



*London*  
**STOCK EXCHANGE**

# London Stock Exchange Group plc

Preliminary Results - 22 May 2008

# Agenda

Introduction

Chris Gibson-Smith  
Chairman

Financial Review

Massimo Capuano  
Deputy CEO

CEO Overview

Clara Furse  
Chief Executive Officer

Q&A

## Introduction

- Year of significant achievement – excellent financial performance with pro forma revenue up **15%** and adjusted EPS up **30%**
- Further capital returns to shareholders through share buybacks – **£139m** during the year
- Merger with Borsa Italiana – to form Europe’s leading diversified exchange group
- Strong business performance – excellent trading growth driven by technology investment, leadership in international listings and continued growth in data products
- Dividend increase of **33%** reflects confidence in future



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**STOCK EXCHANGE**

**Massimo Capuano**

Deputy Chief Executive Officer

# Overview of results

	Year ended 31 March		Change %	Pro forma <sup>2</sup>		Change %
	2008 £m	2007 £m		2008 <sup>1</sup> £m	2007 <sup>1</sup> £m	
<b>Revenue</b>						
Issuer	82.4	63.2	30	97.1	91.5	6
Trading	264.7	173.1	53	310.0	261.9	18
Information	143.6	105.9	36	161.9	139.8	16
Post Trade	42.8	-	-	82.0	72.4	13
Other income	12.9	74	74	15.9	12.8	24
<b>Total revenue</b>	<b>546.4</b>	349.6	56	<b>666.8</b>	578.4	15
Operating costs <sup>1</sup>	257.4	164.0	57	323.8	307.3	5
<b>Operating profit<sup>1</sup></b>	<b>289.0</b>	185.6	56	<b>343.0</b>	271.1	27
<b>Operating margin<sup>1</sup></b>	<b>53%</b>	53%		<b>51%</b>	47%	

<sup>1</sup> Before exceptional items and amortisation of purchased intangibles

<sup>2</sup> For 12 months to 31 March 2008, as if merger with Borsa Italiana occurred 1 April 2006; Comparative FY 2007 figures translated at same average exchange rate for FY 2008 of €1.4196 : £1 to show growth on constant exchange rate basis

## Overview of results (continued)

	Year ended 31 March			Pro forma <sup>3</sup>		
	<u>2008</u> £m	<u>2007</u> £m	<u>Change</u> %	<u>2008</u> £m	<u>2007</u> £m	<u>Change</u> %
<b>Operating profit<sup>1</sup></b>	<b>289.0</b>	185.6	56	<b>343.0</b>	271.1	27
Amortisation	(21.5)	-		-	-	
Exceptional items	(2.3)	(11.4)		-	-	
Net finance and investment income <sup>2</sup>	(30.5)	(12.7)		(31.4)	(15.8)	
<b>Profit before tax</b>	<b>234.7</b>	161.5	45	<b>311.6<sup>4</sup></b>	255.3 <sup>4</sup>	22
Tax	(56.2)	(50.9)		(102.0) <sup>4</sup>	(82.3) <sup>4</sup>	
<b>Profit after tax</b>	<b>178.5</b>	<b>110.6</b>	61	<b>209.6<sup>4</sup></b>	173.0 <sup>4</sup>	26
<b>Earnings per share (p)</b>	<b>73.1</b>	50.5	45			
<b>Adjusted earnings per share (p)</b>	<b>73.1</b>	56.2	30	<b>72.9</b>	56.6	29
<b>Dividend per share (p)</b>	<b>24.0</b>	18.0	33			

<sup>1</sup> Before exceptional items and amortisation of purchased intangibles (operating profit includes £57.5 million contribution from Borsa Italiana in the six months since merger)

<sup>2</sup> Including share of FTSE joint venture income

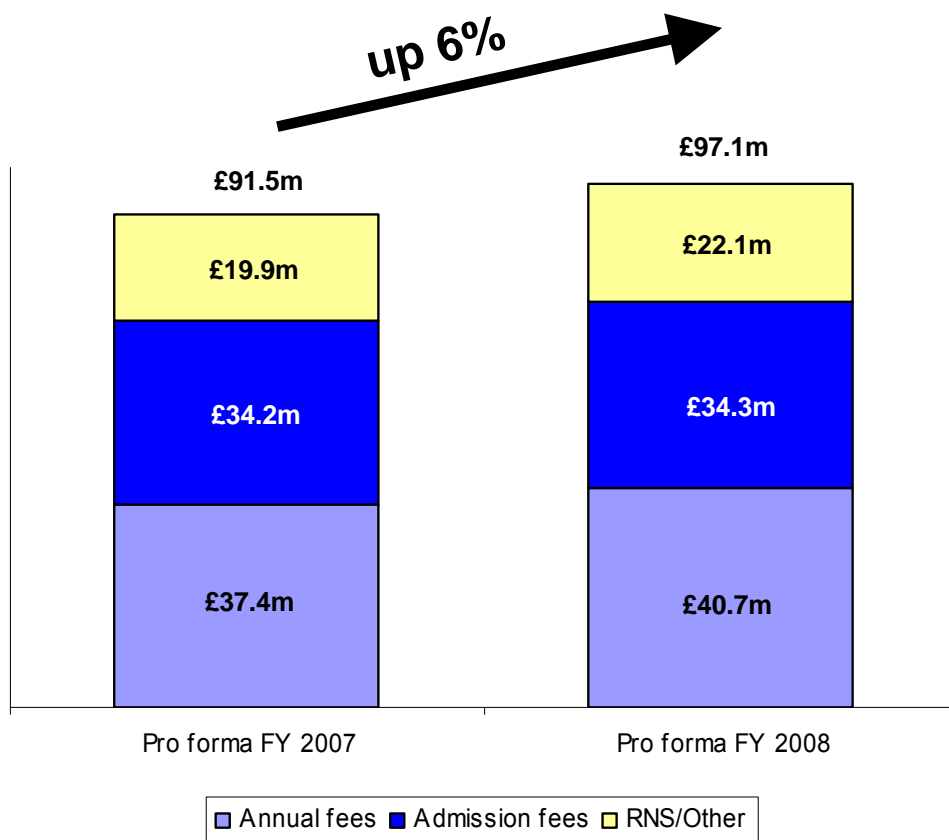
<sup>3</sup> For 12 months to 31 March 2008, as if merger with Borsa Italiana occurred 1 April 2006; Comparative FY 2007 figures translated at same average exchange rate for FY 2008 of €1.4196 : £1 to show growth on constant exchange rate basis

<sup>4</sup> Excludes impact of exceptional items and amortisation of purchased intangibles

# Issuer Services

## Resilient Performance

up 6%

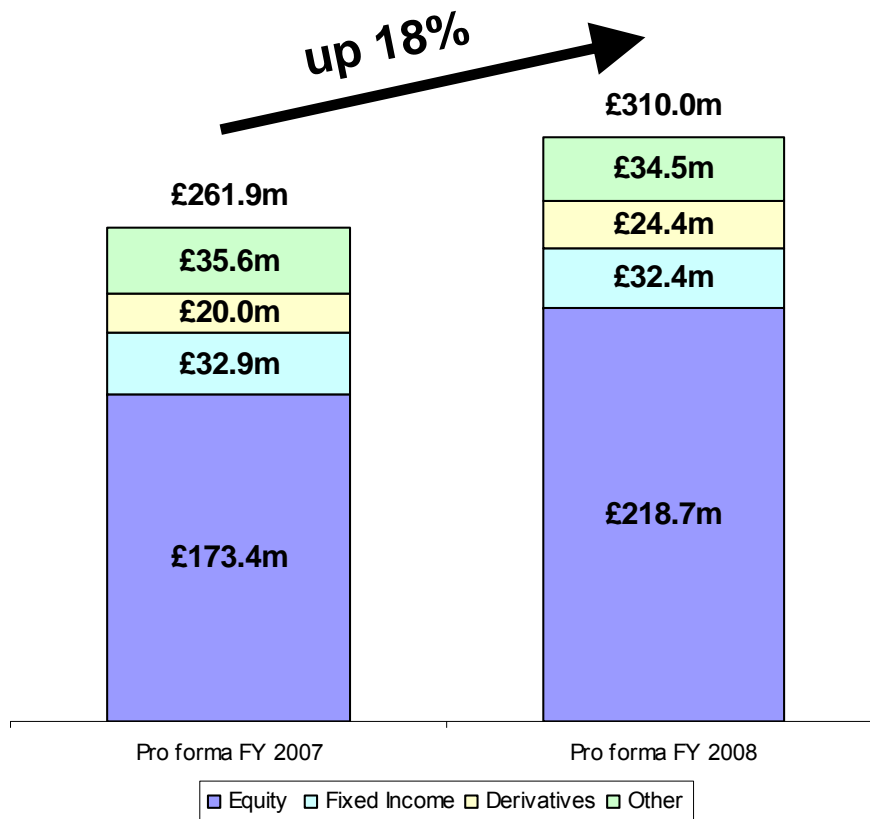


## Key metrics – Pro forma

- Admission fee income unchanged at **£34m**
- Total **411** new issues (2007: 528)
  - **110** Main Market (2007: 106)
  - **262** AIM (2007: 395)
  - **33** Blt (2007: 25)
- **128** international new issues (2007: 139) including **39** on Main Market (2007: 35)
- Annual fee income up **9%** – growth in number of companies on LSE to **3,273** (2007: 3,245) inc **1,681** on AIM (2007: 1,637); Borsa Italiana **306** (2007: 288)
- RNS and other services revenue **£22.1m** (2007: £19.9m)

# Trading Services

Equity trading drives excellent growth



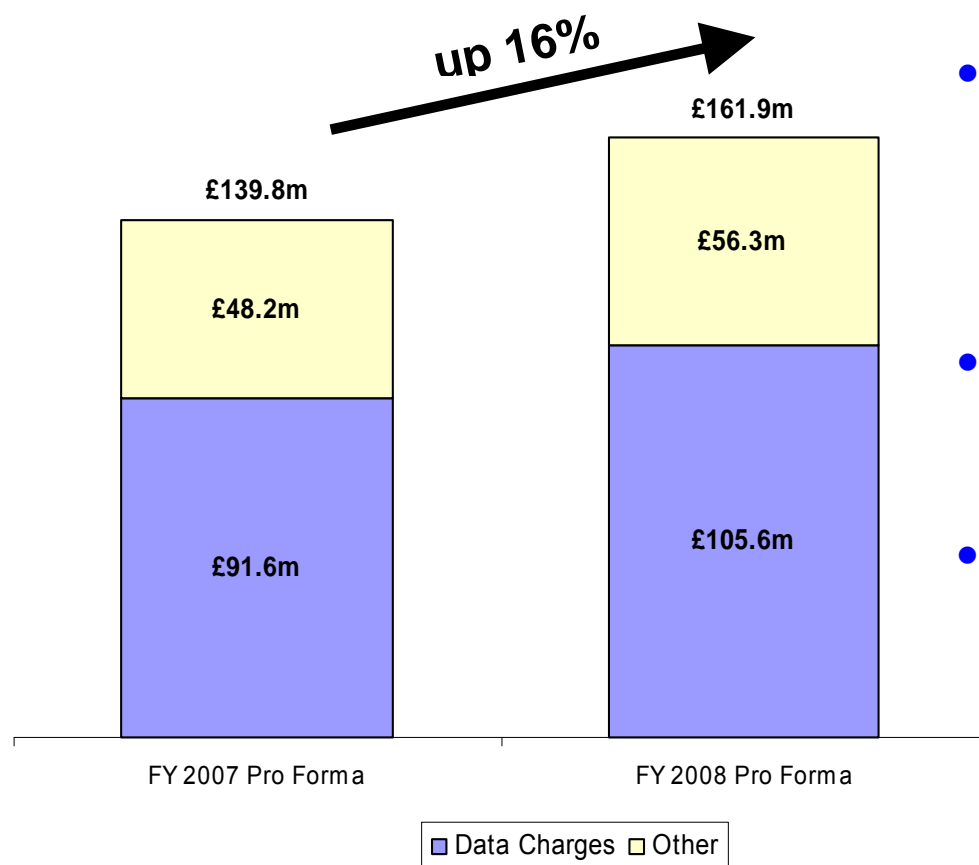
## Key metrics – Pro forma

- SETS bargains up **82%** to **642,000** per day (2007: 353,000); Q4 up 84% to 812,000
- Value traded on SETS up **39%** to **£2.3tn** (2007: £1.6tn) – yield per bargain reduced, at **c£0.88** (2007: c£1.32)
- Blt equities volume up **20%** to **290,000** trades per day (2007: 241,000), value up **23%** to **€1.5tn** (2007: €1.2tn)
- EDX derivatives volumes up **55%** to **48.6m**; IDEM volumes up **12%** to **37.2m**
- MTS nominal value traded flat at **€20.3tn**; MOT value traded up **21%** to **€152bn**
- Other revenues includes membership and access fees, and platform sales



# Information Services

Terminals reach new record levels

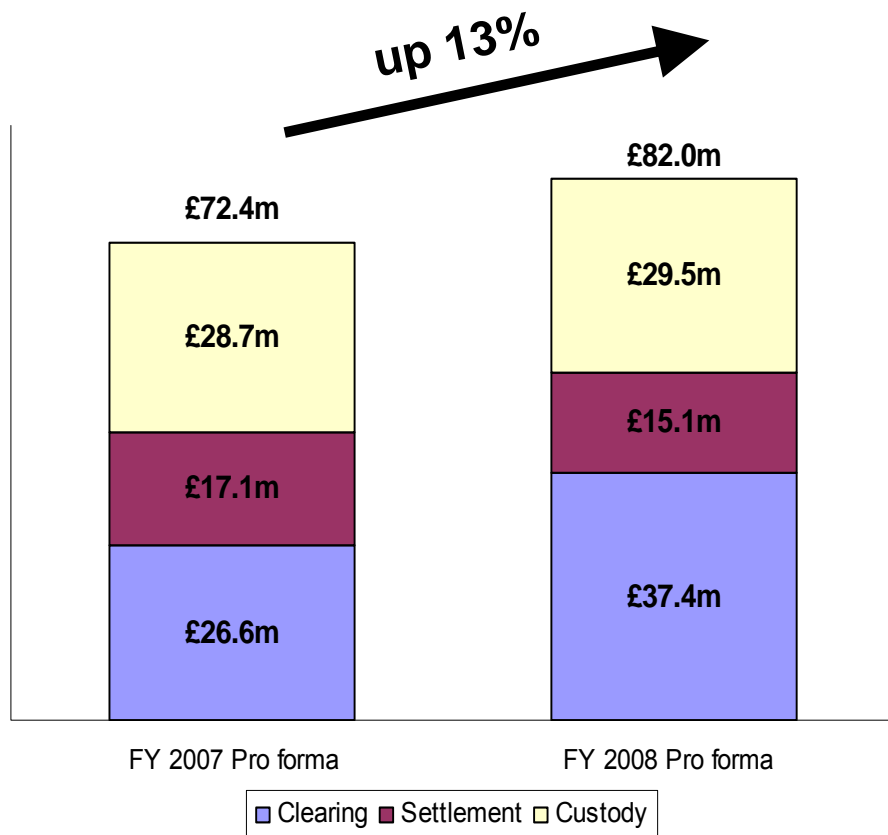


## Key metrics – Pro forma

- LSE terminal population up **19%** to **138,000** (2007: 116,000)  
LSE Professional investor terminals up **17%** to **112,000** (2007: 96,000)
- BIt professional users up **9%** to **160,000** (2007: 147,000); **6%** increase in private users to **784,000**
- Other revenues of **£56m** includes network charges, Proquote, Market Connect and SEDOL

# Post Trade Services

Good performance driven by strong trading



## Key metrics – Pro forma

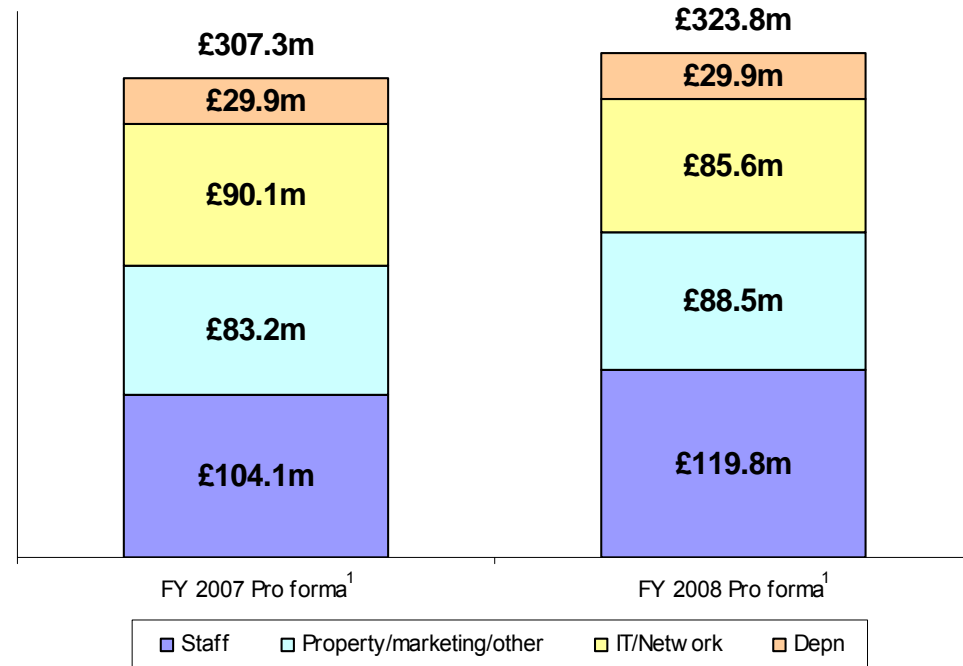
- CC&G equity clearing volumes up **19%** to **73.8m** (2007: 62.2m); derivative volumes up **12%** to **37.2m** (2007: 33.2m)
- Monte Titoli settlement instructions down **5%** to **52.7m** (2007: 55.5m) – mainly reflecting consolidation among Italian bank customers
- Average value of assets under custody up **4%** to **€2.8tn** (2007: €2.7tn)

# Operating and development costs

## Enlarged Group costs well controlled

- Pro forma costs up **5%** - mainly reflecting **£16m** increase in staff costs from in-sourcing IT personnel and performance related remuneration
- IT/Networks down **£5m** – in-sourcing savings at LSE and BIt
- Other costs up **£5m** – reflecting higher property, marketing, VAT and cost of sales
- Expect overall rise in expenses from inflation, depreciation and other – however, some offset from integration cost savings

FY 2007	Pro forma Cost/Income ratio	FY 2008
53%		49%



<sup>1</sup> excluding exceptional items and amortisation

## Summarised cash flow

Strong cash generation from enlarged group operations

	Year ended 31 March		Change £m
	2008 £m	2007 £m	
Net cash inflow from operating activities <sup>1</sup>	282.7	198.6	84.1
Taxation	(68.7)	(33.5)	(35.2)
Capital expenditure	(32.2)	(19.9)	(12.3)
Ordinary dividends paid	(46.0)	(33.2)	(12.8)
<b>Free cash flow<sup>1</sup></b>	<b>135.8</b>	<b>112.0</b>	<b>23.8</b>

<sup>1</sup> Before exceptional items

## Summarised cash flow (continued)

	Year ended 31 March	
	2008 £m	2007 £m
<b>Free cash flow<sup>1</sup></b>	135.8	112.0
Net cash inflow from merger with Borsa Italiana	82.3	-
Share buyback	(143.8)	(105.3)
Cash used for capital return <sup>2</sup>	(8.1)	(497.9)
ESOP share purchases	(36.7)	(47.8)
Net proceeds from unsecured borrowings/bond	115.5	404.6
Exceptional and one-off items <sup>3</sup>	(5.9)	(18.2)
Exchange rate gains on cash/cash equivalents	13.9	-
Net interest, dividends received and other	<u>(25.3)</u>	<u>(1.3)</u>
<b>Increase/(Decrease) in cash</b>	<b><u>127.7</u></b>	<b><u>(153.9)</u></b>

<sup>1</sup> Before exceptional items

<sup>2</sup> FY 2008 B-share redemption: FY 2007 £512m capital return less B shares

<sup>3</sup> Mainly advisers' fees – FY 2008 acquisition of Borsa Italiana; FY 2007 bid defence

# Summarised Group balance sheet

## Balance sheet reflects effects of merger

		<b>31 March 2008</b>	<b>31 March 2007</b>	<b>Change</b>
		<u>£m</u>	<u>£m</u>	<u>£m</u>
Non-current assets		1,921.5	132.8	1,788.7
Current assets	- Debtors	17,442.1	61.4	17,380.7
	- Cash	200.6	72.9	127.7
<b>Total assets</b>		<b>19,564.2</b>	<b>267.1</b>	19,297.1
Current liabilities	- Bank borrowings	(427.2)	(155.7)	(271.5)
	- Other	(17,493.7)	(173.7)	(17,320.0)
Non-current liabilities	- Bond <sup>1</sup>	(248.4)	(248.2)	(0.2)
	- Other	(126.5)	(39.4)	(87.1)
<b>Net (liabilities) / assets</b>		<b>1,268.4</b>	<b>(349.9)</b>	<b>1,618.3</b>

<sup>1</sup> £250m bond net of upfront capitalised costs

# Integration of Borsa Italiana

## Good Progress - key projects underway to deliver benefits

- New management structure and integration project office – to drive integration workstreams
- Key projects for year:
  - Migration of Italian cash equities trading to TradElect – by September 2008 (subject to customer readiness)
  - Launch of AIM Italia – H2 calendar 2008
  - Single point of access to market data on Infolect Plus – H1 calendar 2009
- Cost synergies to include IT savings, staff related reductions, marketing savings and other efficiencies

# Synergy Benefits

## On track to deliver financial benefits

- Total synergies of at least **£40m** with approximately **half** expected in FY 2009
- Cost synergies of at least **£20m** with full run rate from start FY 2010
  - at least **£10m** expected in FY 2009
- Revenue synergies of **£20m**, full run rate from start FY 2011
  - approaching **half** expected in FY 2009
- Total costs of no more than **£40m** – **c£6m** in FY 2008 with most of remaining **c£34m** expected in FY 2009, of which **c£20m** as capex



## Current trading

- Excellent performance for enlarged group in FY 2008
- Market conditions more testing – but encouraging start to FY 2009
  - SETS bargains/day in April up **40%** and May to date up **25%**; Italian cash equities trades/day market strong at **274,000** in April (though 12% down in April and May to date)
  - Primary markets remain active – **13** Main Market new issues in April on LSE and **9** so far in May in London and Milan
  - Demand for real time data resilient
- Well placed to deliver further growth



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Clara Furse

Chief Executive Officer

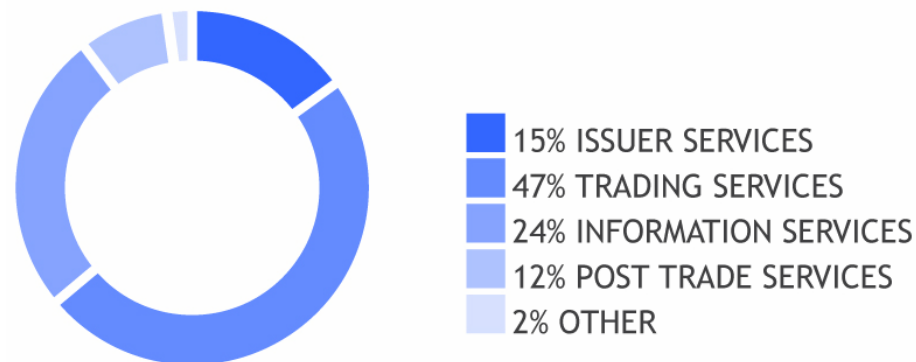
## A year of major achievement

- Our strategy is delivering
  - Successful merger with Borsa Italiana – creating Europe's leading diversified exchange group
  - Launch of TradElect – capacity up ninefold and end-to-end latency down to 6 milliseconds
  - Strong organic growth – average daily SETS trades up 82%
  - Record financial results – pro forma operating profits of £343 million, up 27%

## Successful merger with Borsa Italiana

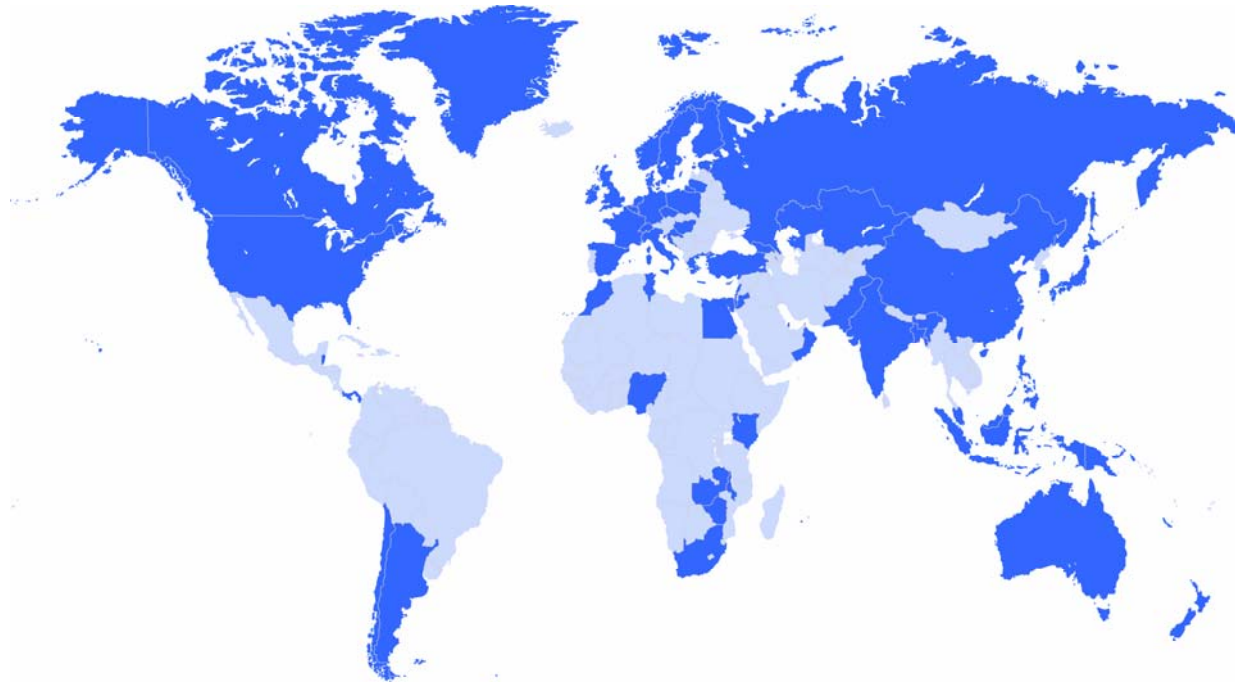
- Strategically significant and financially compelling merger
  - New platforms for growth in dynamic global exchange sector
  - We are on track to deliver at least £40 million of synergies
  - The migration of Italian equities to TradElect will create new trading opportunities

### DIVERSIFIED REVENUES FY 2008



## A growing number of issuers

- LSE listed companies incorporated in 70 countries at year end



Since year end: Czech Republic, Russia, Ukraine, India, Pakistan, Mongolia, Egypt, Mexico, Kuwait, UAE, Germany, Canada, United States

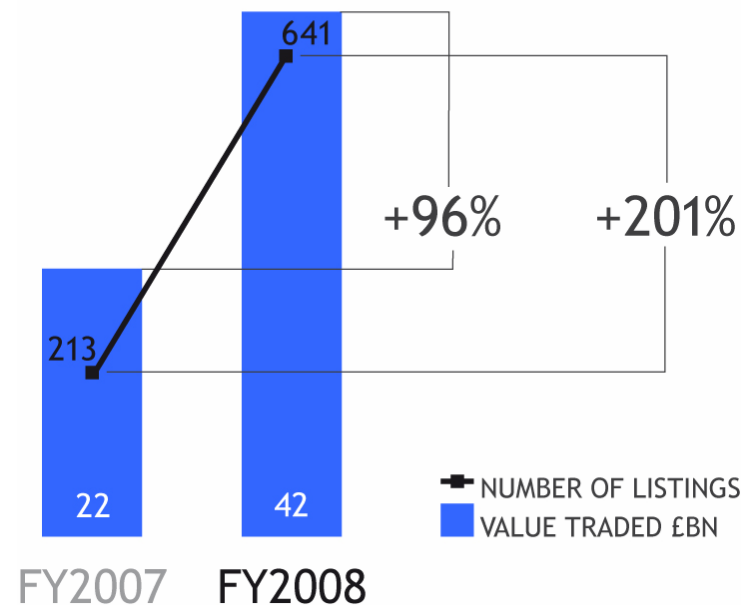
## A growing number of issuers

- AIM – the world's leading growth company market
  - £14.5 billion raised with a record £9 billion in further issues
  - AIM IPOs raised more money than Nasdaq, again
  - AIM Italia opportunity
  - JV with Tokyo Stock Exchange

## Extending ETF and ETC coverage

- The Group is #1 in Europe for electronic trading of ETFs & ETCs
- 201% increase in the Group's number of listed ETFs & ETCs in last year
- 96% year on year growth in order book value traded for the Group
- 4 year CAGR 110%

### ETFs/ETCs - LISTINGS AND TRADING

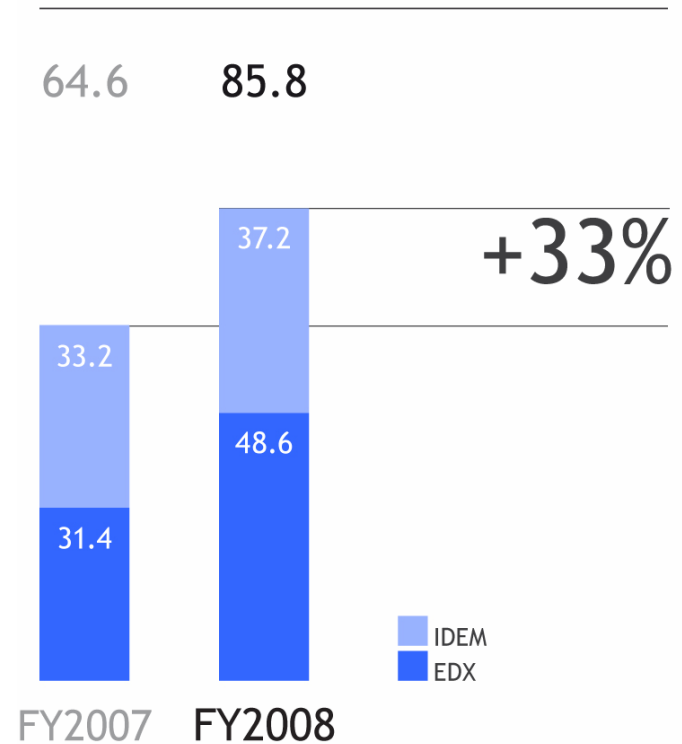


Pro forma figures are presented as if Borsa Italiana was part of the Group for the periods covered, with translation of prior year using the same average exchange rate as the year ended 31 March 2008

## Diversifying our product range

- Fixed income through our majority interest in MTS
  - Europe's #1 wholesale electronic market for government bonds
  - Expansion into Israel, Slovenia, Poland and Brazil
- Derivatives through IDEM and EDX
  - 85.8m contracts traded
  - Record 55% growth on EDX
  - Energy derivatives market in Italy to be launched in September

DERIVATIVES GROWTH - CONTRACTS TRADED (m)





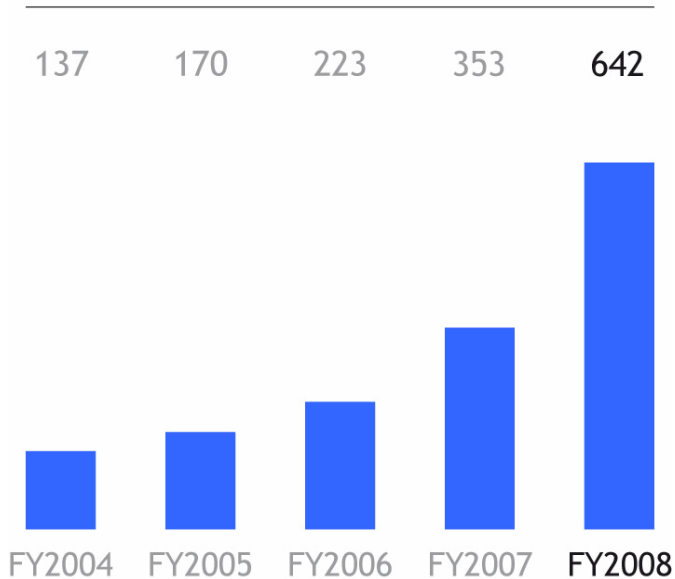
## Diversifying along the value chain

- The Group owns Europe's most efficient post trade services – CC&G and Monte Titoli
  - Pricing more attractive than that of competitors
  - Sustainable advantage due to significantly lower cost of production
  - Changing post trade environment presents new opportunities

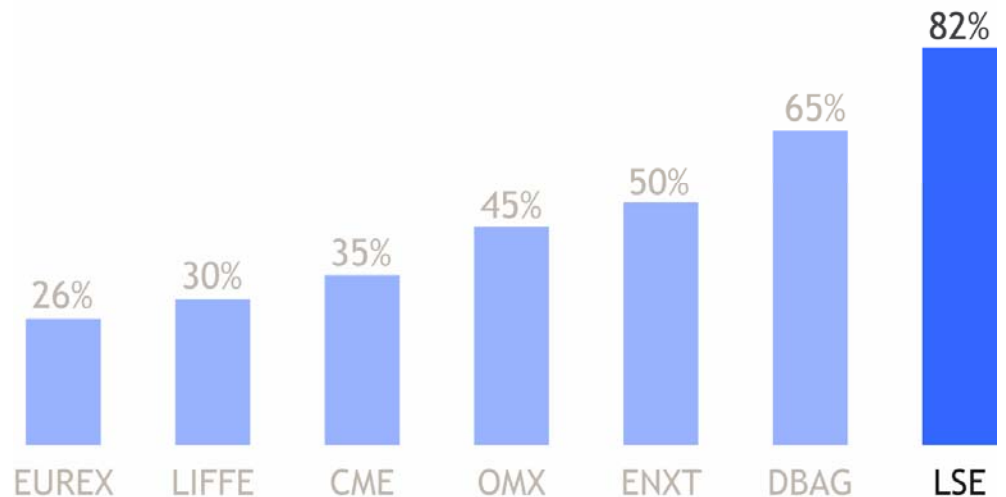
## Driving volume growth through technology investment

- 98 of the 100 busiest days ever on the SETS order book
- LSE trading growth has outperformed

SETS TRADES PER DAY (000)



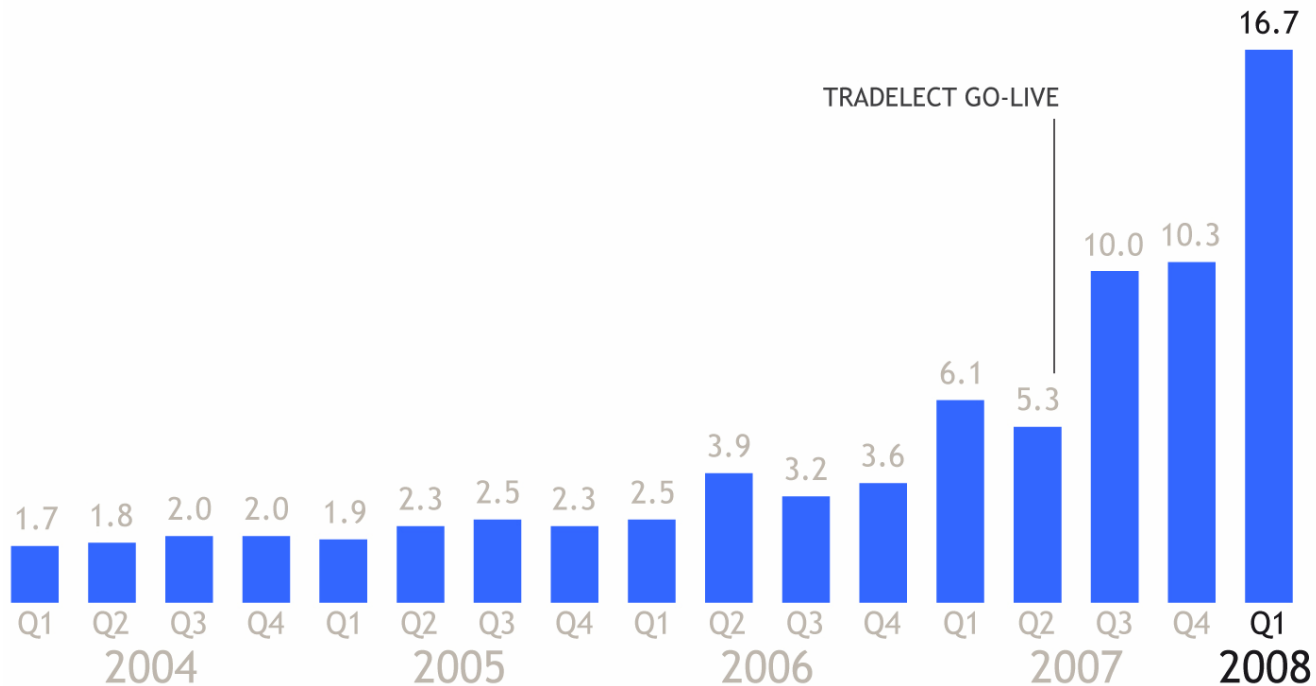
TRADING GROWTH FY 2008



## Unlocking new types of trading

- 48 customers are signed-up for 100 megabit lines
- Hosting services to be offered from August 2008

ORDER ENTRY GROWTH - PEAK ORDERS PER DAY (m)



## New entrants

### PLUS Markets

- New money raised – PLUS Markets £4.1 million vs AIM £5,500 million
- <1 trade / week in PLUS quoted securities

### Chi-X

- Adding to liquidity growth, but:
- Relies on LSE price formation
- LSE has tighter spreads for 97% of FTSE100 securities

NEW MONEY RAISED FY 2008 (£m)



# Innovating to meet customer needs

2008

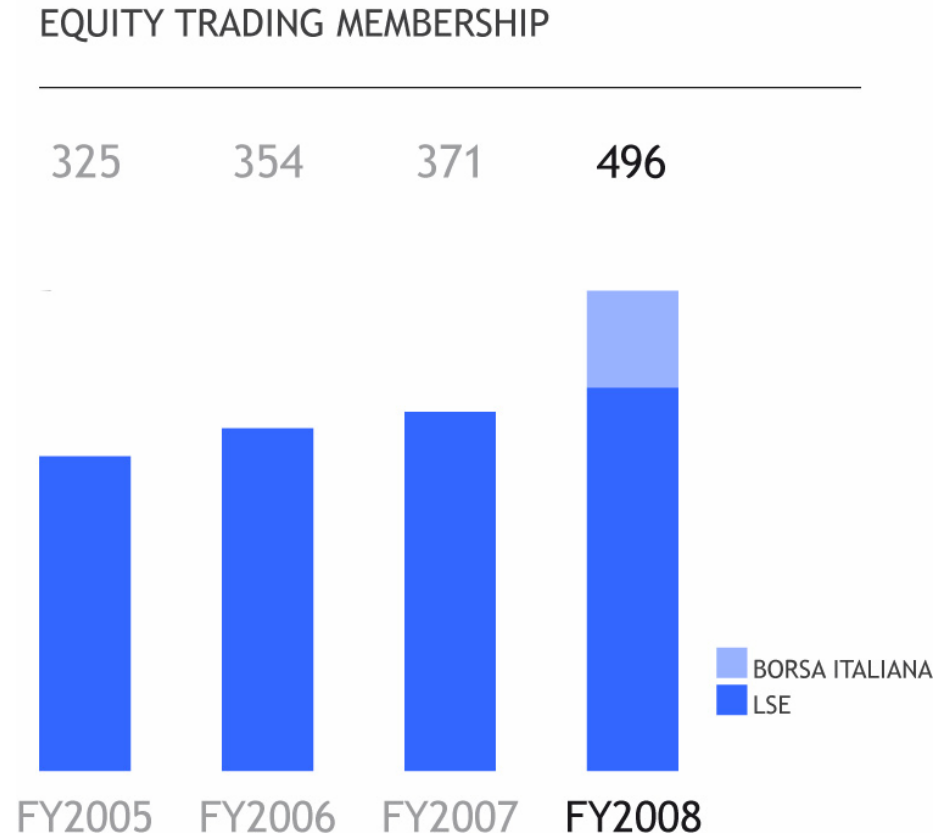
- Hosting services
- Clearing for IOB
- Capacity to double, latency to halve, new functionality
- Energy derivatives in Italy

2009

- Exchange traded CFDs
- New ways of connecting to our services – FIX interface and FAST data broadcast
- Netting in UK

## Enlarging our trading network

- 496 equity trading members across 19 countries
- Borsa Italiana adds 100 equity trading members to the Group
- Strong organic growth – net 25 new members in the last year



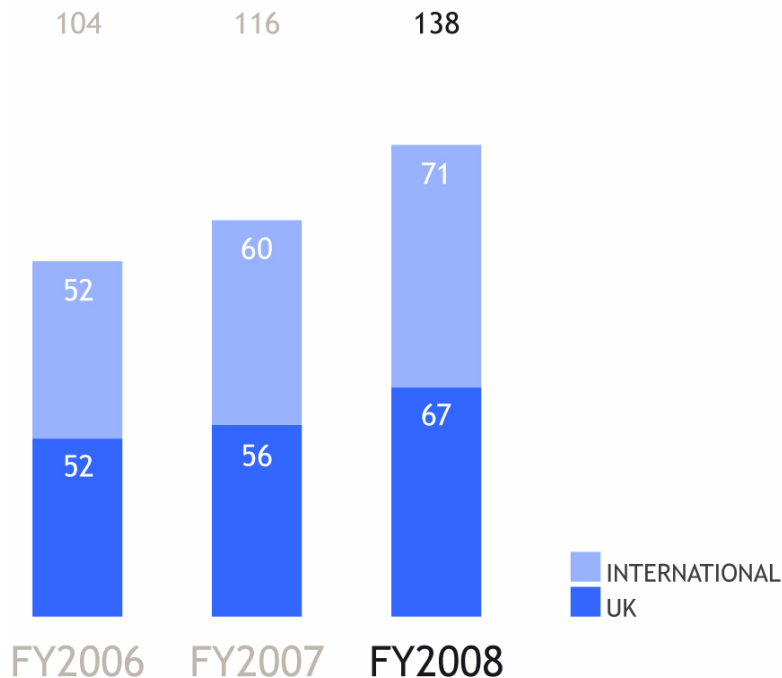
## Bringing down the cost of trading

- Programme of fee reductions
  - Value of volume discount up 116% in last year
  - 72% of SETS trades qualify for lower fees
  - SETS Internaliser – up to 87% fee cut
- All fee structures remain under review
- Tick sizes may continue to come down

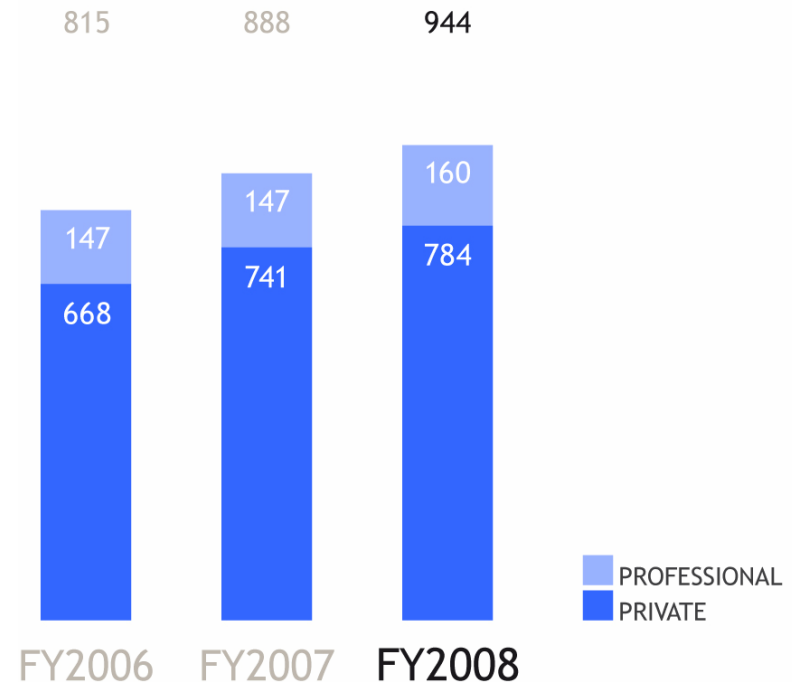
## Increasingly valuable information

- Our data is price forming
- International demand for LSE data grows apace

LSE TERMINALS (000s)



BORSA ITALIANA TERMINALS (000s)





## Positioned for growth in a dynamic market

- Dynamic organisation operating in a dynamic environment
- A clear strategy for growth
  - Focused on market efficiency
  - Providing a full service that creates economic value for our market as a whole
  - The international market of choice
- We are fulfilling our vision to be the world's capital market

## Segmental Information

		Year ended 31 March							
		Revenue		Expenses		Operating profit		Assets	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u> <sup>3</sup>	<u>2007</u>	<u>2008</u>	<u>2007</u>
		£m	£m	£m	£m	£m	£m	£m	£m
Issuer services	- ongoing	82.4	63.2	(46.6)	(35.4)	35.6	27.8	232.3	19.7
	- exceptional			(0.2)					
Trading services	- ongoing	264.7	173.1	(107.3)	(58.0)	157.1	118.2	803.1	79.8
	- exceptional			(0.3)	3.1				
Information services	- ongoing	143.6	105.9	(76.5)	(53.4)	66.8	52.5	321.7	51.6 <sup>1</sup>
	- exceptional			(0.3)					
Post Trade Services		42.8	-	(19.4)	-	23.4	-	18,015.8	-
Other		12.9	7.4	(12.2)	(6.5)	(0.7)	0.9	42.4	22.2
Corporate	- ongoing	-	-	(16.9)	(10.7)	(18.4)	(25.2)	148.9	93.8
	- exceptional			(1.5)	(14.5)				
<b>Total</b>		<b>546.4</b>	<b>349.6</b>	<b>(280.2)</b>	<b>(175.4)</b>	<b>265.2</b>	<b>174.2</b>	<b>19,546.2</b>	<b>267.1</b>

<sup>1</sup> Includes investment in joint venture

<sup>2</sup> Includes investment in associate

<sup>3</sup> After exceptional items