



London
STOCK EXCHANGE

London Stock Exchange Group

Preliminary Results 25 May 2006

Agenda

Introduction

Chris Gibson-Smith
Chairman

Financial Review

Jonathan Howell
Director of Finance

CEO Overview

Clara Furse
Chief Executive Officer

Q&A

Introduction

- Strong progress in primary and secondary markets delivered an excellent financial performance:
 - **Revenue**¹ up **19%**
 - **Adjusted EPS** up **55%**
- Confidence in future growth prospects has enabled:
 - Return of more than **20%** of market capitalisation in under two years
 - Commitment of up to **£50m** per annum share buyback
 - **71%** increase in full year dividend
- Indications of interest from other parties not reflected growth prospects and unique strategic position
- Confident that Exchange's growth prospects built on firm foundations – will continue to explore options for additional shareholder value

¹ Before exceptional items



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Jonathan Howell

Director of Finance

Strong trading performance

Highlights

- Revenue¹ - up **19%** to **£291m**
- Operating profit¹ - up **42%** to **£120m**
- Adjusted earnings per share¹ - up **55%** to **37.4 pence**
- Full year dividend - up **71%** to **12 pence** per share

¹ Before exceptional items

Overview of results

	Year ended 31 March		
	<u>2006</u>	<u>2005</u>	<u>Change</u>
	£m	£m	%
Revenue¹	291.1	244.4	19
Issuer Services	56.9	43.3	31
Broker Services	125.5	100.6	25
Information Services	94.1	86.7	9
Derivatives Services	7.7	6.8	13
Other	6.9	7.0	(1)
Operating costs ¹	(171.0)	(159.8)	7
Operating profit¹	120.1	84.6	42
Operating margin¹	41%	35%	

¹ Before exceptional items

Overview of results (continued)

	Year ended 31 March		Change %
	<u>2006</u> £m	<u>2005</u> £m	
Operating profit ¹	120.1	84.6	42
Net exceptional items	(34.7)	(0.1)	
Net Finance and Investment Income ²	8.1	7.7	
Profit before tax	93.5	92.2	1
Tax	(26.7)	(27.7)	(4)
Profit after tax	66.8	64.5	4
Basic earnings per share	27.8p	24.2p	15
Adjusted earnings per share ¹	37.4p	24.2p	55
Dividend per share	12.0p	7.0p	71

¹ Before exceptional items

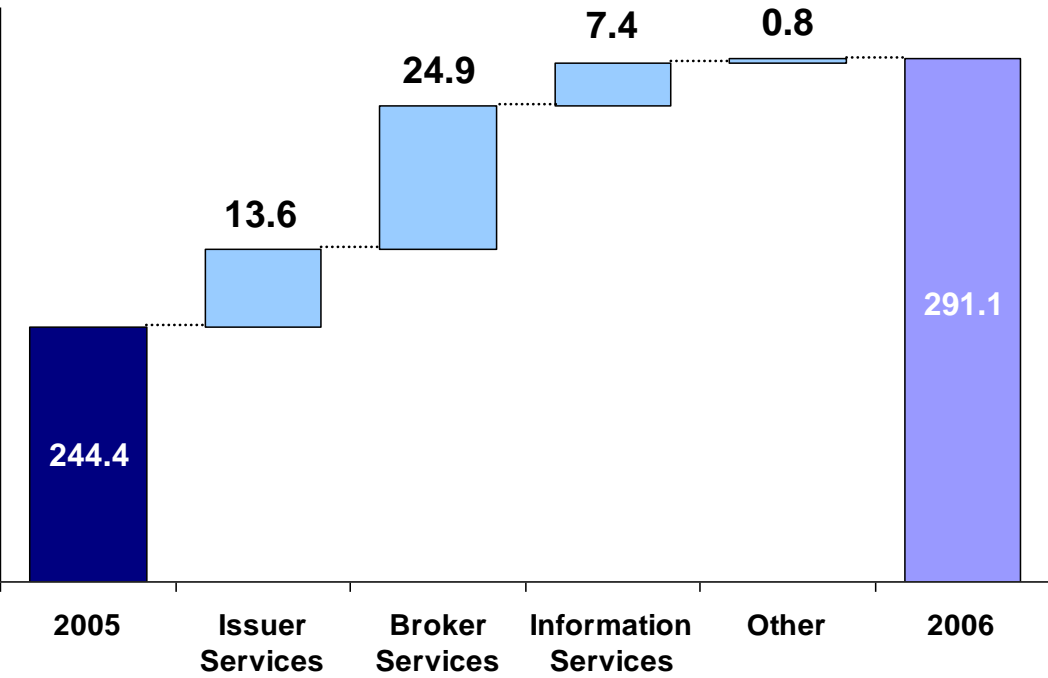
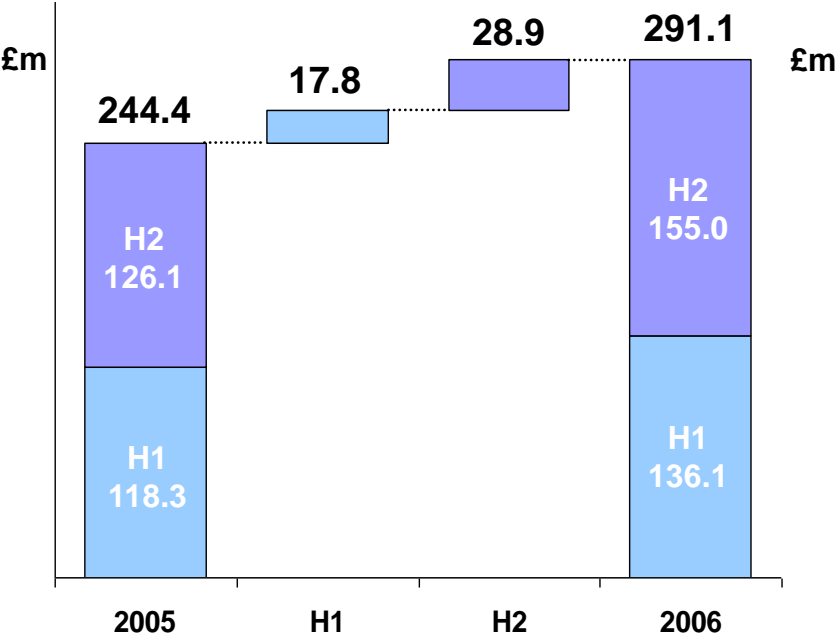
² Including share of joint venture income

Strong revenue growth

Revenue¹ up £47m (19%) to £291m

H1 vs. H2

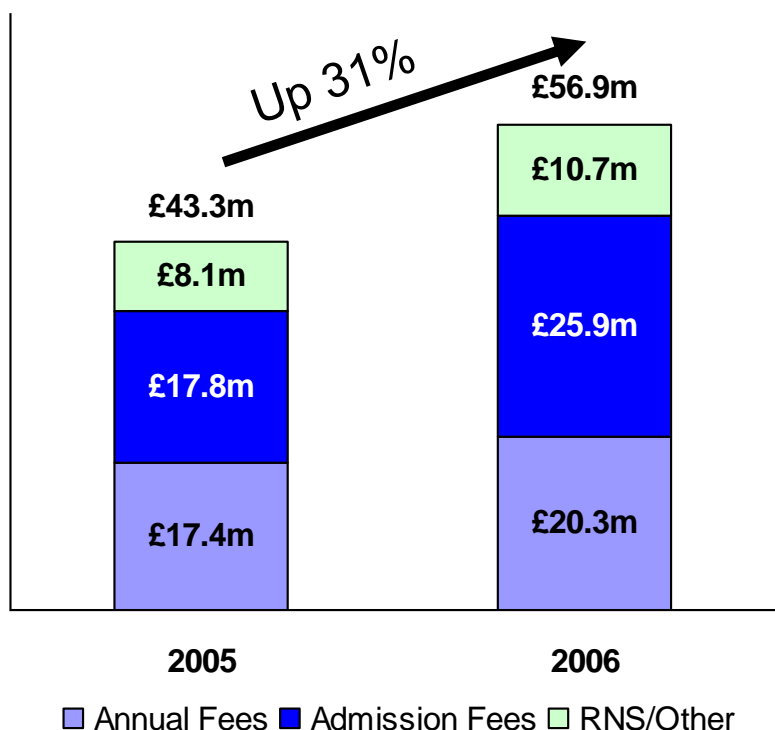
Growth by division



¹ Before exceptional items

Issuer Services

Buoyant new issue activity



Key metrics

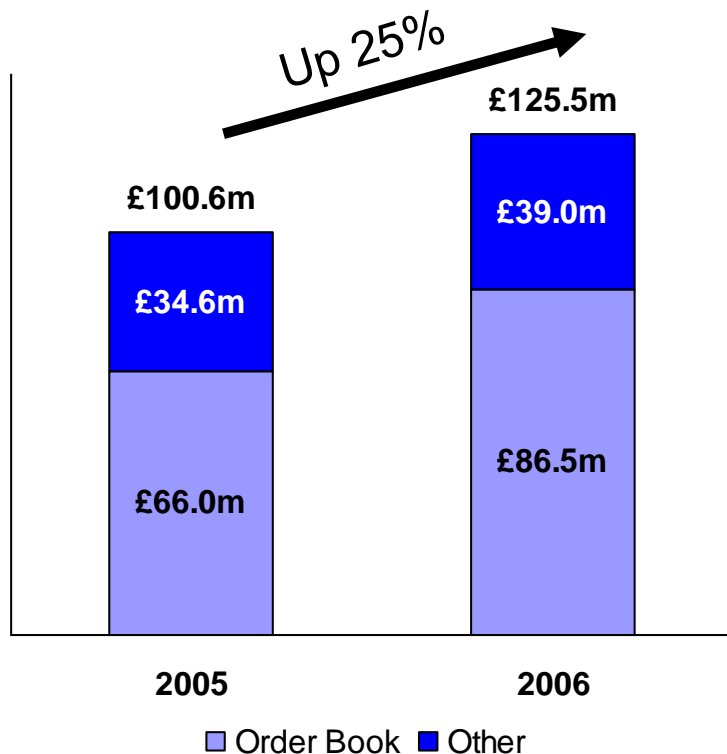
- New issues up 108 to **622**¹ (2005: 514) of which:
 - Main Market – **107** (2005: 82)
 - AIM – **510** (2005: 432)
- Total equity raised up **81%** to **£34.1bn** (2005: £18.8bn)
- Annual Fees represented **36%** of Issuer Services revenue (2005: 40%)
- **3,141** companies (2005: 2,916) including **1,473** on AIM (2005: 1,127)
- RNS and Other revenue **£10.7m** (2005: £8.1m)

¹ Including 5 issues on PSM

Broker Services

Record SETS volumes drive excellent growth

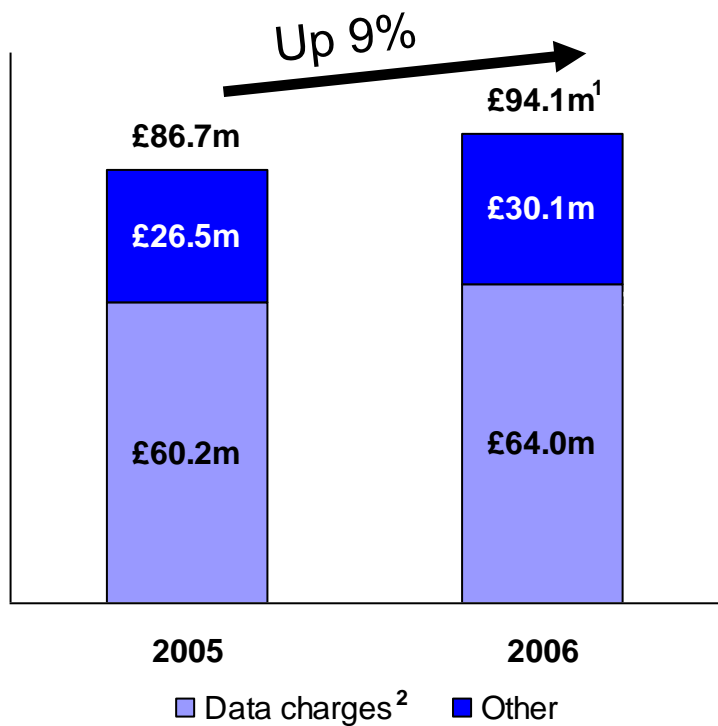
Key metrics



- Average daily equity bargains up 29% to 349,000
 - Order book bargains up **31%** to 223,000 per day
 - Off book bargains down **2%** to 47,000 per day
 - International bargains up **52%** to 79,000 per day
- Total order book value traded up **35%** to **£1.2 trillion**
- Average SETS bargain size at **£21,000** and average SETS yield at **c£1.50** both unchanged
- SETS contributed **69%** of Broker Services revenue (excluding order charges)

Information Services

Steady improvement in terminal numbers



Key metrics

- Total terminals **104,000** (2005: 95,000)
- Professional investor terminals **88,000** (2005: 83,000)
- SEDOL revenue **c£8m** (2005: c£6m)

¹ Before exceptional items

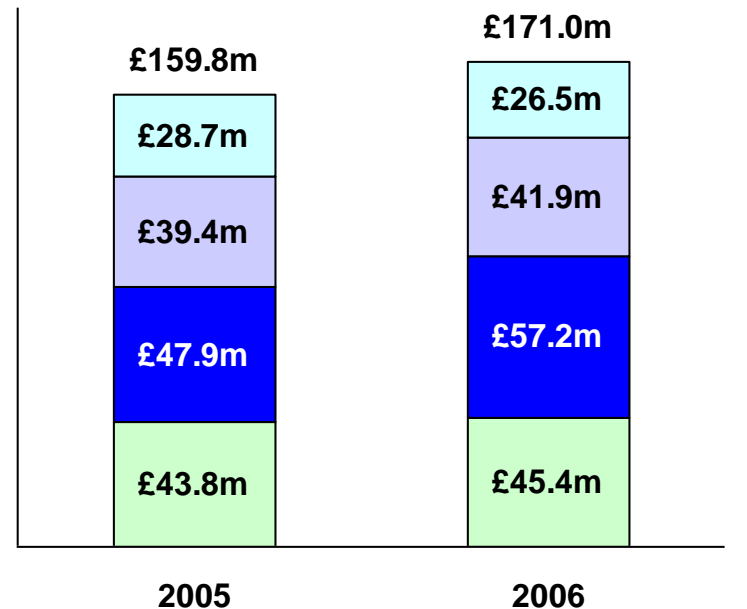
² Includes Proquote

Operating costs

Costs held flat in H2

- Staff costs up mainly due to performance-related pay
- Year end headcount of **501** (2005: 519)
- IT costs up due to network upgrades and delivery of TRM
- Depreciation lower, property/marketing up slightly
- Cost efficiencies programme
 - **£7m** in FY 2007
 - Full run rate of **£10m** in FY 2008

Cost/income ratio reduced to 59%



■ Property/marketing/other ■ Staff ■ IT/Network ■ Depn

Summarised Cash Flow

Strong cash generation

	Year ended 31 March	
	<u>2006</u> £m	<u>2005</u> £m
Cash generated from ongoing operating activities ¹	145.9	100.9
Taxation	(29.0)	(24.3)
Capital expenditure	(25.8)	(40.8)
Ordinary dividends paid	(22.8)	(15.1)
Free cash flow before one-off items	68.3	20.7
One-off items		
- Tower proceeds	33.2	32.3
- Other	(11.5)	(5.5)
- Special Dividend	-	(162.5)
Free cash flow ²	<u>90.0</u>	<u>(115.0)</u>

¹ Before exceptional items

² Before interest and dividends received, share scheme and other funding items

Summarised Balance Sheet pre-capital return

Financial flexibility

	31 March <u>2006</u> £m	31 March <u>2005</u> £m
Non-current assets	137.6	154.1
Current assets - debtors	49.3	81.9
- cash	226.8	124.4
Current liabilities	(78.7)	(76.8)
Non-current liabilities	(46.2)	(47.3)
Net assets	<u>288.8</u>	<u>236.3</u>

Capital Return

£510m return to shareholders

- **£510m** commitment in February 2006 - return complete **26 May 2006**
- Exchange at forefront of good capital management
- Returned **£673m**, or more than **20%** of market capitalisation in under two years (including **£163m** in 2004)
- Ongoing share buyback programme of up to **£50m** per annum
- Recognises strong cash generation and continues process of:
 - Managing cash position
 - Improving balance sheet efficiency
 - Enhancing shareholder value

Current trading

Trading conditions remain positive in core businesses

- Total equity raised ahead of last year
- Average daily value traded on SETS remain strong - up **78%**
- Demand for real time data by professional users remains healthy



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Clara Furse

Chief Executive Officer

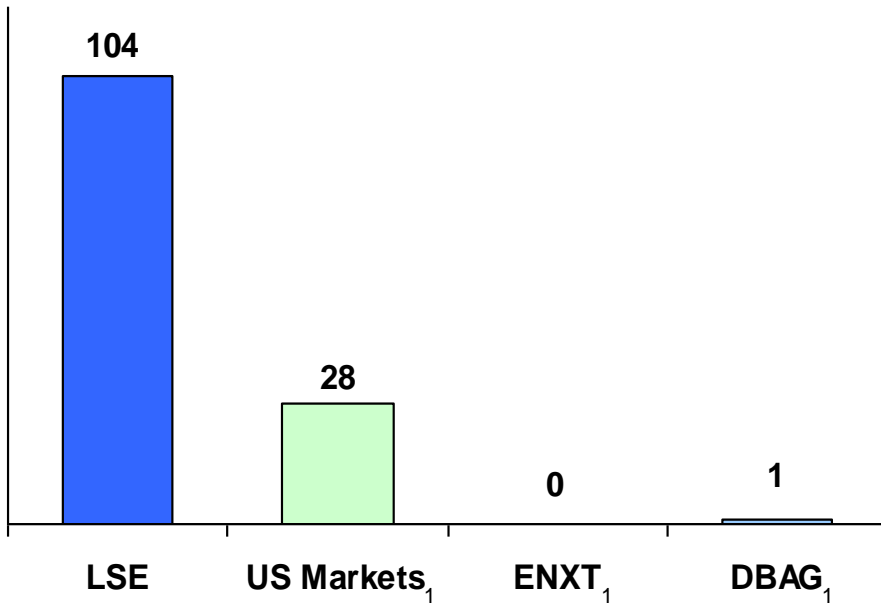
Creating increasing value for shareholders and customers

- Operational gearing is driving record performance
- Globalising our business
- Unique strategic position and rapidly increasing value
- Step change in our growth prospects

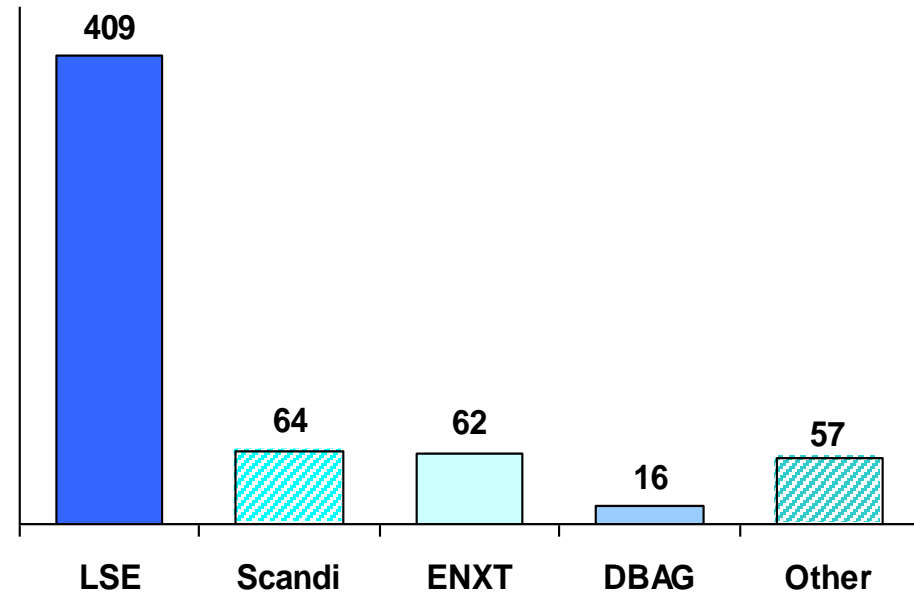
The World's capital market

- Venue of choice – London has unique attributes
- 622 new issues (including 409 IPOs) from 32 countries

Leading share of international IPOs
(FY 2006)



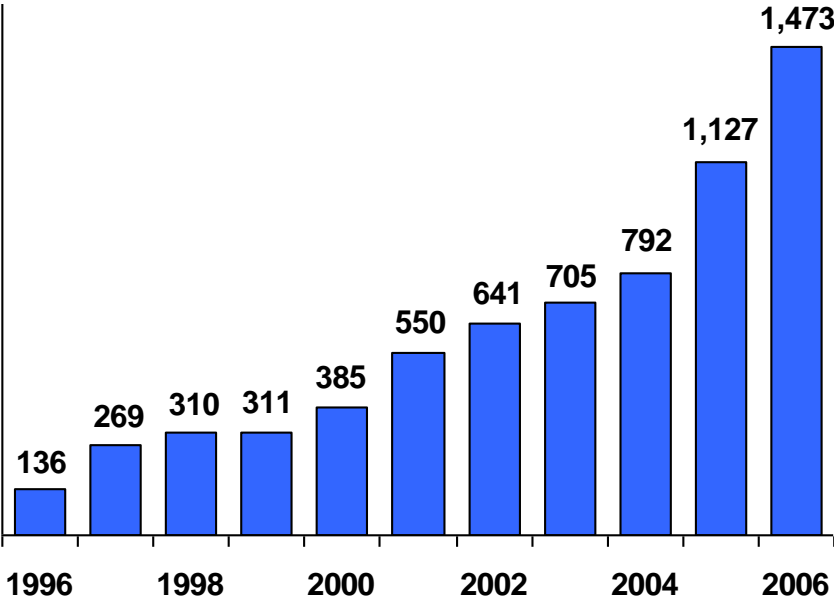
Listing venue of choice for
Western Europe (FY 2006)



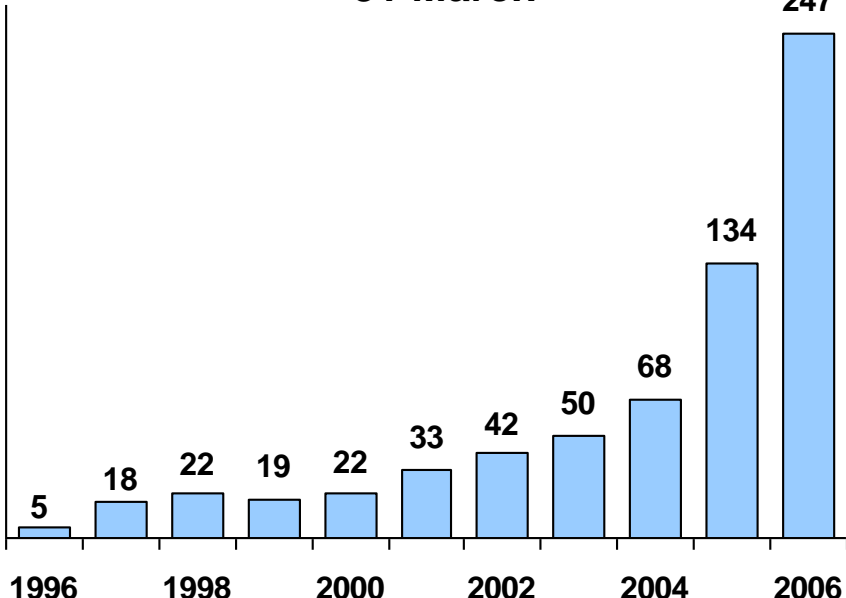
Another record year for AIM

An international growth story

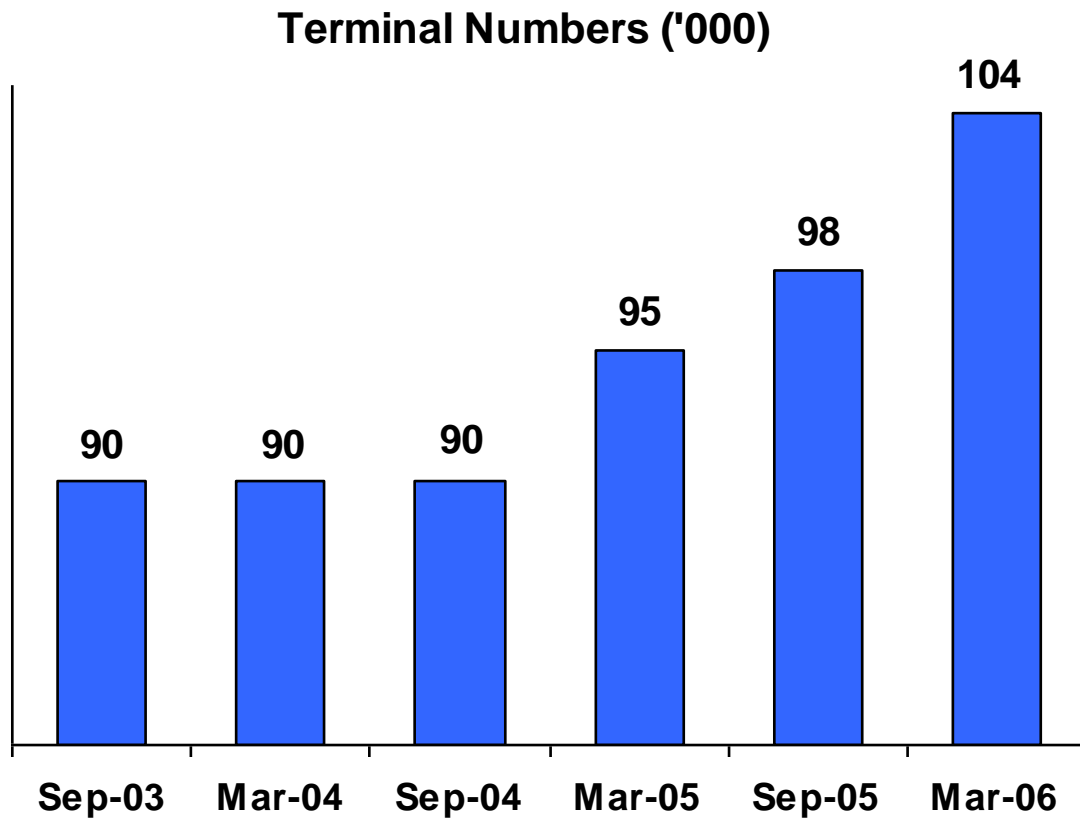
Total AIM companies at 31 March



International AIM companies at 31 March



Market data - key element of international story

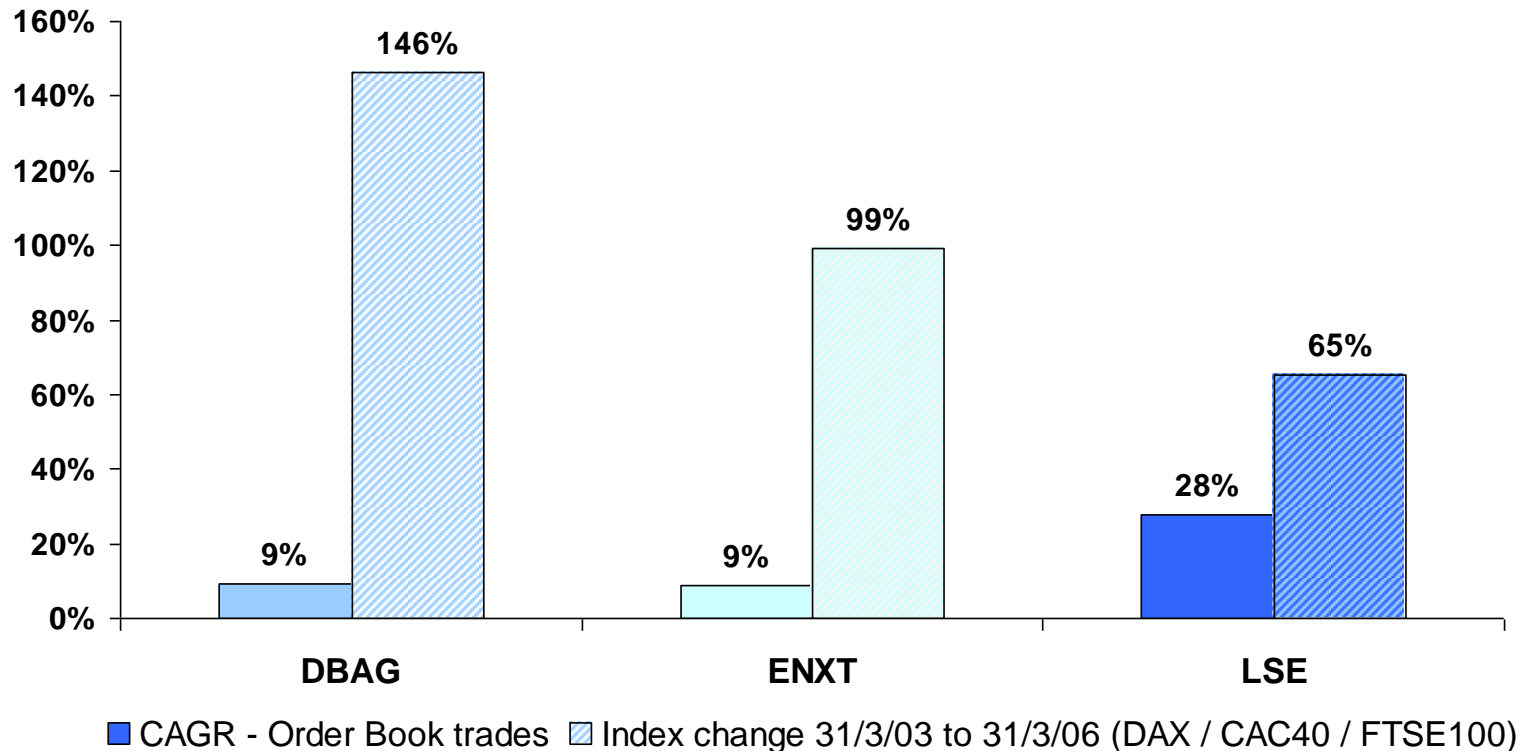


- Real-time market data received in over 100 countries
- SEDOL – 1,100 licences – improving market efficiency on global scale
- Proquote goes international

Winning the battle for liquidity

Order book volume growth vs Index performance

European exchanges
FY 2004 to FY 2006



FY 2006 - Q4 performance

- SETS value traded up **58%**
- SETS bargains up **38%**
- Total revenue up **27%**
- Operating profit up **73%**

London Stock Exchange was the fastest growing listed exchange in calendar Q1 2006

Next Generation Technology goes live

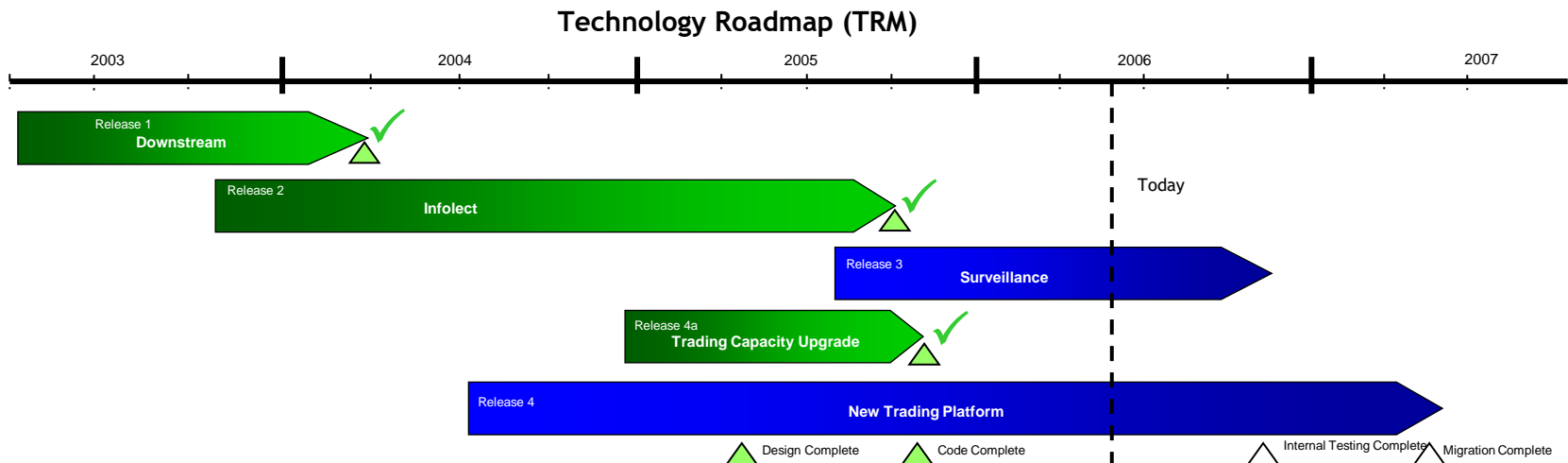
- September 2005: Infolect launch
- October 2005: SETS capacity upgrade
- Investment banks significantly increase IT spend in equity trading

Milliseconds matter

- New trading platform – to execute at under 10ms
- Speed of information dissemination – down to 2ms since September 2005
- Infolect's latency improves trade to order ratio

New technology improves market efficiency

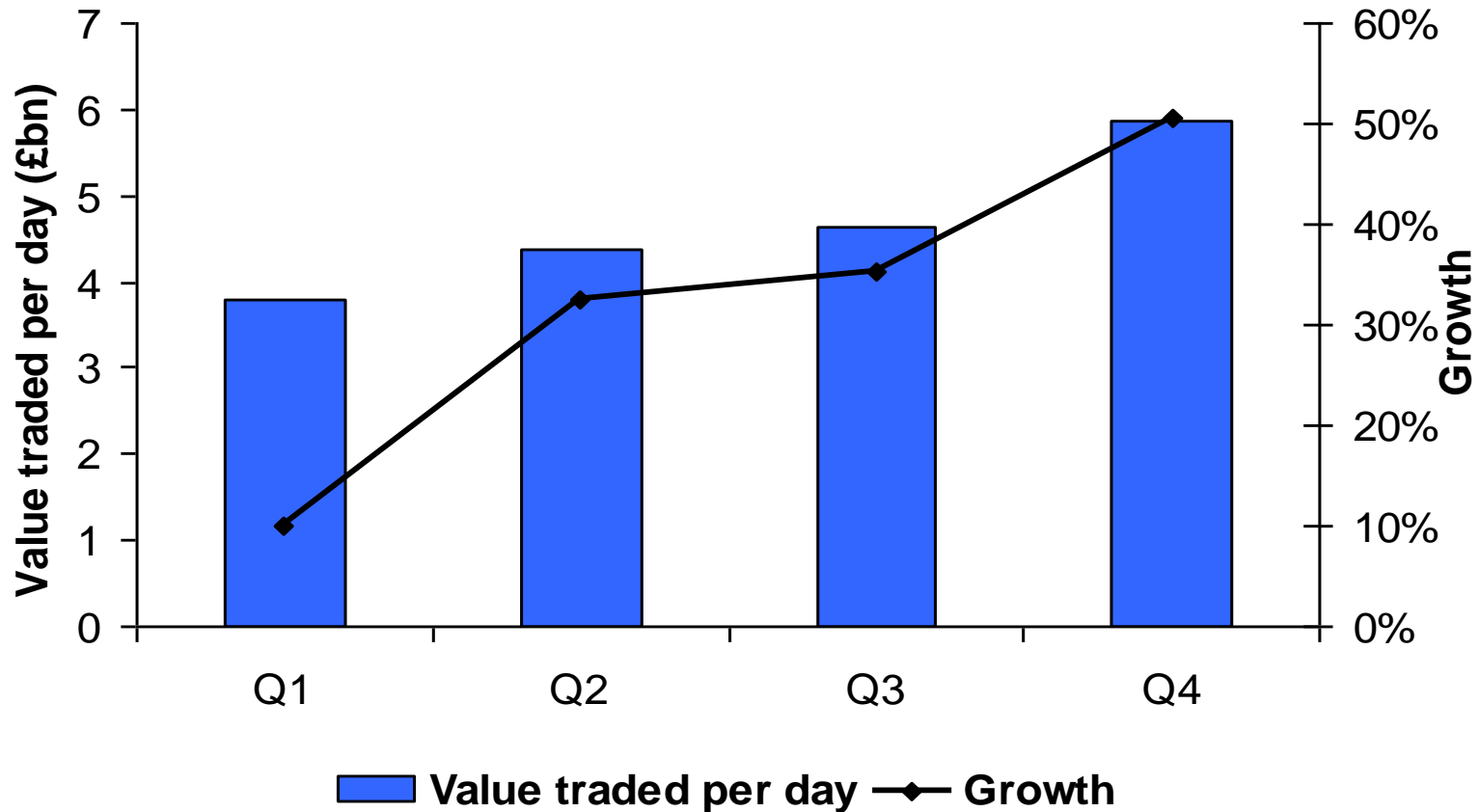
- Completing TRM in first half of 2007 with new trading platform go-live



- 100% availability delivered for 6th consecutive year

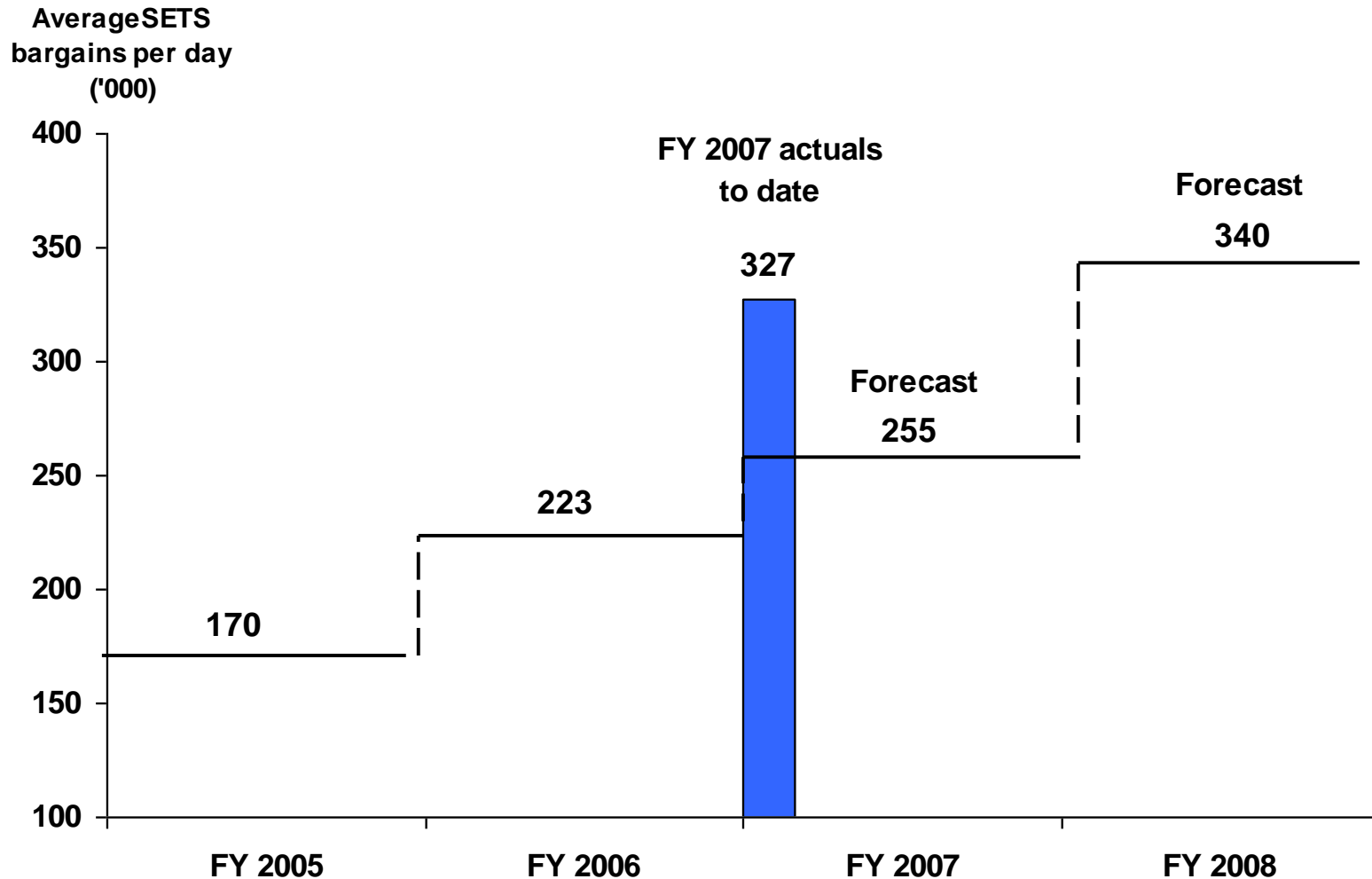
Secular change in trading: Acceleration of growth on SETS

Growth in SETS value traded (FY 2006)



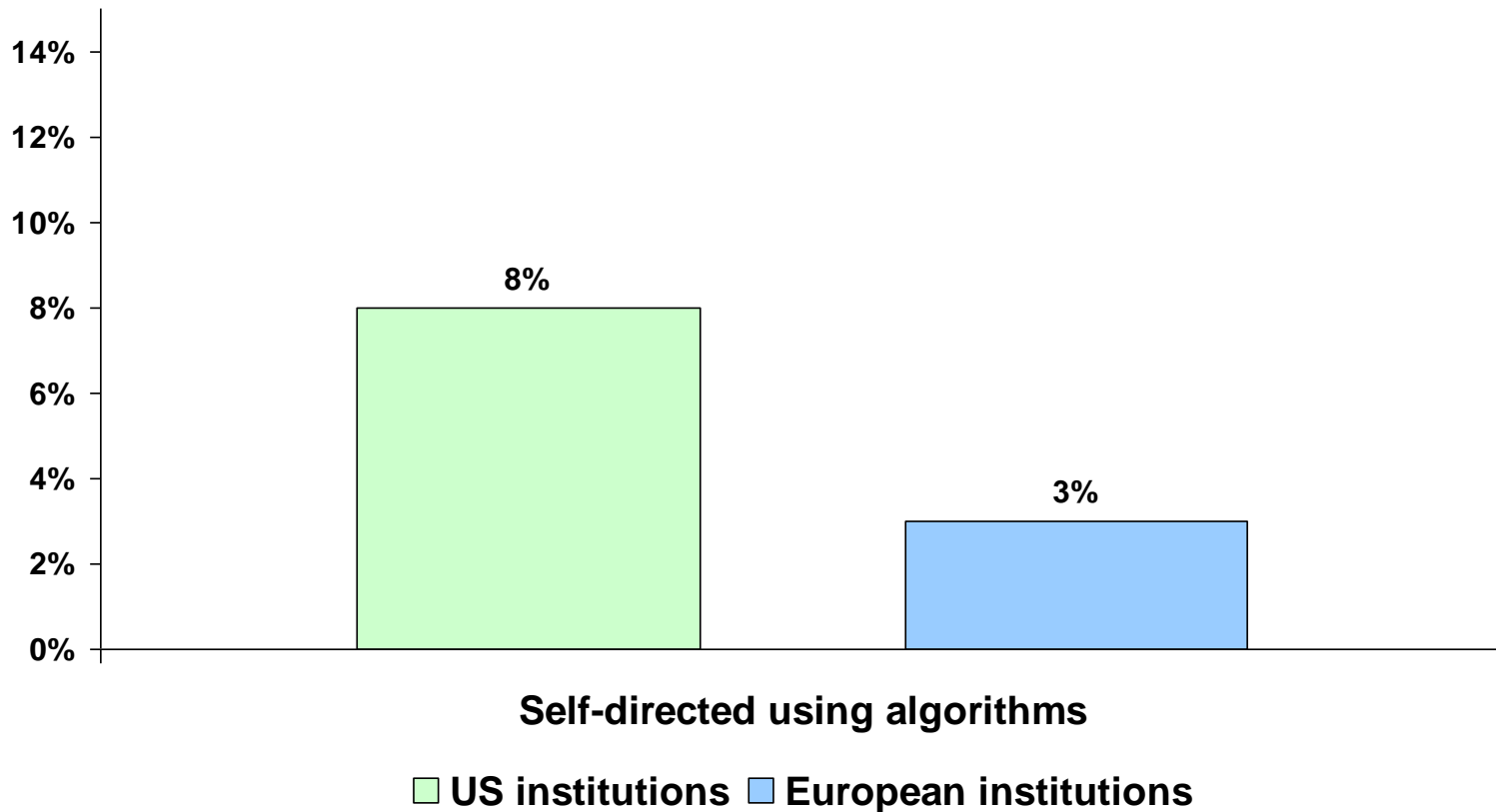
SETS growth vs February forecast

Well ahead of FY 2008 target



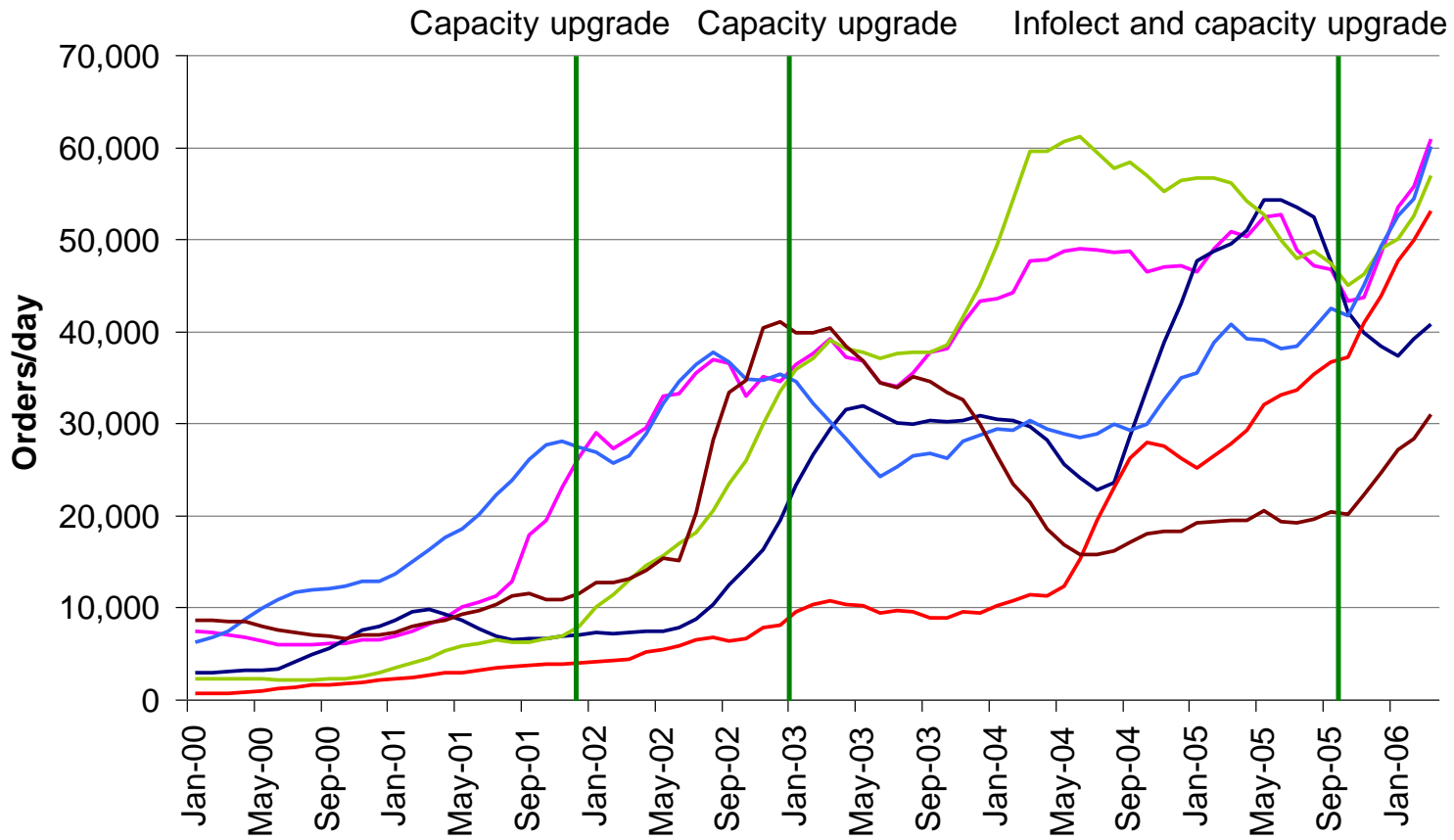
Buy-side algorithmic trading grows

Share trading volume - US and European buy-side 2005



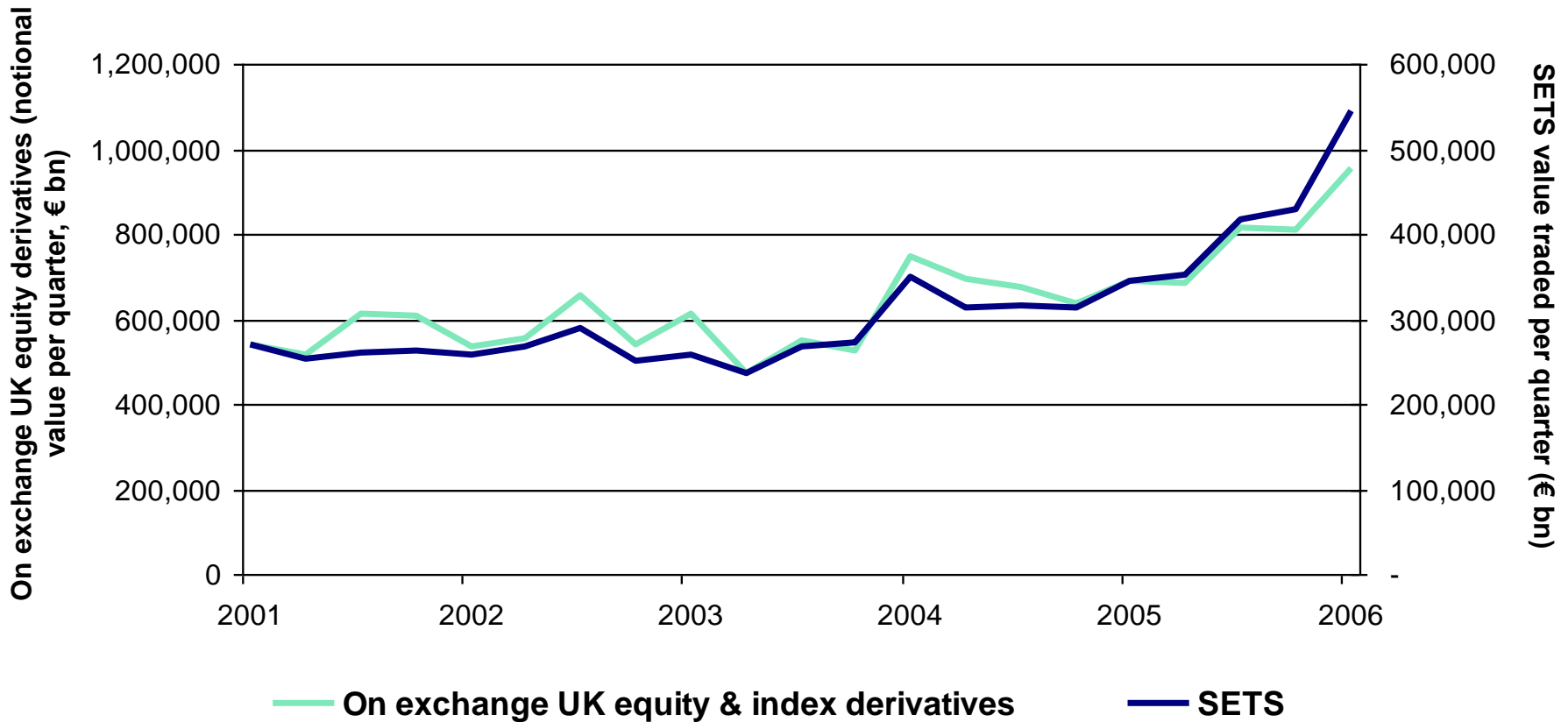
Order entry rates improve post Infolect

FTSE 100 order entry rates for top 6 firms 2000-present



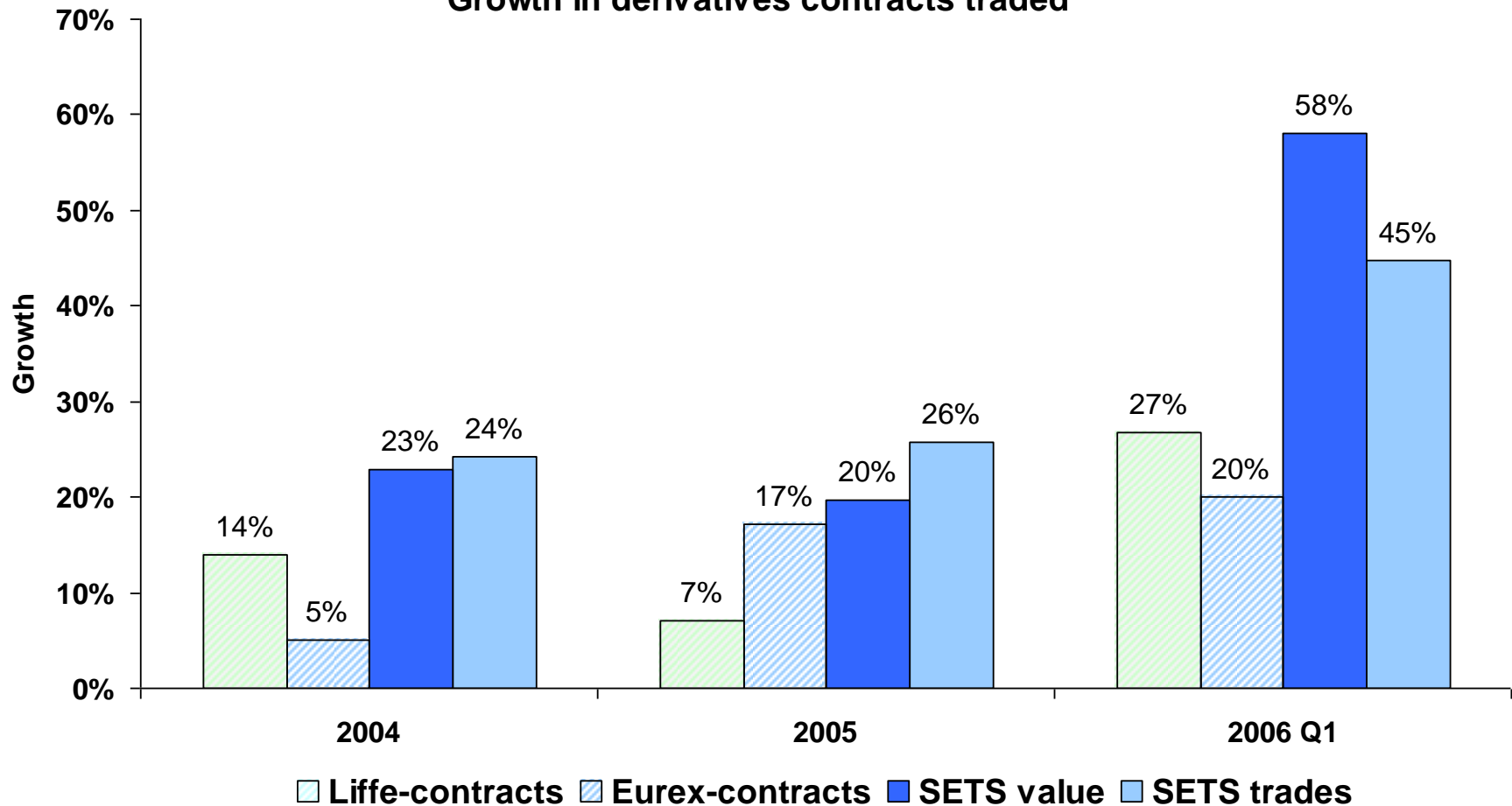
Strong positive correlation between cash and derivatives growth

SETS and equity derivatives trading



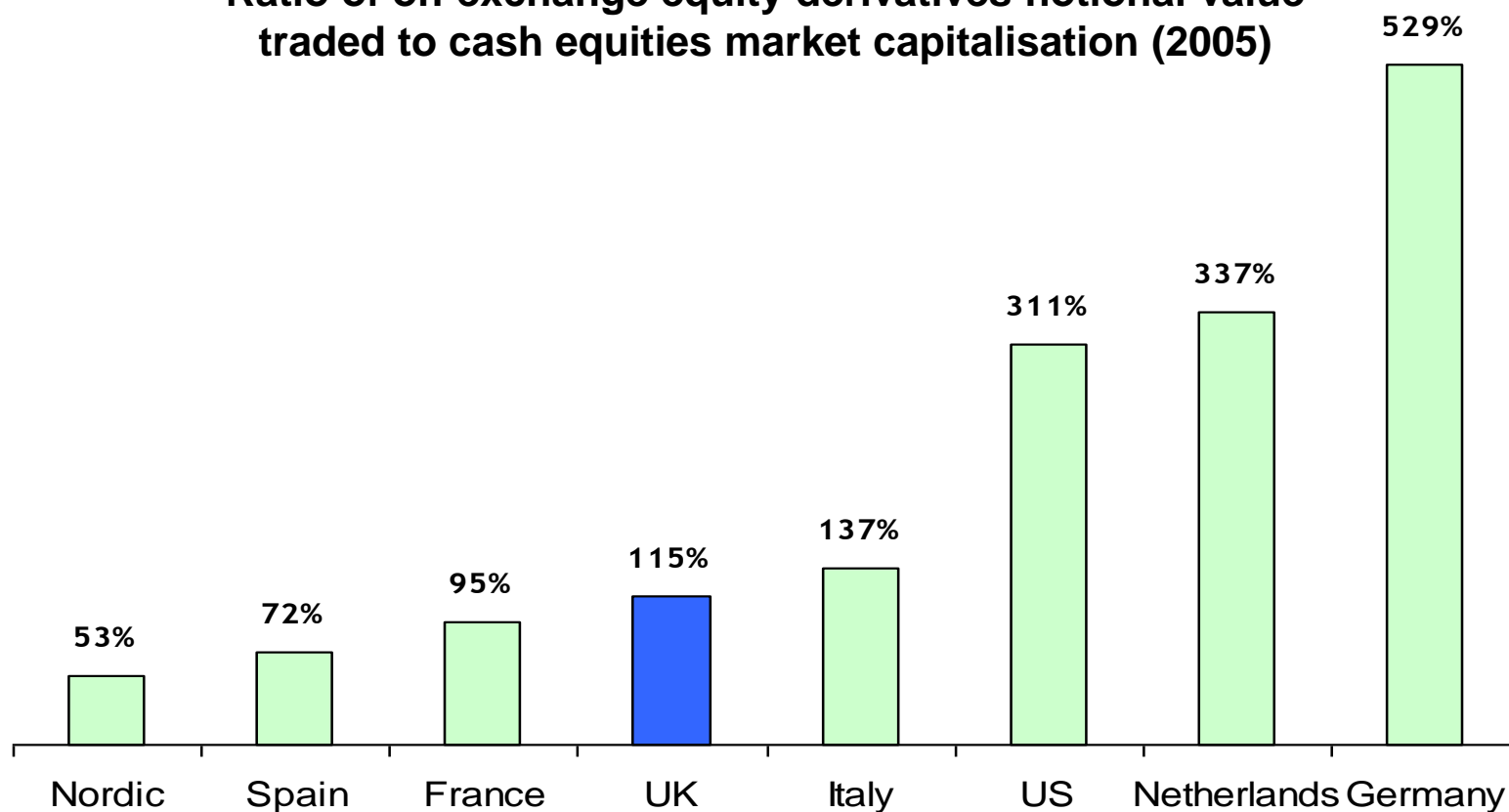
Volume growth outpaces growth at Eurex and Liffe

Growth in SETS value / volume vs
Growth in derivatives contracts traded



UK equity derivatives market remains underdeveloped

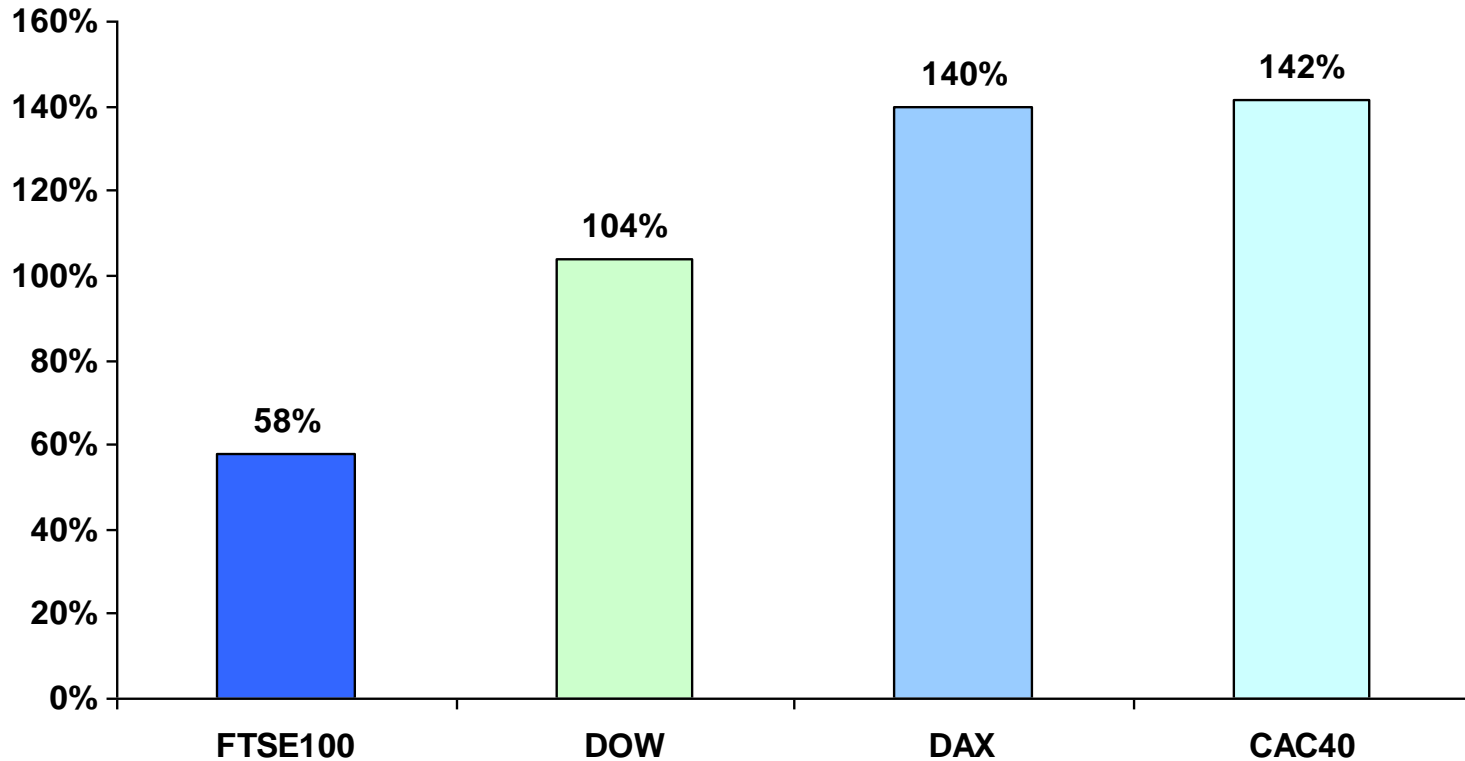
Ratio of on-exchange equity derivatives notional value traded to cash equities market capitalisation (2005)



Secular, not cyclical:

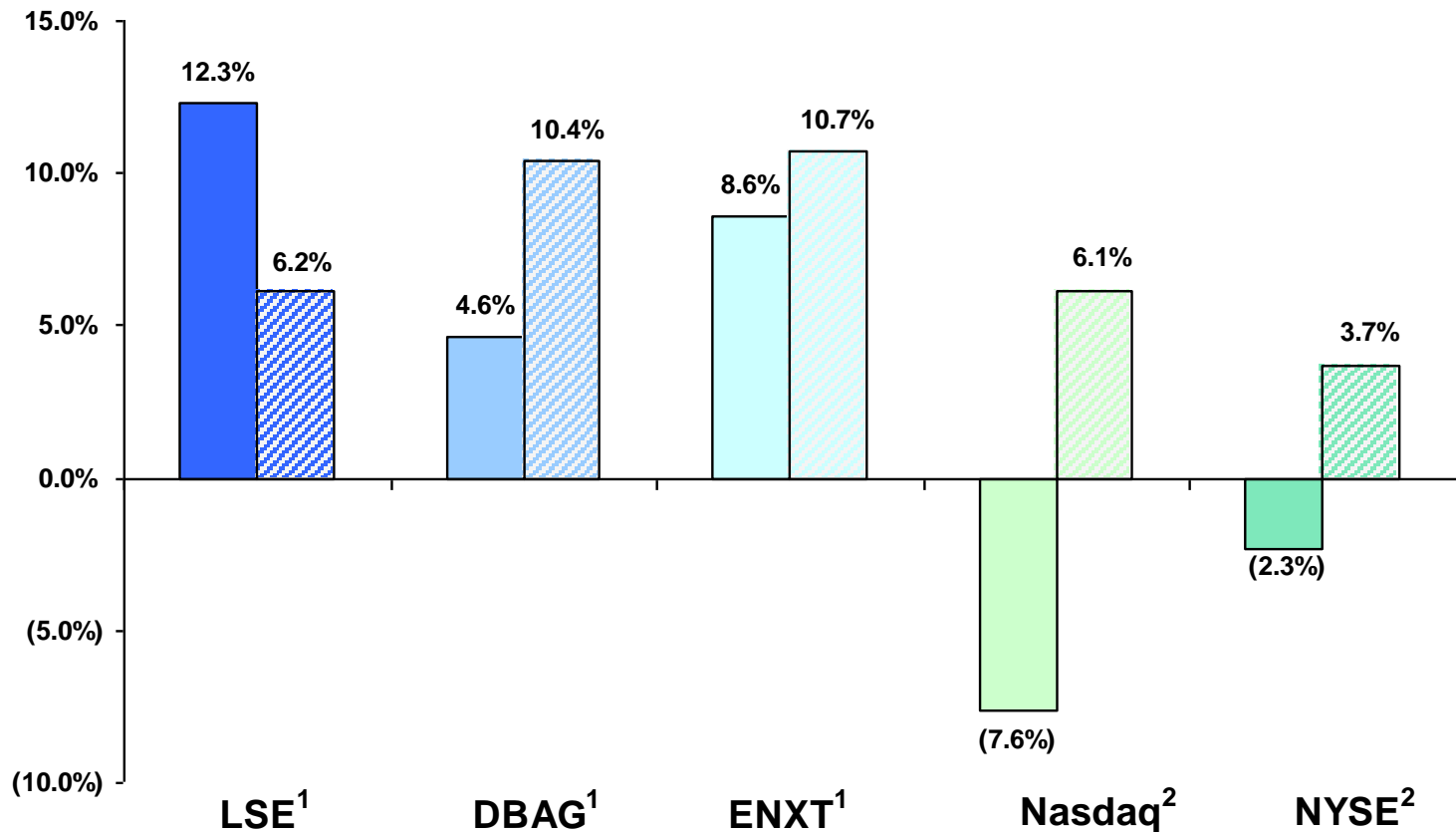
Relative underperformance of UK market

10 year index growth to 30 April 2006



Secular, not cyclical: Our relative growth stands out

Volume vs index growth (January to March 2006)

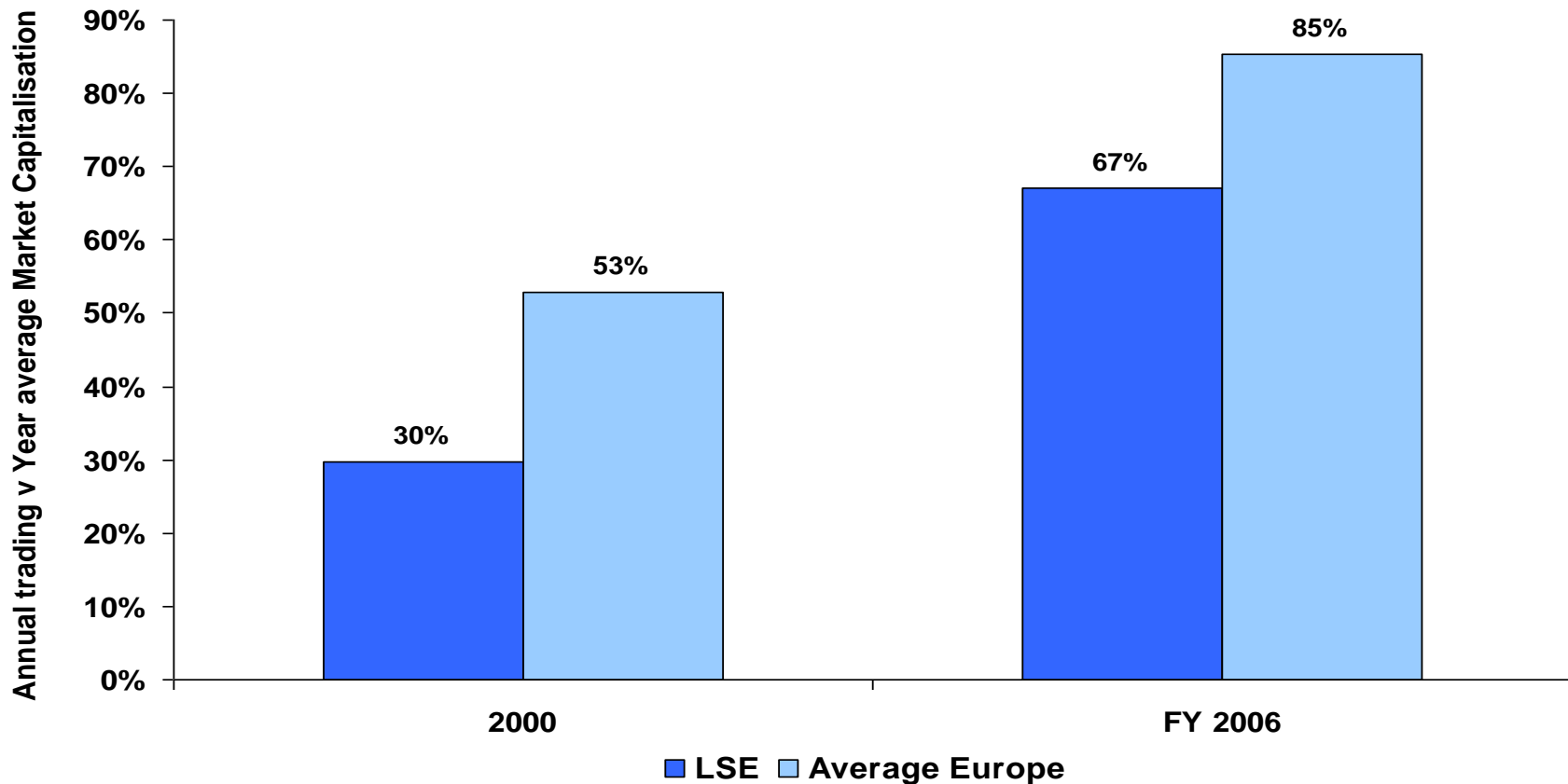


1 Order book volumes
2 Total equity volumes

■ Trading volume growth ■ Index growth

Secular, not cyclical: Velocity gap continues to close

Velocity - Order Book trading



Increasingly valuable global business

- Combination of unique features:
 - The defining exchange brand
 - Business philosophy and market structure
 - Next generation technology
 - London's deep pools of international capital
 - Intelligent principles-based regulation

The World's Capital Market



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Appendix

Segmental Information

Year ended 31 March

	Revenue		Expenses		Operating profit		Assets	
	<u>2006</u> £m	<u>2005</u> £m	<u>2006</u> £m	<u>2005</u> £m	<u>2006</u> £m	<u>2005</u> £m	<u>2006</u> £m	<u>2005</u> £m
Issuer services	56.9	43.3	(33.0)	(29.7)	23.9	13.6	19.0	21.5
Broker services	125.5	100.6	(56.0)	(50.2)	69.5	50.4	75.2	57.8
Information services - ongoing	94.1	86.7	(55.0)	(54.2)	45.5	32.5	61.1 ¹	73.2 ¹
- exceptional	6.4	-						
Derivatives services - ongoing	7.7	6.8	(11.3)	(11.5)	(26.8)	(4.7)	1.3	21.3
- exceptional			(23.2)	-				
Other	6.9	7.0	(6.7)	(5.9)	0.2	1.1	4.5	6.3
Corporate - ongoing	-	-	(9.0)	(8.3)	(26.9)	(8.4)	252.6	180.3
- exceptional			(17.9)	(6.8)				
Group	<u>297.5</u>	<u>244.4</u>	<u>(212.1)</u>	<u>(166.6)</u>	<u>85.4²</u>	<u>84.5³</u>	<u>413.7</u>	<u>360.4</u>

¹ Includes investment in joint venture

² After exceptional items

³ After exceptional items, including profit on disposal of Stock Exchange Tower

Capital Return - balance sheet impact

Consolidated balance sheet

Pro forma consolidated balance sheet 31 March 2006

	Pre-return £m	Movement £m	Post-return £m
Non-current assets	138		138
Current assets			
Trade & other receivables	49		49
Cash and cash equivalents	227	(160)	67
	276	(160)	116
Total liabilities	(125)	(350)	(475)
Net assets	289	(510)	(221)
Ordinary share capital	15		15
Share premium	4		4
Reserves	268	(510)	(242)
Minority interest	2		2
Total shareholders' funds	289	(510)	(221)

- **c£510m** return funded by **c£160m** cash and **c£350m** debt
- **c£70m** cash retained to meet FSA requirements
- **c£220m** negative net assets on a consolidated basis
- However, company reserves for LSEG plc and LSE plc remain strong at **c£2.2bn** and **c£270m** respectively