY 2005</td>
<td>170</td>
</tr>
<tr>
<td>FY 2006</td>
<td>223</td>
</tr>
<tr>
<td>FY 2007</td>
<td>324</td>
</tr>
</tbody>
</table>
MiFID creates opportunities

- Many features inspired by the UK regime – validates UK’s open market model
- MiFID abolishes concentration rules and enables competition with national exchanges
- Radical change for some countries in Continental Europe but ‘business as usual’ for the UK
- Our regulatory regime is fundamentally different to that in the US:

<table>
<thead>
<tr>
<th></th>
<th>US Regulation</th>
<th>Europe: MiFID</th>
<th>MiFID change for LSE?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internalisation permitted</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Trade reporting required</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Trade-through rule</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>Exchange linkages required</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>Consolidated tape</td>
<td>Yes</td>
<td>Market forces</td>
<td>No</td>
</tr>
<tr>
<td>Market data revenues</td>
<td>Regulatory formula</td>
<td>Market forces</td>
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<tr>
<td>Tick sizes</td>
<td>Regulatory prescription</td>
<td>Market forces</td>
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</tr>
</tbody>
</table>
SETS growth is outstanding

Key drivers of SETS growth

- Technology investment by the Exchange
- Structural change
- New products, services and pricing
- Increasing velocity of trading
- Increasing equity investment across Europe
Lower transaction costs drive growth

- SETS revenue up **38 per cent** in the nine months to December 2006 (on the same period last year)

- The Exchange has the lowest fees per trade of any major European exchange

- The tariff changes just announced for 2008 are expected to fuel further SETS growth
New forecast for SETS growth

- New forecast of an average of **at least 480,000** trades per day in FY 2008

  Actual and forecast average SETS trades per day (‘000s)

- This represents an increase of **at least 180 per cent** in FY 2008 (relative to FY 2005)
- This will produce **strong growth** in Broker Services revenues
Growth prospects in Issuer and Information Services

• 2006 was a record year for Issuer Services – 367 IPOs raising a record £29.4 billion
• Strong IPO activity in December – 17 international companies raising over £1.8 billion
• New international and UK listings and the continuing success of AIM should deliver strong issuer activity in FY 2008
• Another record in December for Information Services with 113,000 terminals
• Growth in terminal numbers increasingly international
A compelling value creation story

Progressive dividends
• FY 2007 final dividend of not less than 12 pence per share; total dividend of at least 18 pence per share – a minimum increase of 50 per cent
• Dividend growth of 275 per cent over the last three years

Increase of up to £250 million share buyback programme
• Total return of up to £974 million represents 35 per cent of current market capitalisation

Capital returns from 2004

- Special dividend Aug 2004: £162m
- Capital return May 2006: £512m
- Share buybacks in 2006: £32m
- Returned to date: £706m
- Share buybacks post offer: £18m
- New share buybacks: up to £250m
- New total: up to £974m
Standalone value is not being offered

- Nasdaq’s offer is far below the trading multiples of virtually all other major listed exchanges
- The offer ignores our outstanding financial performance and excellent growth prospects

12 months to December 2006 P/E multiples

- Peer group comparison clearly shows that Nasdaq is not offering standalone value
Synergies not shared, no premium for control

- Nasdaq has not disclosed the value of synergies
- The offer is at a lower multiple of earnings than Nasdaq’s withdrawn proposal of 29.8 times earnings in March 2006
- EPS has grown by 116 per cent over the last two years

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**Exchange share price and adjusted basic EPS**

![Graph showing share price and adjusted basic EPS over different periods.](graph.png)
Strategic opportunities for the world’s capital market

• Our standalone value is based on very strong organic growth prospects

• LSE remains interested in major strategic opportunities that would be in the best interests of shareholders and customers

• A combination with an exchange or similar business could deliver major benefits including
  – increased liquidity
  – significant synergies
  – diversification into other geographies and asset classes
Nasdaq's offer fails:

• To value the Exchange’s unique strategic position
• To share any of the synergy benefits
• To pay a premium for control
• To even give standalone value

Nasdaq is not even close on price
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