

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who, if you are taking advice in the United Kingdom, is duly authorised under the Financial Services and Markets Act 2000.**

London Stock Exchange plc, whose registered office is set out on page 12, and the Directors, whose names and functions are set out on page 43, accept responsibility for the information contained in this Circular. Having taken all reasonable care to ensure that such is the case, the information contained in this Circular is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

If you have sold or otherwise transferred all of your Existing Ordinary Shares, please send this document and the accompanying documents at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This document should be read as a whole and in conjunction with the accompanying Forms of Proxy and Form of Election.



**London**  
**STOCK EXCHANGE**

## **London Stock Exchange plc**

(Incorporated in England and Wales under the Companies Act 1985  
with registered number 2075721)

### **Recommended Proposals for the return of approximately £510 million to Shareholders by way of a capital reorganisation**

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Meetings of the Shareholders to consider the Proposals for return of approximately £510 million to Shareholders as contemplated in this document will be held at 20 Moorgate, London EC2R 6DA on 19 April 2006. The Court Meeting shall commence at 9.30 a.m. and the Extraordinary General Meeting shall commence at 9.45 a.m. (or as soon thereafter as the Court Meeting concludes or is adjourned). Notices convening the Court Meeting and Extraordinary General Meeting are set out in Part 8 and Part 9 respectively of this document.

Whether or not you intend to be present at the Court Meeting and/or the Extraordinary General Meeting, please complete and return the Forms of Proxy accompanying this document to the Registrars as soon as possible and in any event so as to arrive by not later than 9.30 a.m. on 17 April 2006 in respect of the green Form of Proxy for the Court Meeting and 9.45 a.m. on 17 April 2006 in respect of the blue Form of Proxy for the Extraordinary General Meeting. In the case of the Court Meeting, the green Form of Proxy may be handed to the Registrars at the Court Meeting who will receive the Form of Proxy on behalf of the Chairman.

If you hold Existing Ordinary Shares in uncertificated form, you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual ensuring that it is received by 9.30 a.m. on 17 April 2006 for the Court Meeting and 9.45 a.m. on 17 April 2006 for the Extraordinary General Meeting by the Registrars (under CREST participant ID 7RA01).

**Your attention is drawn to the Chairman's Letter which is set out in Part 1 of this document. The Board unanimously recommends that you vote in favour of the resolutions to be proposed at the Court Meeting and Extraordinary General Meeting. You should note that the Proposals for return of approximately £510 million to the Shareholders are conditional upon the approval by the Shareholders of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting.**

**Shareholders holding share certificates for their Existing Ordinary Shares should use the Form of Election which accompanies this document to elect how you wish to receive your share of the Return. The Form of Election must be completed and returned to the Registrars, Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN99 6DA as soon as possible and in any event no later than 11.00 a.m. on 19 May 2006.**

**Shareholders holding Existing Ordinary Shares in CREST should use a TTE instruction through the CREST system to elect how you wish to receive your share of the Return. TTE instructions can be made after CREST accounts have been credited, expected to be 15 May 2006. The last time for receipt of TTE instructions from CREST Shareholders is 11.00 a.m. on 19 May 2006.**

**If you do not return your Form of Election or make your TTE instruction by 11.00 a.m. on 19 May 2006, you will be deemed to have chosen to receive your Return as Alternative 2: Initial Redemption, as described more fully in Part 4 below.**

JPMorgan Cazenove is regulated in the United Kingdom for the conduct of investment business by the Financial Services Authority and is acting exclusively for the Exchange and Exchange Group and no-one else in connection with the Proposals contained in this document and will not be responsible to any person other than the Exchange and Exchange Group for providing the protections afforded to clients of JPMorgan Cazenove or for providing advice in relation to the Proposals contained in this document or any other matters contemplated by this document.

Application will be made to the UKLA for the New Ordinary Shares and B Shares arising from the proposed reorganisation to be admitted to the Official List and to the London Stock Exchange for those shares to be admitted to trading on its market for listed securities. If the Proposals proceed as currently envisaged, it is expected that dealings in the Existing Ordinary Shares will continue until close of business on 12 May 2006 and that Admission of the New Ordinary Shares and the B Shares will become effective, and that dealings in those shares will commence, on 15 May 2006.

No New Ordinary Shares and no B Shares have been marketed to, nor are any available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the New Ordinary Shares and B Shares to the Official List. This document does not constitute an offer or invitation to any person to subscribe for or purchase any securities in the Exchange or Exchange Group.

The Prospectus relating to the New Ordinary Shares and the B Shares is expected to be published on or around 5 May 2006. The Prospectus will not be sent to you when published, but it will be possible to obtain a copy of the Prospectus from the London Stock Exchange website ([www.londonstockexchange.com](http://www.londonstockexchange.com)) or, up until Admission, by calling the Shareholder Helpline (which will provide practical information but not investment advice) on telephone number 020 7797 3322 (+44 20 7797 3322 if calling from outside the United Kingdom) open from 9.00 a.m. to 5.30 p.m. on any business day (UK time) or, on request, free of charge from the registered office of the Exchange and of Exchange Group (being, in both cases, 10 Paternoster Square, London EC4M 7LS). A copy of the Prospectus will also be available for inspection at the Document Viewing Facility of the Financial Services Authority, 25 North Colonnade, London E14 5HS and at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS up until Admission during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted).

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, shares in any jurisdiction in which such offer or solicitation is unlawful.

Securities may not be offered or sold in the United States, Canada, Australia or Japan unless they are registered under the Securities Act or under the applicable securities laws of Canada, Australia or Japan, or are exempt from such registration requirements. Any securities issued pursuant to the Scheme have not been and will not be registered under the Securities Act but will be issued in reliance on the exemption provided by section 3(a)(10) thereof. Neither the New Ordinary Shares nor the B Shares nor this document has been approved, disapproved or otherwise recommended by any United States federal or state securities commission or any non-US securities commission or regulatory authority nor have such authorities confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States. The relevant clearances have not

been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no Prospectus in relation to the Admission has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission; and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Admission of the New Ordinary Shares or the B Shares. Accordingly, subject to certain exceptions, the New Ordinary Shares or the B Shares may not, directly or indirectly, be offered or sold within Canada, Australia or Japan or offered or sold to a resident of Canada, Australia or Japan.

This document contains certain forward-looking statements as defined under section 21E of the Exchange Act and section 27A of the Securities Act. These statements typically contain words such as “intends”, “expects”, “anticipates”, “targets”, “estimates” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, factors identified elsewhere in this document as well as the following possibilities: future revenues are lower than expected; competitive pressures in the industry increase; general economic conditions or conditions affecting the industry, whether internationally or in the places the Group does business, are less favourable than expected; and/or conditions in the securities market are less favourable than expected. The Exchange does not undertake any obligation to update the forward-looking statements to reflect actual results, or any change in events, conditions or assumptions or other factors, unless required to do so by regulation.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

21 March 2006	Posting of this document to Shareholders
17 April 2006	9.30 a.m.: Latest time for receipt of green Form of Proxy for the Court Meeting <sup>(1)</sup>
17 April 2006	9.45 a.m.: Latest time for receipt of blue Form of Proxy for the Extraordinary General Meeting
17 April 2006	6.00 p.m.: Scheme Voting Record Time (in respect of the Extraordinary General Meeting and the Court Meeting) <sup>(2)</sup>
19 April 2006	9.30 a.m.: Court Meeting
19 April 2006	9.45 a.m.: Extraordinary General Meeting <sup>(3)</sup>
12 May 2006	Court Hearing of the petition to sanction the Scheme
12 May 2006	Scheme Record Date and record date for Second Interim Dividend
12 May 2006	5.00 p.m.: Scheme Record Time
12 May 2006	Last day of dealings in Existing Ordinary Shares
15 May 2006	Scheme Effective Date
15 May 2006	8.00 a.m.: Delisting of Existing Ordinary Shares, Admission of New Ordinary Shares and B Shares, crediting of New Ordinary Shares and "Interim B Shares" <sup>(4)</sup> to CREST accounts and dealings in New Ordinary Shares and B Shares commence on the London Stock Exchange
15 May 2006	Ex-dividend date for Second Interim Dividend
17 May 2006	Court Hearing of the petition to confirm the Exchange Group Reduction of Capital
18 May 2006	Exchange Group Reduction of Capital becomes effective
19 May 2006	11.00 a.m.: Latest time for receipt of Form of Election
19 May 2006	11.00 a.m.: Latest time for receipt of TTE instructions on CREST
19 May 2006	Despatch of certificates in respect of New Ordinary Shares
19 May 2006	Record date for Initial B Share Dividend
22 May 2006	Initial Redemption in respect of relevant B Shares by Exchange Group and cancellation of relevant B Shares pursuant to valid elections by those electing for Initial Redemption (and those not returning a valid Form of Election by 11.00 a.m. on 19 May 2006)
22 May 2006	Initial B Share Dividend allocated in respect of relevant B Shares by Exchange Group and relevant B Shares converted to Deferred Shares pursuant to valid elections by those electing for Initial B Share Dividend
22 May 2006	Crediting of B Shares to CREST accounts pursuant to valid elections by those holding shares in uncertificated form and electing for Future Redemption Right

26 May 2006	Despatch of cheques or crediting of CREST accounts to Shareholders in respect of (as applicable): (a) the Initial Redemption; and (b) the sale of fractional entitlements to New Ordinary Shares
26 May 2006	Despatch of cheques in relation to the Initial B Share Dividend or payment of the Initial B Share Dividend to Shareholders' bank accounts through BACS Direct Credit ( <b>BACS</b> ) (as applicable)
26 May 2006	Despatch of cheques in relation to the Second Interim Dividend or payment of the Second Interim Dividend to Shareholders' bank accounts through BACS (as applicable)
26 May 2006	Despatch of certificates in respect of relevant B Shares pursuant to valid elections by those electing for Future Redemption Right

All times in this document are references to local time in the United Kingdom unless otherwise stated.

- (1) Forms of Proxy for the Court Meeting not returned by this time may be handed to the Registrars at the Court Meeting who will receive the Forms of Proxy on behalf of the Chairman.
- (2) If either the Court Meeting or the Extraordinary General Meeting is adjourned, the Scheme Voting Record Time for the adjourned meeting will be 6.00 p.m. on the day which is two days before the date of the adjourned meeting.
- (3) To commence at the time fixed or, if later, immediately following the conclusion or adjournment of the Court Meeting.
- (4) "Interim B Shares" are required to enable Shareholders to elect for Alternatives 1, 2 or 3 on CREST. Further details are provided in paragraph 5 of Part 2 of this document.

The dates given are indicative only and may be subject to change. The dates are based on the Exchange's current expectations and will depend on, among other things, the dates upon which the Court sanctions the Scheme, the Scheme becomes effective and the Court confirms the Exchange Group Reduction of Capital. In particular, certain Court dates are subject to confirmation by the Court. If the scheduled date of the Court Hearing of the petition to sanction the Scheme is changed, the Exchange will give adequate notice of the change by issuing an announcement through a Regulatory Information Service.

## SUMMARY

This document explains the Proposals and the required changes to the capital organisation of London Stock Exchange plc (the **Exchange**) to implement the Return of approximately £510 million to Shareholders. We have prepared this summary to help you understand what is involved in the Proposals. You should read the whole of this document and not rely solely on the summary below.

### 1. What changes are you proposing?

The Proposals are to implement a corporate reorganisation by putting in place London Stock Exchange Group plc (**Exchange Group**) as the new listed holding company of the Exchange. These Proposals will allow the Exchange to implement the Return of approximately £510 million to Shareholders. If the Proposals are approved by you at the Court Meeting and the Extraordinary General Meeting, then, upon the Proposals becoming effective, Exchange Group will own all the shares in the current listed company, the Exchange, and you will hold New Ordinary Shares and B Shares in Exchange Group in place of your Existing Ordinary Shares in the Exchange. All the New Ordinary Shares and all the B Shares will be admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange's main market for listed securities. The Exchange will remain as a public limited company and will continue as the principal group trading entity. The Exchange will also remain a Recognised Investment Exchange pursuant to FSMA 2000.

Under the Proposals, you will receive:

**3 New Ordinary Shares for every 4 Existing Ordinary Shares  
that you hold at the Scheme Record Time**

**and**

**one B Share for every one Existing Ordinary Share  
that you hold at the Scheme Record Time.**

The Scheme Record Time is expected to be 5.00 p.m. (UK time) on 12 May 2006 (subject to the date on which the Court sanctions the Scheme).

You will not have to pay anything for the New Ordinary Shares and B Shares in Exchange Group issued to you pursuant to the Proposals.

If the Proposals proceed as currently envisaged, it is expected that dealings in the Existing Ordinary Shares of the Exchange will continue until close of business on 12 May 2006 and that Admission of the New Ordinary Shares and B Shares will become effective, and that dealings in the New Ordinary Shares and B Shares will commence, on 15 May 2006.

The introduction of Exchange Group as the holding company of the Exchange will be followed by a reduction of share capital in Exchange Group by decreasing the nominal value of each New Ordinary Share from £5.00 (or such lower nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme) to 7<sup>7</sup>/<sub>8</sub> pence (or such other nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme). In addition, a merger reserve will be created upon the Scheme becoming effective which will be capitalised into Class A Ordinary Shares in Exchange Group. Following such capitalisation, the Class A Ordinary Shares will be allotted and then on confirmation of the Court will be the subject of a reduction of share capital pursuant to which such Class A Ordinary Shares will be reduced and immediately cancelled.

As an illustration, based on a price per Existing Ordinary Share of £11.70 (being the Closing Price on 17 March 2006), it is expected that the Exchange Group Reduction of Capital would establish distributable reserves in Exchange Group of approximately £2 billion after the Return. The actual amount of distributable reserves established will be determined by reference to the Closing Price of an Existing Ordinary Share on the Scheme Record Date.

On 9 February 2006, the Exchange entered into a £200 million revolving loan facility agreement and a £250 million loan facility agreement with The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC. Pursuant to the terms of each of the facility agreements, Exchange Group may become a borrower under the facilities. These facilities will provide Exchange Group with funds for general corporate purposes, which includes the Return. It is expected that the Return will be funded by a drawdown of approximately £350 million on the facilities with the balance of approximately £160 million to be funded through the Group's existing cash resources,

including the proceeds received by the Group on 30 December 2005 from the sale of the Stock Exchange Tower.

Historically, the Exchange has held no bank debt on the balance sheet and the Board believes this introduction of a suitable level of gearing to the business should improve balance sheet efficiency and returns to shareholders.

## **2. Why are you proposing these changes?**

By implementing the Return in this way, the Board of Directors is seeking to: enhance the potential returns on investment for Shareholders; improve the efficiency of the Exchange's balance sheet; treat all Shareholders in the same way; and give Shareholders the flexibility to elect how they wish to receive their Return. The Board believes the Proposals achieve these objectives whilst retaining sufficient resources to invest in future growth.

The introduction of Exchange Group as the holding company of the Exchange facilitates the Return. The Board of Exchange Group will be identical to the current Board of the Exchange and the management and business of the Exchange will not change as a result of the Proposals.

## **3. Will there be any change to the value of my shareholding?**

You will, subject to adjustments for fractional entitlements, own the same proportion of the ordinary share capital of the Group before and after implementation of the Scheme. However, you will hold fewer New Ordinary Shares than Existing Ordinary Shares due to the effect of the Return. There is no reason to believe that the market value of your holding of New Ordinary Shares plus your share of the Return following the Proposals would be any different from the market value of your holding of Existing Ordinary Shares before the Proposals had been effected.

The Exchange Group Reduction of Capital is being effected in order to establish sufficient distributable reserves to undertake the Return and is not expected to affect the value of your New Ordinary Shares.

## **4. Why are you implementing the Proposals by way of the Scheme?**

The Scheme is the simplest procedure to create the proposed new holding company structure. The Scheme is a formal procedure under the Companies Act 1985 and this procedure is commonly used to carry out corporate reorganisations. The Scheme requires the approval of Shareholders and the Court. If the relevant approvals are obtained, all Shareholders will be bound by the Scheme regardless of whether or how they voted.

## **5. Why am I being sent this document?**

The Proposals require the Shareholders to vote on certain matters. This document contains information to inform your voting decision.

The Prospectus relating to the New Ordinary Shares and the B Shares is expected to be published on or around 5 May 2006. The Prospectus will not be sent to you when published, but it will be possible to obtain a copy of the Prospectus from the London Stock Exchange website ([www.londonstockexchange.com](http://www.londonstockexchange.com)) or, up until Admission, by calling the Shareholder Helpline (which will provide practical information but not investment advice) on telephone number 020 7797 3322 (+44 20 7797 3322 if calling from outside the United Kingdom) open from 9.00 a.m. to 5.30 p.m. on any business day (UK time) or, on request, free of charge from the registered office of the Exchange and of Exchange Group (being, in both cases, 10 Paternoster Square, London EC4M 7LS). A copy of the Prospectus will also be available for inspection at the Document Viewing Facility of the Financial Services Authority, 25 North Colonnade, London E14 5HS and at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS up until Admission during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted).

## **6. Why are there two meetings?**

There are two Shareholder meetings: the Court Meeting and the Extraordinary General Meeting, which are being called for different purposes. The Court Meeting is to seek the approval of Shareholders for the Scheme. The Extraordinary General Meeting will be held immediately after the Court Meeting and will enable Shareholders to vote on various matters required to implement the Scheme, as described in the



section entitled "Meetings" in paragraph 10 of Part 2 of this document. The meetings will be held on 19 April 2006.

## **7. Do I need to vote?**

It is important that as many Shareholders as possible cast their votes either in person or by proxy. This applies to both the Court Meeting and the Extraordinary General Meeting.

In order for the Return to take place, the Scheme needs to be approved by a majority in number, representing not less than 75% in value, of those Shareholders present and voting, either in person or by proxy, at the Court Meeting and the special resolution to approve certain matters to give effect to the Scheme needs to be duly passed at the Extraordinary General Meeting by a majority of not less than 75% of the votes cast.

**In particular it is important that a considerable number of votes are cast at the Court Meeting so as to demonstrate that there is a fair representation of Shareholder opinion.**

**You are encouraged to vote at the Court Meeting and the Extraordinary General Meeting.**

**Your votes count.**

If you do not wish, or are unable, to attend the Court Meeting and/or the Extraordinary General Meeting you may appoint a proxy to act on your behalf and vote. Your proxy can be the Chairman of the Exchange. At the Court Meeting, voting will be by a poll and, at the Extraordinary General Meeting the resolution will be decided on a show of hands, unless a poll is validly demanded. You may appoint your proxy by completing the Forms of Proxy and returning them in accordance with the instructions set out in the section entitled "Action to be taken" in paragraph 11 of Part 2 of this document and on the relevant Form of Proxy. If you hold Existing Ordinary Shares in uncertificated form, you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual and ensuring that it is received by 9.30 a.m. on 17 April 2006 for the Court Meeting and 9.45 a.m. on 17 April 2006 for the Extraordinary General Meeting by the Registrars (under CREST participant ID 7RA01). For the CREST proxy instruction to be valid, the Shareholder's instruction to vote must be clearly entered in the relevant box provided.

Should you later change your mind and decide to attend the meetings in person, then returning the Forms of Proxy will not preclude you from doing so.

**You are strongly encouraged to complete, sign and return your Forms of Proxy as soon as possible. You will have been sent a green Form of Proxy for the Court Meeting and a blue Form of Proxy for the Extraordinary General Meeting.**

## **8. What will I end up with after the Scheme comes into effect?**

When the Scheme becomes effective, you will receive:

- (a) 3 New Ordinary Shares for every 4 Existing Ordinary Shares you hold at the Scheme Record Time; and
- (b) one B Share for every one Existing Ordinary Share you hold at the Scheme Record Time.

The Scheme Record Time is expected to be 5.00 p.m. UK time on 12 May 2006 (subject to the date on which the Court sanctions the Scheme).

You will receive 3 New Ordinary Shares for every 4 Existing Ordinary Shares that you hold at the Scheme Record Time as the intention is that, subject to normal market movements, the share price of one New Ordinary Share immediately after Admission should be approximately equal to the share price of one Existing Ordinary Share immediately beforehand, taking into account the Return. The ratio used for the share conversion has been set by reference to the Closing Price of 863.5 pence per Existing Ordinary Share on 6 March 2006, the date prior to the announcement of the details of the Return. Depending upon the price of an Existing Ordinary Share shortly before the date on which the Court is asked to sanction the Scheme, this ratio may no longer achieve the intention referred to above. If this is the case steps may be taken to effect a consolidation and sub-division of the New Ordinary Shares immediately following the issue of New Ordinary Shares in accordance with the Scheme, by resolution of the existing members of Exchange Group which will have substantially the same effect as if the ratio was adjusted. If these steps are taken, notice will be given by issuing an announcement through a Regulatory Information Service.

The register of members of Exchange Group will be updated to reflect your shareholdings in Exchange Group on the Scheme Effective Date, expected to be 15 May 2006. If you hold your Existing Ordinary Shares in a CREST account, the New Ordinary Shares and, if you select Alternative 3 in relation to any of your B Shares as discussed in paragraph 9 below, B Shares will be credited to your CREST account. If you hold your Existing Ordinary Shares in certificated form, share certificates in respect of the New Ordinary Shares will be sent to you by 19 May 2006 and, if you select Alternative 3 in relation to any of your B Shares, as discussed in paragraph 9 below, share certificates in respect of the B Shares will be sent to you by 26 May 2006.

The pro forma financial effect of the proposed Return is expected to enhance earnings per share (EPS), although total earnings will be reduced as a result of the net interest charge resulting from reduction in cash and additional debt to fund the Return.

## **9. What do I do with my B Shares?**

You have a choice regarding what you do with your B Shares. You may choose between Initial B Share Dividend, Initial Redemption or Future Redemption Right as discussed below. You can make any one of these choices in respect of each B Share and can therefore make a combination of choices in respect of your entire holding of B Shares. Further information in relation to the rights attaching to the B Shares is contained in Part 4 of this document and a general guide relating to certain UK tax consequences of receiving the New Ordinary Shares and B Shares under the Scheme is contained in Part 5 of this document.

### **Alternative 1: Initial B Share Dividend**

For each B Share that you select to be subject to this alternative, you will receive a single dividend of £2.00, following which each such B Share will be reclassified as one Deferred Share. It is expected that payment of your Initial B Share Dividend will be made to your bank account in accordance with your present dividend payment instructions, or if no such instructions are held, a cheque will be sent to you, by 26 May 2006.

Your Deferred Shares will not be listed, will have extremely limited rights and will have negligible value. You will not receive share certificates in respect of the Deferred Shares and these will not be credited to your CREST account. Exchange Group may elect at some time in the future to redeem the Deferred Shares for an aggregate consideration of one pence.

### **Alternative 2: Initial Redemption**

Each B Share that you select to be subject to this alternative will be redeemed by Exchange Group on the Initial Redemption Date (expected to be 22 May 2006) at £2.00 per B Share, free of all dealing expenses and commissions. It is expected that a cheque for the proceeds will be sent to you, or that your CREST account will be credited with the proceeds by 26 May 2006.

### **Alternative 3: Future Redemption Right**

For each B Share that you select to be subject to this alternative, you will have the right to have each such B Share redeemed by Exchange Group at £2.00 per B Share on the Redemption Dates (expected to be semi-annually on 1 June and 1 December in each year until the Final Deferred Redemption Date, expected to be 1 June 2009) free of all dealing expenses and commissions. The first Redemption Date is expected to be 1 December 2006.

Whilst you retain B Shares, you will be entitled to the B Share Continuing Dividend equal to 75% of six month LIBOR payable on the nominal value of £2.00 per B Share semi-annually in arrears on 1 June and 1 December in each year, with the first payment due on 1 December 2006. The B Share Continuing Dividend shall be payable to the extent that Exchange Group has sufficient distributable reserves and it is therefore not guaranteed.

It is expected that payment of your B Share Continuing Dividend will be made to you in accordance with your present dividend payment instructions, or if no such instructions are held, a cheque will be sent to you, within fifteen days of the relevant Payment Date.

## **How to notify the Exchange of your chosen B Share Alternative(s)**

### **If you hold a share certificate for your Existing Ordinary Shares:**

You should indicate your preferred choice in respect of your B Shares by completing and signing the enclosed **Form of Election** and returning it to the Registrars in the reply paid envelope to reach them by no later than 11.00 a.m. on 19 May 2006. If you have not received a Form of Election, please ring the Shareholder Helpline, details of which are set out in paragraph 20 below.

### **When completing your Form of Election:**

To choose Alternative 1: Initial B Share Dividend:

- for all of your B Shares, enter 'ALL' in Box 1 and sign Box 4 on your Form of Election;
- for some of your B Shares, enter the number of shares you elect for Alternative 1 in Box 1, complete Box 2 and/or Box 3 (as you choose) and sign Box 4 on your Form of Election; and
- for none of your B Shares, enter 'Nil' in Box 1, complete Box 2 and/or Box 3 (as you choose) and sign Box 4 on your Form of Election.

To choose Alternative 2: Initial Redemption:

- for all of your B Shares, enter 'ALL' in Box 2 and sign Box 4 on your Form of Election;
- for all of your B Shares you have not elected for Alternative 1, enter 'BALANCE' in Box 2, 'Nil' in Box 3 and sign Box 4 on your Form of Election; or
- for some of your B Shares enter the number of shares you elect for Alternative 2 in Box 2, complete Box 3 and sign Box 4 on your Form of Election; or
- for none of your B Shares, enter 'Nil' in Box 2, complete Box 3 and sign Box 4 on your Form of Election.

To choose Alternative 3: Future Redemption Right:

- for all of your B Shares, enter 'ALL' in Box 3 and sign Box 4 on your Form of Election; or
- for all your B Shares you have not elected for Alternative 1 or Alternative 2, enter 'BALANCE' in Box 3 and sign Box 4 on your Form of Election.

In any case, you must return your signed and completed Form of Election so as to be received by the Registrars, Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN99 6DA by no later than 11.00 a.m. on 19 May 2006.

**If you do not properly complete and return your Form of Election so as to be received by 11.00 a.m. on 19 May 2006, then, unless the Board of Exchange Group otherwise determines, you will be deemed to have chosen Alternative 2: Initial Redemption which means your entire holding of B Shares will be redeemed immediately at £2.00 for each B Share held by you.**

### **If you hold your Existing Ordinary Shares in CREST:**

You should not complete the Form of Election. You are able to elect to have your B Shares repaid by way of a TTE instruction through the CREST system after your CREST accounts have been credited on 15 May 2006. The last time for receipt of TTE instructions from CREST Shareholders is 11.00 a.m. on 19 May 2006.

### **Electing for Alternative 1: Initial B Share Dividend**

Shareholders who hold B Shares in CREST who wish to elect for Alternative 1: Initial B Share Dividend in respect of some or all of their B Shares should use the following procedure after their CREST accounts have been credited on 15 May 2006. The prescribed form of election is a TTE instruction. If you are a CREST sponsored member, you should refer to your CREST sponsor before taking action. Your CREST sponsor will be able to confirm details of your participant ID and the member account ID under which your B Shares are held. In addition, only your CREST sponsor will be able to send the TTE instruction to CRESTCo in relation to your B Shares.

The TTE instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of B Shares to which the election relates;
- (ii) the participant ID of the holder of the B Shares;
- (iii) the member account ID of the holder of the B Shares from which B Shares are to be debited;
- (iv) the participant ID of Lloyds TSB Registrars. This is 6RA07;
- (v) the member account ID of Lloyds TSB Registrars. This is BELECTDI;
- (vi) the ISIN of the B Shares until the Initial B Share Dividend is paid and the Initial Redemption is made, expected to be 22 May 2006 which is GB00B0SXQG84;
- (vii) the Intended Settlement Date. This must be by 11.00 a.m. on 19 May 2006;
- (viii) the corporate action number. This is allocated by CRESTCo and can be found by viewing the relevant corporate action details in CREST; and
- (ix) input with standard delivery instruction priority of 80.

In order for an uncertificated election to be valid, the TTE instruction must comply with the requirements as to authentication and contents set out above and must settle by 11.00 a.m. on 19 May 2006.

CREST members and (where applicable) their CREST sponsors should note that the last time at which a TTE instruction may settle is 11.00 a.m. on 19 May 2006.

If you do not send a valid TTE instruction for settlement by 11.00 a.m. on 19 May 2006, you will be treated as having chosen to elect for Alternative 2: Initial Redemption. Further information for CREST Shareholders who wish to have their B Shares repaid shortly after the Scheme becomes effective is contained in paragraph 5 of Part 2 of this document.

### **Electing for Alternative 2: Initial Redemption**

Shareholders who hold B Shares in CREST who wish to elect for Alternative 2: Initial Redemption in respect of some or all of their B Shares should use the following procedure after their CREST accounts have been credited on 15 May 2006. The prescribed form of election is a TTE instruction. If you are a CREST sponsored member, you should refer to your CREST sponsor before taking action. Your CREST sponsor will be able to confirm details of your participant ID and the member account ID under which your B Shares are held. In addition, only your CREST sponsor will be able to send the TTE instruction to CRESTCo in relation to your B Shares.

The TTE instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of B Shares to which the election relates;
- (ii) the participant ID of the holder of the B Shares;
- (iii) the member account ID of the holder of the B Shares from which B Shares are to be debited;
- (iv) the participant ID of Lloyds TSB Registrars. This is 6RA07;
- (v) the member account ID of Lloyds TSB Registrars. This is BELECTIR;
- (vi) the ISIN of the B Shares until the Initial B Share Dividend is paid and the Initial Redemption is made, expected to be 22 May 2006, which is GB00B0SXQG84;
- (vii) the Intended Settlement Date. This must be by 11.00 a.m. on 19 May 2006;
- (viii) the corporate action number. This is allocated by CRESTCo and can be found by viewing the relevant corporate action details in CREST; and
- (ix) input with standard delivery instruction priority of 80.

In order for an uncertificated election to be valid, the TTE instruction must comply with the requirements as to authentication and contents set out above and must settle by 11.00 a.m. on 19 May 2006.

CREST members and (where applicable) their CREST sponsors should note that the last time at which a TTE instruction may settle is 11.00 a.m. on 19 May 2006.

If you do not send a valid TTE instruction for settlement by 11.00 a.m. on 19 May 2006, you will be treated as having chosen to elect for Alternative 2: Initial Redemption. Further information for CREST Shareholders who wish to have their B Shares repaid shortly after the Scheme becomes effective is contained in paragraph 5 of Part 2 of this document.

### **Electing for Alternative 3: Future Redemption Right**

Shareholders who hold B Shares in CREST who wish to elect for Alternative 3: Future Redemption Right in respect of some or all of their B Shares should use the following procedure after their CREST accounts have been credited on 15 May 2006. The prescribed form of repurchase is a TTE instruction. If you are a CREST sponsored member, you should refer to your CREST sponsor before taking action. Your CREST sponsor will be able to confirm details of your participant ID and the member account ID under which your B Shares are held. In addition, only your CREST sponsor will be able to send the TTE instruction to CRESTCo in relation to your B Shares.

The TTE instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of B Shares to which the election relates;
- (ii) the participant ID of the holder of the B Shares;
- (iii) the member account ID of the holder of the B Shares from which B Shares are to be debited;
- (iv) the participant ID of Lloyds TSB Registrars. This is 6RA07;
- (v) the member account ID of Lloyds TSB Registrars. This is BELECTFR;
- (vi) the ISIN of the B Shares until the Initial B Share Dividend is paid and the Initial Redemption is made, expected to be 22 May 2006, which is GB00B0SXQG84;
- (vii) the Intended Settlement Date. This must be by 11.00 a.m. on 19 May 2006;
- (viii) the corporate action number. This is allocated by CRESTCo and can be found by viewing the relevant corporate action details in CREST; and
- (ix) input with standard delivery instruction priority of 80.

In order for an uncertificated election to be valid, the TTE instruction must comply with the requirements as to authentication and contents set out above and must settle by 11.00 a.m. on 19 May 2006.

CREST members and (where applicable) their CREST sponsors should note that the last time at which a TTE instruction may settle is 11.00 a.m. on 19 May 2006.

If you do not send a valid TTE instruction for settlement by 11.00 a.m. on 19 May 2006, you will be treated as having chosen to elect for Alternative 2: Initial Redemption. Further information for CREST Shareholders who wish to have their B Shares repaid shortly after the Scheme becomes effective is contained in paragraph 5 of Part 2 of this document.

**Forms of Election and TTE instructions (in the case of CREST Shareholders) remain revocable and can be varied (by written notice to the Registrars in accordance with the Form of Election) up until 11.00 a.m. on 19 May 2006. If you validly revoke your Form of Election (or TTE instruction in the case of CREST Shareholders) and fail to advise the Registrars of your revised choice you will, unless the Board of Exchange Group otherwise determines, be deemed to have elected for Alternative 2: Initial Redemption in respect of all of your B Shares.**

### **10. Will I receive dividends on my New Ordinary Shares?**

The current Board of the Exchange shall be appointed as the Board of Exchange Group before the Scheme takes effect and intends, upon appointment, that the dividend policy of Exchange Group shall be the same as the current dividend policy of the Exchange.

**11. When will I receive the 8 pence final dividend for the year ended 31 March 2006?**

The Board has resolved to pay a Second Interim Dividend of 8 pence per Existing Ordinary Share which will be paid at the time of the Return in lieu of a final dividend for the year ending 31 March 2006. The Exchange usually pays its final dividend in August, however payment of the Second Interim Dividend at the time of the Return ensures that Shareholders receive the 8 pence dividend on their Existing Ordinary Shares regardless of the Scheme. The record date for the Second Interim Dividend will be the Scheme Record Date (expected to be 12 May 2006) and Existing Ordinary Shares will become “ex-dividend” on 15 May 2006. It is expected that cheques will be despatched or bank accounts credited (as applicable) on 26 May 2006. No further dividends are expected to be paid in respect of the financial year ending 31 March 2006. It is expected that payment of dividends for the financial year ending 31 March 2007 will follow the past practice of the Exchange to pay interim and final dividends in January and August respectively.

**12. If I hold share certificates, what do I do with them?**

If you hold share certificates for Existing Ordinary Shares, they will cease to be valid when the Scheme becomes effective. When the relevant share certificates for New Ordinary Shares and, if applicable, B Shares are sent to you, your original share certificates for Existing Ordinary Shares should be destroyed.

**13. Will I have to pay any tax as a result of the Proposals?**

Details of the UK tax treatment of the Scheme and Return are set out in Part 5. If you are in any doubt about your tax position, you should consult a professional adviser.

**14. What if I am an employee and participate in an Exchange Employee Share Scheme?**

Holders of options and awards granted under an Exchange Employee Share Scheme will be written to separately. It is intended that, save as described in paragraph 8 of Part 2 of this document, there will be no changes to the operation of the Exchange Employee Share Schemes after the Proposals become effective.

**15. What if I am resident outside the UK?**

You should refer to paragraph 9 of Part 2 of this document.

**16. What happens if the number of Existing Ordinary Shares I own is not exactly divisible by 4?**

A fractional entitlement will arise unless a Shareholder has a holding of Existing Ordinary Shares exactly divisible by 4. For example:

<u>Holding of Existing Ordinary Shares</u>	<u>Entitlement to New Ordinary Shares</u>	<u>Fractional Entitlement</u>
1	—	$\frac{3}{4}$
4	3	—
5	3	$\frac{3}{4}$
10	7	$\frac{1}{2}$
50	37	$\frac{1}{2}$
100	75	—
500	375	—
1,000	750	—

The fractional entitlements to New Ordinary Shares will be aggregated and sold in the market on behalf of the relevant Shareholders and the proceeds of the sale will be distributed to those Shareholders pro rata to their fractional entitlement. It is expected that cheques in respect of the proceeds of sale of such fractional entitlements will be dispatched or CREST accounts credited with the proceeds, as appropriate, by 26 May 2006.

## **17. How is Exchange Group reducing its capital?**

The share capital of Exchange Group will be reduced by decreasing the nominal value of each New Ordinary Share from £5.00 (or such lower nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme) to 7½ pence (or such other nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme).

In addition, a merger reserve will be created upon the Scheme becoming effective and shortly thereafter the share capital of Exchange Group will be altered by capitalising the merger reserve and allotting Class A Ordinary Shares and then, on sanction of the Court, reducing and immediately cancelling the Class A Ordinary Shares.

As an illustration, based on a price per Existing Ordinary Share of £11.70 (being the Closing Price on 17 March 2006), it is expected that the Exchange Group Reduction of Capital would establish distributable reserves in Exchange Group of approximately £2 billion after the Return. The actual amount of distributable reserves established will be determined by reference to the Closing Price of an Existing Ordinary Share on the Scheme Record Date.

## **18. What is the estimated cost of implementing the Proposals?**

The total cost (exclusive of any amounts in respect of value added tax) payable by the Exchange and/or Exchange Group in connection with the implementation of the Proposals is estimated to amount to approximately £2 million excluding costs arising from bank debt. There are no amounts payable to financial intermediaries.

## **19. Do I need to take any further action?**

**It is important that you vote at the Court Meeting and the Extraordinary General Meeting. You are strongly encouraged to complete, sign and return your Forms of Proxy and Form of Election as soon as possible. See paragraphs 6, 7 and 9 above for further details.**

Your present dividend instructions will continue for Exchange Group. Payment of the Initial B Share Dividend and/or the B Share Continuing Dividend to you will be made in accordance with your present dividend instructions. Payment of the Initial Redemption will be made to you by cheque or, for CREST Shareholders, credited to your CREST account. If you wish to change your dividend instructions, you should contact the Shareholder Helpline, further details of which are set out in paragraph 20 below.

If you hold your Existing Ordinary Shares in certificated form, then upon receipt of your share certificates for New Ordinary Shares and, if applicable, B Shares your share certificates for Existing Ordinary Shares should be destroyed. See paragraph 12 above for further details.

## **20. What if I still have questions?**

If you have read this document and still have questions, please call our Shareholder Helpline on telephone number 020 7797 3322 (+44 20 7797 3322 if calling from outside the United Kingdom) open from 9.00 a.m. to 5.30 p.m. on any business day (UK time).

**NOTE:** For legal reasons, the Shareholder Helpline will only be able to provide practical information about how to complete the enclosed forms and other information contained in this document and will be unable to give advice on the merits of the Proposals described in this document or to provide financial or taxation advice. For financial or taxation advice, you will need to consult an independent financial adviser.

**PART 1:**  
**CHAIRMAN'S LETTER**

**London Stock Exchange plc**

*(Registered in England No. 2075721)*

**Registered Office:**

10 Paternoster Square  
London EC4M 7LS

21 March 2006

*Dear Shareholders and, for information only, Optionholders and SAYE Scheme participants*

**1. Introduction**

As announced on 17 February 2006, and confirmed in our announcement of 10 March 2006, we intend to return approximately £510 million to shareholders, equivalent to £2.00 per Existing Ordinary Share, and subsequently commence an ongoing share buyback programme of up to £50 million per annum.

The Return enhances the potential returns on investment for Shareholders, improves the Exchange's balance sheet efficiency and is made possible by the Exchange's strong growth prospects and robust cash generation whilst leaving the Exchange capacity to invest for the future. The Board considers that the proposed Return underlines its clear focus on shareholder value.

In this document we set out details of the Proposals to enable the Return. The structure we have chosen allows us to effect the Return whilst at the same time increasing distributable reserves and providing investors with the flexibility as to how they wish to receive their Return.

Shareholder approval and the sanction of the Court will be sought to introduce a new listed holding company of the Group, London Stock Exchange Group plc (**Exchange Group**) by way of a Scheme. Shortly after the Scheme becomes effective it is proposed to seek a further sanction of the Court to reduce the capital of Exchange Group to create distributable reserves in Exchange Group.

**2. Details of the Return**

We have prepared a summary on pages 3 to 11 to help you understand what is involved. You should nevertheless read the whole of this document and not rely solely on the summary.

By undertaking the Proposals in the form of the Scheme, the Board will be able to return to Shareholders approximately £510 million from their investment in the Exchange and introduce Exchange Group as the new holding company above the Exchange. This will allow the Group greater strategic flexibility going forward by creating distributable reserves and resulting in a more adaptable corporate structure with a separate holding company as the parent company of the Recognised Investment Exchange.

**3. Principal features of the Scheme**

The reorganisation will be carried out by a formal procedure, known as a scheme of arrangement, under the Companies Act. The key features of the Scheme are as follows:

**Shares**

Under the Scheme:

- (a) Existing Ordinary Shares in the Exchange will be cancelled;
- (b) the Exchange will issue New Exchange Ordinary Shares to Exchange Group so that Exchange Group will own all shares in the Exchange and accordingly the Exchange will become a subsidiary of Exchange Group; and
- (c) you will receive:
  - (i) 3 New Ordinary Shares for every 4 Existing Ordinary Shares you hold at the Scheme Record Time; and
  - (ii) one B Share for every one Existing Ordinary Share you hold at the Scheme Record Time.



The Scheme Record Time is expected to be 5.00 p.m. (UK time) on 12 May 2006 (subject to the date on which the Court sanctions the Scheme). The number of New Ordinary Shares to be received may be subject to change in the circumstances and in the manner described in paragraph 8 on page 5.

The B Share is the instrument by which you will receive your Return. You have three alternatives as to how to receive your Return. Alternative 1 allows you to receive an immediate cash dividend of £2.00 in respect of each B Share so elected; this is expected to be treated as income for UK tax purposes. Alternative 2 allows you to receive an immediate cash redemption payment of £2.00 in respect of each B Share so elected; this is expected to be treated as capital for UK tax purposes. Alternative 3 allows you to defer redemption of the B Shares to certain dates in the future at your election up to the Final Deferred Redemption Date. Upon such future redemption you will receive a cash payment of £2.00 in respect of each B Share so elected; this is expected to be treated as capital for UK tax purposes.

We have enclosed a Form of Election for you to complete indicating your preferred alternative. More details of tax treatment in the UK are set out in Part 5 below.

### ***Court Meeting and Extraordinary General Meeting***

The Scheme requires the approval of Shareholders at the Court Meeting. If the Scheme is approved by the requisite majority at the Court Meeting, an application will be made to the Court to sanction the Scheme at the Court Hearing.

Shareholders will also be asked to approve a resolution implementing matters in connection with the Scheme at the Extraordinary General Meeting, including: (i) providing the Directors with authority to give effect to the Scheme by approving the cancellation of the Existing Ordinary Shares and authorising the allotment and issue of New Ordinary Shares in the Exchange to Exchange Group as part of the Scheme; and (ii) approving amendments to the Exchange's articles of association and Exchange Employee Share Schemes to allow them to continue in relation to Exchange Group after the Scheme becomes effective.

### ***Funding***

On 9 February 2006, the Exchange entered into a £200 million revolving loan facility agreement and a £250 million loan facility agreement with The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC. Pursuant to the terms of each of the facility agreements, Exchange Group may become a borrower under the facilities. These facilities will provide Exchange Group with funds for general corporate purposes, which includes the Return. It is expected that the Return will be funded by a drawdown of approximately £350 million on the facilities with the balance of approximately £160 million to be funded through the Group's existing cash resources, including the proceeds received by the Group on 30 December 2005 from the sale of the Stock Exchange Tower.

### ***Completion***

We expect that the new holding company structure will become effective on 15 May 2006.

## **4. Listing**

The shares which you receive in Exchange Group will be listed only in the UK. Application will be made to the UKLA for the New Ordinary Shares and B Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares and B Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. We expect that the New Ordinary Shares and B Shares will be listed, and that dealings in them will commence, on 15 May 2006. We intend to apply for "When Issued" dealing in the B Shares.

The B Shares shall be listed for so long as they meet the requirement under the Listing Rules that the market capitalisation of the B Shares is equal to or greater than £700,000 and more than 25% of the issued B Shares remain in public hands. If the market capitalisation of the B Shares is less than £700,000, or less than 25% of the B Shares are held by the public, then Exchange Group may elect to remove the B Shares from trading on the London Stock Exchange and listing on the Official List of the UKLA or may be required to do so by the Financial Services Authority in its capacity as the UKLA.

## 5. Exchange Group Reduction of Capital

The share capital of Exchange Group will be reduced by decreasing the nominal value of each New Ordinary Share from £5.00 (or such lower nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme) to 7½ pence (or such other nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme as a result of any consolidation and subdivision that may be effected as described in paragraph 8 on page 5). Exchange Group may resolve to adjust the nominal value of the New Ordinary Shares if necessary to ensure that its shares are not allotted at a discount to their nominal value.

In addition, a merger reserve will be created upon the Scheme becoming effective and shortly thereafter the share capital of Exchange Group will be altered by capitalising the merger reserve and allotting Class A Ordinary Shares and then reducing and immediately cancelling the Class A Ordinary Shares.

The Exchange Group Reduction of Capital will establish distributable reserves in Exchange Group. The initial shareholders of Exchange Group intend to resolve before the Scheme Effective Date to reduce its capital as described above, conditional on the Scheme becoming effective. The Exchange Group Reduction of Capital will also require the confirmation of the Court and, if so confirmed, as an illustration, it is expected that it would (based on the Closing Price per Existing Ordinary Share of £11.70 on 17 March 2006) create distributable reserves in Exchange Group of approximately £2 billion after the Return. The actual amount of distributable reserves established will be determined by reference to the Closing Price of an Existing Ordinary Share on the Scheme Record Date. Prior to confirming the reduction of capital of Exchange Group, the Court will need to be satisfied that the creditors (if any) of Exchange Group are not thereby prejudiced. Exchange Group will put in place such form of creditor protection (if any) as it may be advised is appropriate to satisfy the Court in this regard.

The Exchange Group Reduction of Capital is expected to become effective on 18 May 2006.

## 6. Second Interim Dividend

The Board has resolved to pay a Second Interim Dividend of 8 pence per Existing Ordinary Share which will be paid at the time of the Return in lieu of a final dividend for the year ending 31 March 2006. The Exchange usually pays its final dividend in August, however payment of the Second Interim Dividend at the time of the Return ensures that Shareholders receive the 8 pence dividend on their Existing Ordinary Shares regardless of the Scheme. It is expected that payment of dividends for the financial year ending 31 March 2007 will follow the past practice of the Exchange to pay interim and final dividends in January and August respectively.

## 7. Recent developments

On 9 March 2006, the Board received an indicative offer from The Nasdaq Stock Market, Inc. (**NASDAQ**). In its proposals, NASDAQ proposed making an offer, subject to certain pre-conditions, to acquire the Exchange for £9.50 in cash for each Existing Ordinary Share. The offer price of £9.50 was based on the assumption that the Return does not take place, although NASDAQ has indicated that it would be willing to accommodate the Return within a revised proposal.

As we announced on 10 March 2006, the Board has rejected the unsolicited approach from NASDAQ as substantially undervaluing the Exchange, its unique position and the very significant synergies that would be achievable from the combination of the Exchange with any major exchange group and stated that it intended to continue with the Proposals.

The Competition Commission announced on 14 March 2006 that it had agreed undertakings with Euronext N.V. (**Euronext**) which would allow Euronext to proceed with any offer it may wish to make for the Exchange. Pursuant to Rule 12.2 of the City Code on Takeovers and Mergers, the Exchange is in an offer period in relation to Euronext until 5 April 2006 (being 21 days after the announcement by the Competition Commission) or earlier if Euronext announces that it does not intend to make an offer.

Approval by Shareholders of the Proposals will, if the Exchange remains in an offer period in relation to Euronext, also constitute approval of the Proposals for the purposes of Rule 21.1 of the City Code on Takeovers and Mergers.

Deutsche Börse AG announced on 15 March 2006 that it did not presently intend to proceed with an offer for the Exchange. Accordingly, the Exchange is not in an offer period in relation to Deutsche Börse AG.

## 8. Action to be taken

On 19 April 2006, the Court Meeting and the Extraordinary General Meeting will be held to seek approval for the Proposals. Notices of the Court Meeting and the Extraordinary General Meeting are set out in Parts 8 and 9 of this document respectively. **In order that the Court can be satisfied that the votes cast fairly represent the views of the Shareholders, it is important that as many votes as possible are cast at the Court Meeting.** Shareholders are therefore encouraged to attend the Court Meeting in person or by proxy.

Whether or not you propose to attend the meetings, you are requested to complete, sign and return (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority) to the Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, the green Form of Proxy for use at the Court Meeting and the enclosed blue Form of Proxy for use at the Extraordinary General Meeting. **Completed Forms of Proxy should be returned by post (faxes will not be accepted).** If you hold Existing Ordinary Shares in uncertificated form, you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual and ensuring that it is received by the Registrars, Lloyds TSB Registrars, (under CREST participant ID 7RA01) or, if the meeting is adjourned, no later than 48 hours before the time appointed for the relevant meeting. For the CREST proxy instruction to be valid, the Existing Ordinary Shareholder's instruction to vote must be clearly entered in the relevant box provided.

**In addition, if you hold share certificates for your Existing Ordinary Shares you should complete and return a valid Form of Election to the Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible and in any event no later than 11.00 a.m. on 19 May 2006 or, if you are a CREST Shareholder, you should send a valid TTE instruction for settlement by 11.00 a.m. on 19 May 2006.**

**Please note that if you do not complete your Form of Election, or send your TTE instruction, and the Scheme becomes effective following the Court Meeting and Extraordinary General Meeting then, unless the Directors of Exchange Group otherwise determines, you will be deemed to have chosen to receive your Return as Alternative 2: Initial Redemption, as described more fully in Part 4, below.**

## 9. Recommendation

The Board, which has been so advised by JPMorgan Cazenove, has considered the Proposals and considers the terms to be fair and reasonable. In providing its advice, JPMorgan Cazenove has relied upon the Board's commercial assessment of the Proposals.

**The Board considers the Proposals to be in the best interests of Shareholders as a whole and accordingly, your Board unanimously recommends that holders of Existing Ordinary Shares vote in favour of the Proposals at the Court Meeting and at the Extraordinary General Meeting. The members of the Board intend to vote their own shareholdings totalling 537,900 Existing Ordinary Shares (representing in aggregate approximately 0.21% of the issued ordinary share capital of the Exchange) in favour of the Proposals.**

Yours sincerely



Christopher Gibson-Smith  
Chairman

**PART 2:**  
**EXPLANATORY STATEMENT**

(In compliance with section 426 of the Companies Act 1985)

JPMorgan Cazenove  
20 Moorgate  
London EC2R 6DA

21 March 2006

*Dear Shareholders and, for information only, Optionholders and SAYE Scheme participants*

**London Stock Exchange plc — Proposals for introduction of a new holding company and creation of distributable reserves**

**1. Introduction**

On 17 February 2006, London Stock Exchange plc (the **Exchange**) announced its intention to return £510 million to shareholders, equivalent to a total of £2.00 per share. It is proposed that such return will be effected by implementing a corporate reorganisation under which a new listed holding company, London Stock Exchange Group plc (**Exchange Group**), would be introduced as the holding company of the Exchange. The corporate reorganisation is proposed to be effected by way of a scheme of arrangement under section 425 of the Companies Act involving a reduction of capital under section 135 of the Companies Act.

The Scheme is subject to various conditions. If these conditions are satisfied and the Scheme is approved and implemented in full, Exchange Group will own the entire issued share capital of the Exchange.

Your attention is drawn to the Chairman's Letter in Part 1 of this document which contains, amongst other things, information on the reasons for the Proposals and the unanimous recommendation by the Board to Shareholders to vote in favour of the Scheme at the Court Meeting and in favour of the resolution relating to the implementation of the Scheme to be proposed at the Extraordinary General Meeting. That letter and Parts 6 and 7 of this document form part of this Explanatory Statement.

The Directors have been advised by JPMorgan Cazenove in connection with the Proposals. We have been authorised by the Directors to write to you to explain the terms of the Proposals and to provide you with other relevant information. The Scheme is set out in full in Part 3 of this document. The Notice of the Court Meeting at which approval for the Scheme will be sought and the Notice of the Extraordinary General Meeting at which a resolution relating to the Scheme will be proposed are set out in Parts 8 and 9 of this document respectively.

**2. Background to and reasons for the Proposals**

The background to and reasons for the Proposals are described in paragraphs 1 and 2 of the Chairman's Letter in Part 1 of this document.

**3. Summary of the Scheme**

Under the Scheme, all the Existing Ordinary Shares will be cancelled on the Scheme Effective Date. In consideration for the cancellation, Shareholders will receive:

**3 New Ordinary Shares for every 4 Existing Ordinary Shares  
that they hold at the Scheme Record Time**

and

**one B Share for every one Existing Ordinary Share  
that they hold at the Scheme Record Time.**

The Scheme Record Time is expected to be 5.00 p.m. (UK time) on 12 May 2006 (subject to the date on which the Court sanctions the Scheme). The number of New Ordinary Shares and B Shares to be received may be subject to change in the circumstances and in the manner described in paragraph 8 on page 5.

Pursuant to the Scheme, the issued share capital of the Exchange shall be reduced by cancelling and extinguishing the Existing Ordinary Shares, following which the authorised share capital of the Exchange will be increased to its former amount by the creation of the New Exchange Ordinary Shares and the credit arising in the books of the Exchange as a result of the reduction in capital will be applied in paying up in full, at par, such New Exchange Ordinary Shares. Upon the Scheme Effective Date, the New Exchange Ordinary Shares will be issued to Exchange Group which will, as a result, become the holding company of the Exchange and Exchange Group will issue the New Ordinary Shares and B Shares to Shareholders.

#### **4. Conditions to the implementation of the Scheme**

The implementation of the Scheme is conditional on the following having occurred:

- (a) the Scheme having been approved by a majority in number, representing not less than 75% in value, of those Shareholders present and voting, either in person or by proxy, at the Court Meeting;
- (b) the special resolution to approve certain matters to give effect to the Scheme having been duly passed at the Extraordinary General Meeting by a majority of not less than 75% of the votes cast;
- (c) the Scheme having been sanctioned by the Court at the Court Hearing;
- (d) an office copy of the Order of the Court sanctioning the Scheme under section 425 of the Companies Act having been delivered to the Registrar of Companies for registration and the minute confirming the reduction of capital in relation to the Scheme having been registered by the Registrar of Companies;
- (e) permission having been granted by the UKLA and the London Stock Exchange to admit the New Ordinary Shares and B Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities respectively; and
- (f) the confirmation by the Court of the reduction of capital of the Exchange as part of the Scheme.

The Directors will not take the necessary steps to implement the Scheme unless the above conditions have been satisfied or waived and, at the relevant time, they consider that it continues to be in the best interests of the Exchange and its Shareholders that the Scheme should be implemented.

The Court Hearing is expected to be held on or around 12 May 2006 at the Royal Courts of Justice, Strand, London WC2A 2LL. Scheme Shareholders will have the right to attend the Court Hearing and to appear in person or be represented by counsel or other suitably qualified persons to support or oppose the sanction of the Scheme.

The Scheme contains a provision for the Exchange and Exchange Group jointly to consent, on behalf of all persons concerned, to any modification of or addition to the Scheme, or to any condition that the Court may think fit to approve or impose. The Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme which might be material to the interests of Scheme Shareholders unless Scheme Shareholders were informed of any such modification, addition or condition. It will be a matter for the Court to decide, in its discretion, whether or not the consent of Scheme Shareholders should be sought at a further meeting. Similarly, if a modification, addition or condition is put forward which, in the opinion of the Directors, is of such a nature or importance as to require the approval of Scheme Shareholders at a further meeting, the Directors will not take the necessary steps to enable the Scheme to become effective unless and until such approval is obtained.

If the Scheme is sanctioned at the Court Hearing and the other conditions to the Scheme have been satisfied or waived, the Scheme is expected to become effective, and dealings in New Ordinary Shares and B Shares are expected to commence, on 15 May 2006. If the Scheme has not become effective by 30 September 2006, or such later date, if any, as the Exchange and Exchange Group may agree and the Court may allow, it will lapse, in which event there will not be a new holding company of the Exchange, no New Ordinary Shares and no B Shares will be issued and the Return will not take place. If the Scheme does not become effective, Shareholders will remain shareholders of the Exchange and Existing Ordinary Shares will continue to be listed on the Official List. However, Shareholders will still receive the Second Interim Dividend.

## 5. Listings, dealings, share certificates and settlement

Application will be made to the UKLA for the admission of up to 350,000,000 New Ordinary Shares and up to 260,000,000 B Shares to the Official List and to the London Stock Exchange for the New Ordinary Shares and B Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. The last day of dealings in Existing Ordinary Shares is expected to be 12 May 2006. The last time for registration of transfers of Existing Ordinary Shares is expected to be 5.00 p.m. on 12 May 2006, the Scheme Record Time. It is expected that Admission will become effective and that dealings in the New Ordinary Shares and B Shares will commence on 15 May 2006, the Scheme Effective Date.

The listing of Existing Ordinary Shares is also expected to be cancelled on the Scheme Effective Date. These dates may be deferred if it is necessary to adjourn any meetings required to approve the arrangements described in this document or if there is any delay in obtaining the Court's sanction of the Scheme. In the event of a delay, the application for the Existing Ordinary Shares to be delisted will be deferred, so that the Exchange's listing will not be cancelled until immediately before the Scheme becomes effective. The Exchange intends to apply for "When Issued" dealing in the B Shares.

The Prospectus relating to the New Ordinary Shares and the B Shares is expected to be published on or around 5 May 2006. The Prospectus will not be sent to you when published, but it will be possible to obtain a copy of the Prospectus from the London Stock Exchange website ([www.londonstockexchange.com](http://www.londonstockexchange.com)) or, up until Admission, by calling the Shareholder Helpline (which will provide practical information but not investment advice) on telephone number 020 7797 3322 (+44 20 7797 3322 if calling from outside the United Kingdom) open from 9.00 a.m. to 5.30 p.m. on any business day (UK time) or, on request, free of charge from the registered office of the Exchange and of Exchange Group (being, in both cases, 10 Paternoster Square, London EC4M 7LS). A copy of the Prospectus will also be available for inspection at the Document Viewing Facility of the Financial Services Authority, 25 North Colonnade, London E14 5HS and at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS up until Admission during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted).

**With effect from and including the Scheme Effective Date, all share certificates representing the Existing Ordinary Shares will cease to be of value and should be destroyed.**

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Directors will apply for the New Ordinary Shares and B Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in New Ordinary Shares and B Shares following Admission may take place within the CREST system.

For those holding their Existing Ordinary Shares in a CREST account at the Scheme Record Time, New Ordinary Shares and B Shares are expected to be credited to the relevant CREST members' accounts on 15 May 2006, the Scheme Effective Date. In order to facilitate the B Share Alternative elections, the B Shares will, for the purposes of settlement in CREST only, be designated as "Interim B Shares" under the ISIN GB00B0SXQG84 for the period from the Scheme Effective Date, 15 May 2006, until the Initial B Share Dividend is paid and the Initial Redemption is made, expected to be 22 May 2006. During this period CREST holders will have their accounts credited with "Interim B Shares" to allow them to elect electronically through the CREST system. From 22 May 2006, the B Shares will, for the purposes of dealings and settlement in CREST, be designated as "B Shares" and will be quoted in the Official List under the ISIN GB00B0SXD233. Accordingly, on 22 May 2006 those CREST holders who have elected to retain B Shares will have their CREST accounts credited with the "B Shares" under the new ISIN GB00B0SXD233. CREST is a voluntary system and uncertificated holders of New Ordinary Shares and B Shares who wish to receive and retain share certificates will be able to remove their New Ordinary Shares and B Shares from the CREST system following the Scheme becoming effective.

For those holding shares in certificated form at the Scheme Record Time, definitive share certificates for the New Ordinary Shares are expected to be despatched by 19 May 2006 and (if applicable) certificates for B Shares are expected to be despatched by 26 May 2006, being within fifteen business days after the Scheme Effective Date. In the case of joint holders, certificates will be despatched to the joint holder whose name appears first in the register. All certificates will be sent by pre-paid first class post at the risk of the person entitled thereto. Pending the despatch of certificates for New Ordinary Shares and (if applicable) B Shares, transfers of New Ordinary Shares and B Shares will be certified against the register

of members of Exchange Group. Temporary documents of title will not be issued in respect of the New Ordinary Shares and B Shares.

Existing Ordinary Shares held in uncertificated form will be disabled in CREST on the Scheme Record Date. Exchange Group reserves the right to issue New Ordinary Shares and B Shares to any or all Shareholders in certificated form if, for any reason, it wishes to do so.

All mandates in force at the Scheme Record Time relating to payment of dividends on Existing Ordinary Shares and all instructions then in force relating to notices and other communications will, unless and until varied or revoked, be deemed from the Scheme Effective Date to be valid and effective mandates or instructions to Exchange Group in relation to the corresponding holding of New Ordinary Shares and B Shares.

All documents, certificates, cheques or other communications sent by or to Shareholders, or as such persons shall direct, will be sent at their own risk and may be sent by post.

## **6. Directors' and other interests**

The interests of the Directors in the share capital of the Exchange are set out in paragraph 4 of Part 6 of this document (including details of any share options and share awards granted to them under the Exchange Employee Share Schemes). To the extent that the Executive Directors hold such share options and share awards over Existing Ordinary Shares, they will be required (or in the case of HM Revenue & Customs approved options granted under the SAYE Scheme, invited) (as will other participants) to exchange any existing options or awards for replacement options or awards over an equivalent number of New Ordinary Shares, subject to the Scheme becoming effective (see paragraph 8 below). Where share options or share awards are subject to performance criteria based on the performance of the Exchange, the replacement share options and share awards will be subject to identical performance criteria linked to the performance of Exchange Group. Clara Furse has indicated that she will agree to roll over any HM Revenue & Customs approved share options which she holds under the SAYE Scheme. Jonathan Howell does not hold any options under the SAYE Scheme.

The Directors may be considered to be affiliates for the purposes of the Securities Act (see paragraph 9 below).

Catherine Thomas and Oded Shomroni, employees of the Exchange, each hold 100 Class A Ordinary Shares in Exchange Group. It is expected that, following the Scheme becoming effective, these shares will be reduced and cancelled as part of the Exchange Group Reduction of Capital with no consideration payable to the holders.

Details of Directors' service agreements and the terms of their appointment are set out in paragraph 5 of Part 6 of this document.

The current Board of the Exchange shall be appointed as the Board of Exchange Group before the Scheme takes effect. If the Scheme becomes effective, the Executive Directors will retain their service contracts with the Exchange on their existing terms. It is intended that the Executive Directors will enter into letters of appointment with Exchange Group, prior to, and conditional upon, the Scheme becoming effective, by which they are appointed as Directors of Exchange Group and owe duties to Exchange Group but receive no additional remuneration for such appointment. It is intended that the Chairman and the Non-Executive Directors will enter into letters of appointment with Exchange Group, prior to and conditional upon the Scheme becoming effective, having the same terms as their existing letters of appointment with the Exchange. Their respective appointment dates and terms of appointment will remain unaffected by the Scheme.

Save as described or referred to above, the effect of the Scheme on the interests of the Directors does not differ from its effect on the like interests of other persons.

## **7. Taxation**

Certain UK tax considerations which arise from the implementation of the Scheme and which will apply to Shareholders resident in the UK are summarised in Part 5 of this document.

If you are in any doubt about your tax position, you should consult a professional adviser.

## **8. Exchange Employee Share Schemes**

### **(a) Effect of the Scheme on Exchange Employee Share Schemes**

#### *(i) Introduction*

Participants in the Exchange Employee Share Schemes will be advised separately of the impact of the Scheme on their awards and options. A general summary is provided below.

As the purpose of the Scheme is to implement a corporate reorganisation of the Exchange to give effect to the Return of £510 million to Shareholders, the Board and its Remuneration Committee will seek (to the extent possible) to ensure that participants' rights under the Exchange Employee Share Schemes are rolled over into equivalent rights relating to New Ordinary Shares when the Scheme becomes effective.

#### *(ii) London Stock Exchange Executive Share Option Scheme, and London Stock Exchange Annual and Initial Share Plans*

The Remuneration Committee has exercised its discretion to refuse its consent to the exercise of options granted under the above mentioned schemes by virtue of the Scheme. Instead options will be automatically rolled over into equivalent rights relating to New Ordinary Shares when the Scheme becomes effective. Options approved by HM Revenue & Customs will not be automatically rolled over but participants will have the opportunity to roll over their options, failing which their options will lapse six months after the date on which the Scheme is sanctioned by the Court.

#### *(iii) London Stock Exchange SAYE Option Scheme*

In accordance with the rules, participants in the SAYE Scheme may elect either to exercise or rollover their SAYE options. Participants are entitled to exercise their SAYE options (and acquire Existing Ordinary Shares) within six months from the date on which the Scheme is sanctioned by the Court. The Existing Ordinary Shares issued on the exercise of SAYE options within this six month period will then be automatically acquired under the Exchange Articles by Exchange Group in exchange for the delivery to the participant of a number of New Ordinary Shares on a one-for-one basis. The number of Existing Ordinary Shares that may be acquired on the exercise of SAYE options will be restricted to the amounts which can be purchased with the proceeds of a participant's monthly savings contract at the date of exercise. Alternatively, participants may roll over their SAYE options into equivalent SAYE options relating to New Ordinary Shares when the Scheme becomes effective which they may continue to hold (subject to the rules of the SAYE Scheme).

#### *(iv) London Stock Exchange Long Term Incentive Plan 2004*

The Remuneration Committee has exercised its discretion to refuse its consent to the vesting of awards of performance shares and matching shares granted under the LTIP by virtue of the Scheme and instead to require participants to roll over such awards into equivalent rights relating to New Ordinary Shares when the Scheme becomes effective. A participant's holding of invested shares (to which an award of matching shares is linked) will comprise New Ordinary Shares and B Shares after the Scheme becomes effective. This will result in the number of matching shares to which the participant is entitled being reduced to reflect the smaller number of New Ordinary Shares which he or she then holds. However, if the participant chooses to redeem his B Shares or elects for the Initial B Share Dividend and reinvests the new cash proceeds (net of any tax paid) in additional New Ordinary Shares he will remain entitled to the original number of matching shares which were comprised in his matching award.

### **(b) Exchange Employee Share Schemes — Proposed Amendments**

Subject to Scheme Shareholder approval of resolution(s) in the Notice of Extraordinary General Meeting set out in Part 9, and, in the case of the SAYE Scheme and the SIP, to the approval of HM Revenue & Customs, the terms of the SAYE Scheme, the LTIP and the SIP will be amended so that appropriate references to Existing Ordinary Shares are changed to New Ordinary Shares and appropriate references to the Exchange are changed to references to Exchange Group. These amendments will enable these schemes to continue to be operated in relation to New Ordinary Shares for the remainder of each scheme's life. The Remuneration Committee has decided that this is preferable to setting up new employee share schemes as a consequence of the Scheme of Arrangement. HM Revenue & Customs approval will be sought for the amendments to the SAYE Scheme and the SIP.



A summary of the SAYE Scheme, the LTIP and the SIP as they will be operated after the Scheme becomes effective is set out in paragraph 6 of Part 6 below.

## **9. Overseas Shareholders**

### **General**

The implications of the Scheme for persons resident in, or citizens or nationals of, jurisdictions outside the United Kingdom (**overseas shareholders**) may be affected by the laws of the relevant jurisdictions. Such overseas shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the allotment and issue of New Ordinary Shares and B Shares following completion of the Scheme, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

If Exchange Group is advised that the allotment and issue of New Ordinary Shares and B Shares to any overseas shareholders would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require Exchange Group to obtain any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Exchange Group, it would be unable to comply or which it regards as unduly onerous, the Scheme provides that Exchange Group may in its sole discretion determine either: (i) that the holder's entitlement to New Ordinary Shares and B Shares pursuant to the Scheme shall be issued to such holder and then sold on his behalf as soon as reasonably practicable at the best price which can be reasonably obtained at the time of sale, with the net proceeds of sale being remitted to the holder; or (ii) where Exchange Group is advised that the approach proposed in (i) would be unlawful in a particular jurisdiction, that the holder's entitlement to New Ordinary Shares and B Shares shall be issued to a nominee for such holder appointed by Exchange Group and then sold, with the net proceeds being remitted to the holder concerned. Any remittance of the net proceeds of sale referred to in this paragraph shall be at the risk of the relevant holder.

**Overseas shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.**

### **United States**

Any securities to be issued pursuant to the Scheme in the United States have not been and will not be registered under the Securities Act but will be issued in reliance on the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof. For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof, the Exchange will advise the Court that its sanctioning of the Scheme will be relied on by Exchange Group as an approval of the Scheme following a hearing on its fairness to Scheme Shareholders, at which Court Hearing all Scheme Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such holders.

Securities to be issued pursuant to the Scheme should not be treated as "restricted securities" within the meaning of rule 144(a)(3) under the Securities Act and persons who receive securities in the Scheme (other than "affiliates" as described in the paragraph below) may resell them without restriction under the Securities Act. Any securities issued pursuant to the Scheme will not be registered under any US state securities laws and may only be issued to persons resident in a state pursuant to an exemption from the registration requirements of the securities laws of such state. Any securities issued pursuant to the Scheme have not been and will not be registered under the Exchange Act.

A person who is entitled to receive New Ordinary Shares and B Shares pursuant to the Scheme and who is an affiliate of the Exchange prior to implementation of the Scheme may not resell such securities without registration under the Securities Act except pursuant to the applicable resale provisions of rule 145(d) of the Securities Act or another applicable exemption from registration or in a transaction not subject to registration (including a transaction that satisfies the applicable requirements of Regulation S under the Securities Act). Whether a person is an affiliate of a company for purposes of the Securities Act

depends on the circumstances but affiliates can include certain officers, directors and significant shareholders. Persons who believe they may be affiliates of the Exchange should consult their own legal advisers prior to any sale of securities received in the Scheme.

## 10. Meetings

The Scheme will require Shareholders to vote on the Scheme at the Court Meeting, held at the discretion of the Court, and the passing of the special resolution relating to the Scheme at the Extraordinary General Meeting, both of which have been convened for 19 April 2006 and will be held at 20 Moorgate, London EC2R 6DA at 9.30 a.m. and 9.45 a.m. (or, if later, immediately following the conclusion or adjournment of the Court Meeting) respectively.

Notices of the Court Meeting and the Extraordinary General Meeting are set out in Parts 8 and 9 respectively of this document.

### *Court Meeting*

The Court Meeting has been convened for 19 April 2006 at 9.30 a.m., pursuant to an order of the Court, at which meeting, or at any adjournment thereof, Shareholders appearing on the register at the Scheme Voting Record Time will consider and, if thought fit, approve the Scheme.

At the Court Meeting, voting will be by poll and each Shareholder present in person or by proxy will be entitled to one vote for each Existing Ordinary Share held. The statutory majority required to approve the Scheme at the Court Meeting is a majority in number of the Shareholders present and voting (either in person or by proxy) at the Court Meeting representing 75% in value of the Existing Ordinary Shares held by them.

**In order that the Court can be satisfied that the votes cast constitute a fair representation of the views of the Shareholders, it is important that as many votes as possible are cast at the Court Meeting. Shareholders are therefore encouraged to take the action referred to in paragraph 11 below.**

If the Scheme is approved and becomes effective, it will be binding on all Shareholders irrespective of whether they attended and voted at the Court Meeting or the way they voted.

### *Extraordinary General Meeting*

The Extraordinary General Meeting has been convened for 19 April 2006 at 9.45 a.m. (or, if later, immediately following the conclusion or adjournment of the Court Meeting). The special resolution to be proposed at the Extraordinary General Meeting is set out in full in the Notice of Extraordinary General Meeting set out in Part 9. In summary, it seeks Shareholder approval for:

- (a) the Scheme;
- (b) the cancellation of the Existing Ordinary Shares;
- (c) the increase in the authorised share capital of the Exchange to its former amount;
- (d) the creation of the New Exchange Ordinary Shares;
- (e) the allotment of the New Exchange Ordinary Shares to Exchange Group;
- (f) amendments to the Exchange Articles to deal with transitional matters arising from the Scheme; and
- (g) amendments to the LTIP, the SAYE Scheme and the SIP.

The special resolution referred to above will be decided on a show of hands, unless a poll is validly demanded. The majority required for the passing of such a resolution is not less than 75% of the votes cast. On a show of hands, each Shareholder present in person will have one vote and on a poll each Shareholder present in person or by proxy will have one vote for each Existing Ordinary Share held.

## 11. Action to be taken

Forms of Proxy are enclosed as follows:

- (a) for the Court Meeting, a green Form of Proxy; and

(b) for the Extraordinary General Meeting, a blue Form of Proxy.

Whether or not you propose to attend the meetings in person, you are requested, if you hold Existing Ordinary Shares, to complete and sign both Forms of Proxy or complete and transmit the CREST proxy instruction.

Completed Forms of Proxy should be returned (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority) to the Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, as soon as possible, and in any event so as to arrive not later than 9.30 a.m. on 17 April 2006 in respect of the green Form of Proxy for the Court Meeting and 9.45 a.m. on 17 April 2006 in respect of the blue Form of Proxy for the Extraordinary General Meeting. In each case, the Forms of Proxy and voting instruction cards should be completed in accordance with the instructions printed on them. **Completed Forms of Proxy should be returned by post (faxes will not be accepted).**

If you hold your Existing Ordinary Shares in CREST, you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual and ensuring that it is received by 9.30 a.m. on 17 April 2006 for the Court Meeting and 9.45 a.m. on 17 April 2006 for the Extraordinary General Meeting by the Registrars (under CREST participant ID 7RA01). The time of receipt will be taken to be the time from which the Registrars, Lloyds TSB Registrars, is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. For the CREST proxy instruction to be valid, the Existing Ordinary Shareholder's instruction to vote either in favour or against the Scheme must be clearly entered in the relevant box provided.

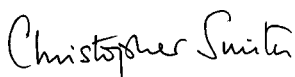
The green Form of Proxy in respect of the Court Meeting may also be handed to the Registrars, Lloyds TSB Registrars, at the Court Meeting who will receive it on behalf of the Chairman before the start of such meeting. However, in the case of the Extraordinary General Meeting, unless the blue Form of Proxy is returned to the Registrars so as to arrive by 9.45 a.m. on 17 April 2006 or, if the meeting is adjourned, 48 hours before the time appointed for the adjourned meeting, it will be invalid.

The lodging of the Forms of Proxy or CREST proxy instruction will not prevent you from attending either the Court Meeting or the Extraordinary General Meeting and voting in person should you decide to do so.

## 12. Further information

Your attention is drawn to the Chairman's Letter set out in Part 1 of this document, the Scheme (which is set out in full in Part 3 of this document) and the additional information set out in Part 6 of this document.

Yours sincerely



for and on behalf of JPMorgan Cazenove Limited

**Christopher Smith**  
Managing Director — Corporate Finance

**PART 3:**  
**SCHEME OF ARRANGEMENT**

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT**

**No. 8483 of 2005**

**IN THE MATTER OF LONDON STOCK EXCHANGE PLC**  
**and**  
**IN THE MATTER OF THE COMPANIES ACT 1985**  
**SCHEME OF ARRANGEMENT**  
**(under section 425 of the Companies Act 1985)**  
**between**  
**LONDON STOCK EXCHANGE PLC**  
**and**  
**THE HOLDERS OF THE EXISTING ORDINARY SHARES**  
**(as hereinafter defined)**

**PRELIMINARY**

(A) In this Scheme of Arrangement, unless the context otherwise requires, the following expressions shall bear the following meanings:

<b>B Shares</b>	the B Shares of £2.00 each in the capital of Exchange Group to be allotted and issued pursuant to the Scheme
<b>business day</b>	a day (excluding Saturday or Sunday or a public holiday) on which banks generally are open for business in the City of London for the transaction of normal banking business
<b>Clause</b>	a clause of this Scheme
<b>Companies Act</b>	the Companies Act 1985, including any statutory modification or re-enactment thereof for the time being in force
<b>Court</b>	the High Court of Justice of England and Wales
<b>Court Hearing</b>	the hearing of the petition to sanction the Scheme by the Court and the reduction of capital of the Exchange involved in the Scheme
<b>Court Meeting</b>	the meeting of the holders of Existing Ordinary Shares convened for 19 April 2006 by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve this Scheme, and any adjournment thereof
<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
<b>CRESTCo</b>	CRESTCo Limited
<b>Exchange</b>	London Stock Exchange plc, a public limited company incorporated in England and Wales with registered number 2075721
<b>Exchange Group</b>	London Stock Exchange Group plc, a public limited company incorporated in England and Wales with registered number 5369106

<b>Exchange Group Reduction of Capital</b>	the proposed reduction of capital of Exchange Group under section 135 of the Companies Act described in paragraph 5 of Part 1 of the document of which this Scheme forms part
<b>Existing Ordinary Shares</b>	ordinary shares of 5 <sup>5</sup> / <sub>100</sub> pence each in the capital of the Exchange existing from time to time
<b>holder</b>	a registered holder, and includes any person(s) entitled by transmission
<b>in certificated form</b>	in relation to a share or other security, a share or other security which is not in uncertificated form
<b>New Exchange Ordinary Shares</b>	the ordinary shares of the Exchange created following the cancellation of the Existing Ordinary Shares which shall be of an aggregate nominal amount equal to the aggregate nominal amount of the Existing Ordinary Shares cancelled
<b>New Ordinary Shares</b>	the ordinary shares of £5.00 each (or such lower nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme) in the capital of Exchange Group to be allotted and issued pursuant to the Scheme
<b>penny, pence, p, £ or pounds sterling</b>	the lawful currency of the United Kingdom
<b>Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
<b>Scheme</b>	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court
<b>Scheme Record Date</b>	the later of 12 May 2006 and the business day immediately preceding the Scheme Effective Date
<b>Scheme Effective Date</b>	the date on which this Scheme becomes effective in accordance with Clause 7
<b>Scheme Record Time</b>	5.00 p.m. on the Scheme Record Date
<b>Scheme Shareholder</b>	a holder of Existing Ordinary Shares as appearing in the register of members of the Exchange at the Scheme Record Time
<b>Scheme Voting Record Time</b>	6.00 p.m. on 17 April 2006 or, if the Court Meeting is adjourned, 6.00 p.m. two days before the time appointed for any adjourned Court Meeting
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>uncertificated or in uncertificated form</b>	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST

(B) The authorised share capital of the Exchange at the date of this document is £25,000,000 divided as follows:

	<b>Authorised</b>	
	<b>Number</b>	<b>Nominal value (£)</b>
Existing Ordinary Shares . . . . .	428,571,428	25,000,000

of which as at 17 March 2006, 256,230,499 Existing Ordinary Shares had been issued and were credited as fully paid and the remainder were unissued.

(C) Exchange Group was incorporated and registered in England and Wales as a private limited company on 18 February 2005, with registered number 5369106 and with the name Milescreen

Limited. It changed its name on 16 November 2005 to London Stock Exchange Group Limited and on 7 December 2005 re-registered as a public limited company changing its name to London Stock Exchange Group plc.

- (D) The authorised share capital of Exchange Group at the date of this document is £3,270,050,000 divided into 350,000,000 New Ordinary Shares of £5.00 each, 260,000,000 B Shares of £2.00 each, 100,000,000,000 Class A Ordinary Shares of 1 pence each and one fixed-rate redeemable preference share of £50,000. 200 Class A Ordinary Shares and the fixed-rate redeemable preference share have been issued and are fully paid. All other shares are unissued. In the event that in connection with the Scheme the issue of New Ordinary Shares with a nominal value of £5.00 each would or may (in the reasonable opinion of the directors of Exchange Group) result in the issue of Exchange Group's shares at a discount, Exchange Group will prior to the Scheme becoming effective take steps in accordance with the provisions of the Exchange Group Articles and the Companies Act to procure that the New Ordinary Shares are issued with a lower nominal value which is, in the reasonable opinion of the Directors of Exchange Group, appropriate to ensure that such New Ordinary Shares are not issued at a discount to their nominal value.
- (E) Exchange Group will become a borrower under the terms of a revolving loan facility and separate loan facility entered into by the Exchange on 9 February 2006. The Exchange will retire from the facilities upon Exchange Group becoming a borrower under the facilities. The facilities will provide Exchange Group with funds for general corporate purposes including the proposed return to Scheme Shareholders described in paragraph 2 of Part 1 of the document of which this Scheme forms a part.
- (F) Exchange Group has agreed to appear by Counsel at the Court Hearing, to consent to the Scheme and to undertake to be bound thereby and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

## **THE SCHEME**

### **1. Cancellation of Existing Ordinary Shares**

- (a) The issued share capital of the Exchange shall be reduced by cancelling and extinguishing the Existing Ordinary Shares.
- (b) Forthwith and contingent upon the reduction of capital referred to in Clause 1 (a) taking effect:
  - (i) the authorised share capital of the Exchange shall be increased to its former amount by the creation of such number of New Exchange Ordinary Shares as shall be equal to the aggregate number of Existing Ordinary Shares held by the Scheme Shareholders cancelled pursuant to Clause 1(a); and
  - (ii) the Exchange shall apply the credit arising in its books of account as a result of such reduction of capital in paying up in full, at par, the New Exchange Ordinary Shares created pursuant to Clause 1(b)(i) and shall allot and issue the same, credited as fully paid up, to Exchange Group and/or its nominee or nominees.

### **2. Consideration for the cancellation of the Existing Ordinary Shares**

In consideration of the cancellation of the Existing Ordinary Shares and the issue of the New Exchange Ordinary Shares to Exchange Group and/or its nominee or nominees pursuant to Clause 1, Exchange Group shall (subject to the remaining provisions of this Scheme), allot and issue (credited as fully paid) New Ordinary Shares and B Shares to the Scheme Shareholders on the basis of 3 New Ordinary Shares for every 4 Existing Ordinary Shares held at the Scheme Record Time and one B Share for every one Existing Ordinary Share held at the Scheme Record Time.

### **3. Allotment and issue of New Ordinary Shares and B Shares**

- (a) The New Ordinary Shares to be issued pursuant to Clause 2 shall rank in full for all dividends or distributions made, paid or declared after the Scheme Effective Date on the ordinary share capital of Exchange Group.

- (b) The provisions of Clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Shareholder who is a citizen, resident or national of any jurisdiction outside the United Kingdom (**overseas shareholder**), Exchange Group is advised that the allotment and issue of New Ordinary Shares and B Shares pursuant to Clause 2 would or might infringe the laws of any jurisdiction outside the United Kingdom or, would or might require Exchange Group to obtain any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Exchange Group, it would be unable to comply or which it regards as unduly onerous, then Exchange Group may in its sole discretion determine:
- (i) that such New Ordinary Shares and B Shares shall be sold, in which event the New Ordinary Shares and B Shares shall be issued to such holder and Exchange Group shall appoint a person to act pursuant to this Clause 3(b)(i) and such person shall be authorised on behalf of such holder to procure that any shares in respect of which Exchange Group has made such a determination shall, as soon as practicable following the Scheme Record Time, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) shall be paid to such holder by sending a cheque or warrant to such holder in accordance with the provisions of Clause 4. To give effect to any such sale, the person so appointed shall be authorised on behalf of such holder to execute and deliver a form of transfer and to give such instructions and do all such things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of the Exchange, Exchange Group or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale; or
  - (ii) where Exchange Group is advised that the approach proposed in Clause 3(b)(i) would be unlawful in a particular jurisdiction, that no such New Ordinary Shares and B Shares shall be allotted and issued to such holder under Clause 2 but instead such shares shall be allotted and issued to a nominee appointed by Exchange Group as trustee for such holder, on terms that they shall, as soon as practicable following the Scheme Record Time, be sold on behalf of such holder at the best price which can reasonably be obtained and the net proceeds of such sale shall (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) be paid to such holder by sending a cheque or warrant to such holder in accordance with the provisions of Clause 4. In the absence of bad faith or wilful default, none of the Exchange, Exchange Group or any broker or agent of either of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

#### 4. Certificates and payments

- (a) Not later than five business days after the Scheme Effective Date, Exchange Group shall allot and issue all New Ordinary Shares and B Shares which it is required to allot and issue to give effect to this Scheme and, not later than fifteen business days after the Scheme Effective Date, Exchange Group shall send by post to the allottees of the New Ordinary Shares and B Shares certificates in respect of due entitlement to such shares save that where Existing Ordinary Shares are held in uncertificated form, Exchange Group will procure that CRESTCo is instructed to cancel the entitlement to Existing Ordinary Shares of each of the Scheme Shareholders concerned and to credit to the appropriate stock account in CREST of each such Scheme Shareholder the due entitlement to New Ordinary Shares and B Shares.
- (b) Not later than fifteen business days following the sale of any relevant New Ordinary Shares and B Shares pursuant to Clause 3(b), Exchange Group shall procure that such person appointed to act under Clause 3(b)(i) or that the nominee referred to in Clause 3(b)(ii) shall account for the cash payable by either despatching to the persons respectively entitled thereto cheques and/or warrants by post or where Existing Ordinary Shares are held in uncertificated form, crediting the relevant amount to the appropriate account in CREST of each such Scheme Shareholder.

- (c) All certificates required to be sent by Exchange Group pursuant to Clause 4(a) and all cheques or warrants required to be sent pursuant to Clause 4(b) shall be sent through the post in pre-paid envelopes addressed to and at the risk of the persons respectively entitled thereto at their respective addresses appearing in the register of members of the Exchange at the Scheme Record Time (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of the Exchange prior to the Scheme Record Time.
- (d) If New Ordinary Shares and B Shares are consolidated or subdivided or if the nominal value of New Ordinary Shares and B Shares is reduced prior to the despatch of any certificates or the giving of any instructions in accordance with this Clause 4, the certificates or instructions shall relate to such New Ordinary Shares and B Shares as so consolidated, subdivided and/or reduced.
- (e) None of the Exchange, Exchange Group, such person appointed to act under Clause 3(b)(i), any nominee referred to in Clause 3(b)(ii) or any agent of any of them shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with this Clause 4.
- (f) All cheques and warrants shall be made payable to the holder or, in the case of joint holders, to the first named of such holders of the Existing Ordinary Shares concerned and the encashment of any such cheque or warrant shall be a complete discharge to Exchange Group for the monies represented thereby.
- (g) This Clause 4 shall be subject to any prohibition or condition imposed by law.

#### **5. Certificates representing Existing Ordinary Shares**

With effect from and including the Scheme Effective Date, all certificates representing holdings of Existing Ordinary Shares held by Scheme Shareholders shall cease to be valid in respect of such holdings. The holders of such shares shall be bound at the request of the Exchange to deliver such certificates for cancellation to the Exchange or to any person appointed by the Exchange to receive the same, unless such certificates have been destroyed on receipt of the share certificates in respect of the New Ordinary Shares and the B Shares to which they are entitled.

#### **6. Mandated payments and other instructions**

Each mandate in force at the Scheme Record Time relating to the payment of dividends on Existing Ordinary Shares held by Scheme Shareholders and each instruction then in force as to notices and other communications from the Exchange shall, unless and until varied or revoked, be deemed as from the Scheme Effective Date to be a valid and effective mandate or instruction to Exchange Group in relation to the corresponding New Ordinary Shares and B Shares to be allotted and issued to Scheme Shareholders pursuant to this Scheme.

#### **7. Scheme Effective Date**

- (a) This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under section 425 of the Companies Act shall have been duly delivered to the Registrar of Companies for registration and the minute confirming under section 137 of the Companies Act the reduction of capital provided for by this Scheme is registered by the Registrar of Companies.
- (b) Unless this Scheme shall have become effective on or before 30 September 2006 or such later date, if any, as the Exchange and Exchange Group may agree and the Court may allow, it shall lapse.

#### **8. Modification**

The Exchange and Exchange Group may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated 14 March 2006



## PART 4:

### RIGHTS AND RESTRICTIONS ATTACHING TO THE B SHARES AND THE DEFERRED SHARES

#### 1. Rights and restrictions of the B Shares

The following are the rights of the B Shares and the restrictions to which they are subject, which will be reflected in the Exchange Group Articles.

##### 1.1 Income — Initial B Share Dividend

The Shareholders who have elected as part of the Proposals for Alternative 1: Initial B Share Dividend shall receive a single dividend of £2.00 for each B Share selected to be subject to that alternative. Each B Share in respect of which the Initial B Share Dividend is payable, shall at 11.00 a.m. on 22 May 2006 (or such other date as the Directors of Exchange Group shall determine) be reclassified as a Deferred Share of £2.00 nominal value. The rights and restrictions attaching to the Deferred Shares are summarised in section 2 of this Part 4.

##### 1.2 Income — B Share Continuing Dividend

The Shareholders who have elected as part of the Proposals for Alternative 3: Future Redemption Right shall receive a B Share Continuing Dividend on the amount of £2.00 per B Share selected to be subject to that alternative as follows:

- (i) With effect from 22 May 2006 (or such other date as the Directors of Exchange Group shall determine), out of the profits available for distribution in respect of each financial year or other accounting period of Exchange Group, the holders of the B Shares shall be entitled, in priority to any payment of dividend or other distribution to the holders of any New Ordinary Shares and before profits are carried to reserves, to be paid a non-cumulative preferential dividend at such rate on the amount of £2.00 in respect of each B Share as is calculated in accordance with sub-paragraphs (ii) and (iii) below. The B Share Continuing Dividend shall be payable to the extent that Exchange Group has sufficient distributable reserves and it is therefore not guaranteed. Such dividend shall be paid (without having to be declared) semi-annually in arrears on 1 June and 1 December in each year (or if any such day is not a Business Day, the next following day that is a Business Day (without any interest or payment in respect of such delay) (each a **Payment Date**)). The first Payment Date is expected to be 1 December 2006.
- (ii) Each six month period ending on a Payment Date is called a **Calculation Period**. The annual rate applicable to each Calculation Period shall be the lower of (i) 25% per annum and (ii) 75% of LIBOR for six month deposits in pounds sterling which appears on the display designated as page 3750 on the Telerate Monitor (or such other page or service as may replace it for the purpose of displaying London inter-bank offered rates of leading banks for pounds sterling deposits) as determined by JPMorgan Cazenove or such other agent as Exchange Group shall appoint from time to time (the **Reference Agent**) at or about 11.00 a.m. (UK time) on the first Business Day of such Calculation Period. The first Payment Date is expected to be 1 December 2006 and in relation to the period from 22 May 2006 (or such other date as the Directors of Exchange Group shall determine) to 1 December 2006, the rate applicable for the B Share Continuing Dividend paid on the first Payment Date shall be the relevant proportion of the rate applicable to the Calculation Period ending on 1 December 2006. The relevant proportion shall be the number of days from and including 22 May 2006 (or such date as the Directors of Exchange Group shall determine) to, but excluding, 1 December 2006 divided by 183.
- (iii) If for any reason the rate does not appear, or if the relevant page is unavailable then Exchange Group (or the Reference Agent) will request each of the banks whose offered rates would have been used for the purposes of the relevant page if the event leading to the application of this proviso had not happened to provide to Exchange Group (or the Reference Agent) through its normal London office its offered quotation to leading banks for pounds sterling deposits in London for a six month period and the rate shall be the arithmetic mean (rounded upward if necessary to the nearest  $\frac{1}{16}$  per cent) of the respective rates per annum notified to Exchange Group or the Reference Agent such quotations (or such of them, being at least two, as provided) as determined by the Reference Agent.

- (iv) Payments of the B Share Continuing Dividend shall be made to holders of the B Shares on the register on a date selected by the Directors being not less than 15 days or more than 42 days (or, in default of selection by the Directors, on the date falling 15 days) prior to the relevant Payment Date.
- (v) The holders of the B Shares shall not be entitled to any further right of participation in the profits of Exchange Group.
- (vi) All preferential dividends payable on the B Shares which are unclaimed for a period of 12 years from the date of due payment shall be forfeited and shall revert to Exchange Group.

### 1.3 Capital — Initial Redemption

The Shareholders who have elected as part of the Proposals for Alternative 2: Initial Redemption, and, unless the Board of Exchange Group otherwise determines, those Shareholders not making a valid election before 11.00 a.m. on 19 May 2006 (or such other date as the Directors of Exchange Group shall determine), will have their B Shares redeemed by Exchange Group on 22 May 2006 (or such other date as the Directors of Exchange Group shall determine). There shall be paid to holders of the B Shares the sum of £2.00 in respect of each B Share which they have selected, or are deemed to have selected, to be subject to Alternative 2.

### 1.4 Capital — Future Redemption Right

The Shareholders who have elected as part of the Proposals for Alternative 3: Future Redemption Right, will be able to make further elections to have some or all of their B Shares redeemed at £2.00 in respect of each B Share which they have selected to be subject to Alternative 3. The redemption can take place semi-annually on 1 June and 1 December in each year (or if any such day is not a Business Day, the next following day that is a Business Day (without any interest or payment in respect of such delay) (each a **Redemption Date**)) until the Final Deferred Redemption Date. The first Redemption Date is expected to be 1 December 2006.

Upon the Final Deferred Redemption Date, or at any time after the third anniversary of the Scheme Effective Date, or, when the total number of B Shares remaining in issue becomes less than 25% of the total number of B Shares issued, Exchange Group may (subject to the provisions of the Companies Act and every other statute, statutory instrument, regulation or order in force concerning companies regulated under the Companies Act including the Listing Rules), on giving notice in writing to the holders of the B Shares, redeem all but not some only of the B Shares then in issue on that date specified in the notice, which shall not be less than 10 days nor more than 42 days from the date of such notice (a **Redemption Call Date**) in such a manner as the Directors may determine, including the manner set out in Exchange Group Articles. The redemption shall be on the basis of £2.00 per B Share.

On any Redemption Call Date, each holder of B Shares being redeemed shall be entitled to a dividend which is equal to the relevant proportion of the B Share Continuing Dividend in respect of the B Shares so redeemed which would have been payable, if the Redemption Call Date was the same as the last day of the then current Calculation Period. The relevant proportion shall be the number of days from and including the last Payment Date to but excluding the Redemption Call Date divided by 183. The aggregate amount of the B Share Continuing Dividend payable to each holder of B Shares shall be rounded down to the nearest whole penny.

On a return of capital on a winding-up (except on a redemption in accordance with the terms of issue of any share, or purchase by Exchange Group of any share or on a capitalisation issue and subject to the rights of any other class of shares that may be issued) there shall be paid to the holders of the B Shares the sum of £2.00 in respect of each B Share held by them respectively, together with a sum equal to the relevant proportion of the B Share Continuing Dividend which would have been payable if the winding-up had taken effect on the last day of the then current Calculation Period. The relevant proportion shall be the number of days from and including the preceding Payment Date (or if the date of such winding-up is prior to the first Payment Date, the number of days from and including the Scheme Effective Date) to, but excluding, the date of such winding-up divided by 183. The aggregate entitlement of each holder of B Shares on a winding-up in respect of all of the B Shares held by them shall be rounded down to the nearest whole penny. The holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of Exchange Group. If on such a winding-up the amount available for payment is insufficient to cover in full the amounts payable on the B Shares, the

holders of such shares will share on a pro rata basis in the distribution of assets (if any) in proportion to the full preferential amounts to which they are entitled.

### **1.5 Attendance and voting at general meetings**

The holders of the B Shares shall not be entitled, in their capacity as holders of such shares, to receive notice of any general meetings of Exchange Group or to attend, speak or vote at any such general meetings.

### **1.6 Purchase**

Subject to the provisions of the Companies Act and every other statute, statutory instrument, regulation or order in force concerning companies registered under the Companies Act (including the Listing Rules), but without the need to obtain the sanction of an extraordinary resolution of the holders of the B Shares, Exchange Group may at any time and at its sole discretion purchase B Shares: (i) in the market; or (ii) by tender available alike to all holders of B Shares; or (iii) by private treaty, in each case at a price and upon such other terms and conditions as the Directors of Exchange Group may think fit.

### **1.7 Class Rights**

Exchange Group may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority to the B Shares, and on such creation, allotment or issue any such further shares (whether or not ranking in any respect in priority to the B Shares) shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose.

A reduction by Exchange Group of the capital paid up on the B Shares shall be in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose and Exchange Group shall be authorised at any time to reduce its capital (subject to the confirmation of the Court in accordance with the Companies Act and without obtaining the consent of the holders of the B Shares).

### **1.8 Form and Transferability**

The B Shares are not renounceable and will be freely transferable by an instrument of transfer in any usual form or in any other form which the Board of Exchange Group may approve. Exchange Group will apply for the B Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in B Shares may take place within the CREST system in respect of general market transactions.

### **1.9 Business Day**

In this Part, the expression **Business Day** means a day upon which pounds sterling deposits may be dealt with on the London inter-bank market and commercial banks are generally open in London and “non-cumulative” in relation to the preferential dividend means that the dividend payable on each Payment Date is payable out of the profits of Exchange Group available for distribution in respect of the accounting reference period in which the Payment Date falls (including any reserves representing profits made in previous accounting reference periods) without any right in the case of a deficiency to resort to profits made in subsequent accounting reference periods.

## **2. Rights and restrictions of the Deferred Shares**

The following are the rights of the Deferred Shares and the restrictions to which they are subject, which will be reflected in the Exchange Group Articles.

### **2.1 Income**

Subject to the payment of the B Share Continuing Dividend on the B Shares and to the rights attached to any other share or class of share, the holders of the Deferred Shares shall be entitled to be paid a dividend out of the profits available for distribution in respect of any financial year or other accounting period of Exchange Group and determined to be paid provided that no such dividend shall be payable in respect of any financial year or other accounting period of Exchange Group in respect of which no dividend has been declared on the New Ordinary Shares or a dividend (excluding the amount of any

associated tax credit) of less than £100,000 per New Ordinary Share has been declared. The Deferred Shares shall confer no further right to participate in the profits of Exchange Group.

## **2.2 Capital**

On a return of capital on a winding-up (and for the avoidance of doubt, excluding conversion or redemption or reduction of capital in accordance with the terms of issue of any share, or purchase by Exchange Group of any share or on a capitalisation issue and subject to the rights of any other class of shares that may be issued) there shall be paid to the holders of the Deferred Shares the nominal capital paid up or credited as paid up on such Deferred Shares after:

- (a) firstly, paying to the holders of the B Shares the nominal capital paid up or credited as paid up on the B Shares held by them together with any outstanding entitlement to the B Share Continuing Dividend up to the Payment Date last preceding the Return; and
- (b) secondly, paying to the holders of the New Ordinary Shares the nominal capital paid up or credited as paid up on the New Ordinary Shares held by them respectively together with the sum of £100,000 on each New Ordinary Share.

The holders of the Deferred Shares shall not be entitled to any further right of participation in the assets of Exchange Group.

## **2.3 Redemption/Cancellation**

Subject to the provisions of the Companies Act and to the provisions of the Exchange Group Articles, Exchange Group may, at any time, without prior notice, redeem or cancel all Deferred Shares then in issue for a total aggregate price not exceeding one pence for all such Deferred Shares if redeemed or for nil consideration if cancelled.

## **2.4 Attendance and voting at general meetings**

The holders of the Deferred Shares shall not be entitled to receive notice of any general meeting of Exchange Group or to attend, speak or vote at any such meeting.

## **2.5 Form**

The Deferred Shares will not be listed on any stock exchange nor shall any share certificates be issued in respect of such shares. The Deferred Shares shall not be transferable.

## **2.6 Class rights**

Exchange Group may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority to the Deferred Shares, and on such creation, allotment or issue any such further shares (whether or not ranking in any respect in priority to the Deferred Shares) shall be treated as being in accordance with the rights attaching to the Deferred Shares and shall not involve a variation of such rights for any purpose or require the consent of holders of Deferred Shares.

The reduction by Exchange Group of the capital paid up on the Deferred Shares shall be in accordance with the rights attaching to the Deferred Shares and shall not involve a variation of such rights for any purpose and Exchange Group shall be authorised at any time to reduce its capital (subject to the confirmation of the Court in accordance with the Companies Act) without obtaining the consent of the holders of the Deferred Shares.

**PART 5:**  
**UK TAXATION**

**1. General**

The following summary is intended as a general guide only and relates only to certain UK tax consequences of receiving the New Ordinary Shares and B Shares under the Scheme. It is based on current UK tax law and the current practice of UK HM Revenue & Customs, both of which are subject to change, possibly with retrospective effect. The summary is intended to apply only to Shareholders who are resident in the UK for UK tax purposes, who hold the New Ordinary Shares and B Shares as investments and not on trading account and who are the beneficial owners of the New Ordinary Shares and B Shares. The summary is not intended to apply to certain classes of shareholders such as dealers in securities, insurance companies or collective investment schemes. The tax treatment of participants in the Exchange Employee Share Schemes may be different from that described below. Participants should also read the additional information sent to them and/or consult their own independent tax advisers.

Any Shareholders or prospective Shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and/or disposal of the New Ordinary Shares and B Shares and/or who are subject to tax in a jurisdiction other than the UK should consult their own independent tax advisers.

**2. The Reorganisation**

For the purposes of the UK taxation of capital gains and corporation tax on chargeable gains, the cancellation of the Existing Ordinary Shares and the issue of New Ordinary Shares and B Shares should be treated as a reorganisation of share capital. UK resident Shareholders should obtain rollover relief in respect of the cancellation of Existing Ordinary Shares and the issue to them of the New Ordinary Shares and B Shares. Accordingly, UK resident Shareholders should not be treated as making a disposal of the Existing Ordinary Shares for the purposes of UK taxation of chargeable gains as a result of that cancellation.

Shareholders who alone, or together with connected persons, hold more than 5% of the Existing Ordinary Shares will be eligible for the above treatment only if the Scheme is effected for *bona fide* commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of a liability to capital gains tax or corporation tax. In the opinion of Exchange Group, as confirmed by leading Counsel, the Scheme should be regarded as being effected for *bona fide* commercial reasons and should not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of a liability to capital gains tax or corporation tax.

The sale, on behalf of Shareholders, of fractional entitlements to New Ordinary Shares resulting from the Scheme should not constitute a disposal of Existing Ordinary Shares by UK resident Shareholders. The amounts of any payments received by such Shareholders on the sale of fractional entitlements to New Ordinary Shares should, in practice, be deducted from the base cost of any New Ordinary Shares and B Shares received.

For the purposes of the UK taxation of capital gains and corporation tax on chargeable gains, the reduction of capital of Exchange Group, which will be effected by decreasing the nominal value of each New Ordinary Share and by allotting Class A Ordinary Shares and then reducing and immediately cancelling the Class A Ordinary Shares, should be treated as a reorganisation of share capital. Accordingly, UK resident Shareholders should not be treated as making a disposal of the New Ordinary Shares and Class A Ordinary Shares for the purposes of UK taxation of chargeable gains as a result of that reduction of capital.

**3. Dividends**

Under current tax law, Exchange Group will not be required to withhold tax at source from dividend payments it makes.

*(a) Individuals*

An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from Exchange Group will generally be entitled to a tax credit which may be set off against his total income tax liability on the dividend. Such an individual Shareholder's liability to income tax is calculated on the aggregate of the net dividend and the related tax credit (the "gross dividend") which will be regarded as the top slice of the individual's income. The tax credit will be equal to one-ninth of the cash dividend paid, or 10% of the gross dividend.

A UK resident Shareholder who is liable to income tax at the starting, lower or basic rate will be subject to income tax on dividends paid by Exchange Group at the rate of 10% of the gross dividend so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend. If and to the extent that a UK resident individual Shareholder is liable to pay income tax at the higher rate he will be subject to income tax on the gross dividend at 32.5%. After taking into account the tax credit, such a Shareholder will have to account for additional tax equal to 22.5% of the gross dividend (an effective tax rate of 25% of the net cash dividend received).

Shareholders who are not liable to income tax in respect of the gross dividend will not be entitled to reclaim any part of the tax credit.

*(b) Companies*

A corporate Shareholder resident in the UK for tax purposes will not normally be subject to corporation tax on any dividend received from Exchange Group. A corporate Shareholder will not be able to claim repayment of the tax credit attaching to any dividend.

#### **4. Capital Gains**

*(a) Initial B Share Dividend*

For the purposes of the taxation of UK capital gains, the Initial B Share Dividend (and the consequent conversion of the B Shares into Deferred Shares) will not be treated as giving rise to a disposal or part disposal of the B Shares.

Scheme Shareholders who receive the Initial B Share Dividend should note that a proportion of the base cost of their original holding of Existing Ordinary Shares will be attributed to the B Shares and this amount should continue to be attributed to those B Shares following their reclassification as Deferred Shares (notwithstanding that the Deferred Shares have limited rights or value). Correspondingly, only a proportion of the base cost of the original holding of Existing Ordinary Shares will be available on a disposal of New Ordinary Shares.

Shareholders who wish to be able to use any capital loss in respect of their Deferred Shares will have to dispose of those shares. A deemed disposal may be effected by means of an appropriate negligible value claim. In addition, a redemption or cancellation of the Deferred Shares will be treated as a disposal for capital gains tax purposes. However, Shareholders should note that whether it is advantageous to effect a disposal of their Deferred Shares by means of a negligible value claim at any particular time will depend on the particular circumstances of each Shareholder. Shareholders who are in any doubt as to whether, and if so when, to effect a disposal should consult their own taxation advisers.

Shareholders liable to corporation tax should note that it is possible that section 30 TCGA 1992 could be applicable to such a Shareholder who elects for the Initial B Share Dividend. If it were applied, the effect would be broadly to deny any loss or impute a chargeable gain attributable to the payment of that dividend, depending on the apportionment of the base cost of the Existing Ordinary Shares between the New Ordinary Shares and the B Shares.

*(b) Redemption of B Shares*

On redemption of all or any of the B Shares, a Shareholder may, depending on his individual circumstances, be subject to UK tax on the amount of any chargeable gain realised. The Shareholder's original base cost in his Existing Ordinary Shares will be attributed between the New Ordinary Shares and the B Shares, so only a proportion of the base cost of the original holding of Existing Ordinary Shares will be available on a redemption of the B Shares.

No part of the proceeds received by a Shareholder on redemption of all or part of the B Shares will be an income distribution in the Shareholder's hands. The proceeds of the redemption will not constitute franked investment income in the hands of a corporate Shareholder.

## **5. UK Inheritance and Gift Taxes**

New Ordinary Shares and B Shares beneficially owned by an individual will be subject to inheritance tax on the death of the individual or, in certain circumstances, if the New Ordinary Shares and B Shares are the subject of a gift by such individual even where the individual Shareholder is neither domiciled nor deemed to be domiciled in the UK under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Inheritance tax is not generally chargeable on gifts to individuals or to certain types of settlement made more than seven years before the death of the donor. Inheritance tax is chargeable on shares situated in the UK at the time of the death or gift. Registered shares are situated where they are registered, which is generally the place where the share register is maintained and where transfer of the shares can be legally executed. Special rules also apply to close companies and to trustees of certain settlements that hold New Ordinary Shares and B Shares which may bring them within the charge to inheritance tax.

Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any New Ordinary Shares and B Shares through trust arrangements.

Shareholders should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another country.

## **6. Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

Except in relation to depository receipt arrangements or clearance services where special rules apply:

- (i) no stamp duty or SDRT will be payable on the creation of New Ordinary Shares or B Shares pursuant to the Scheme;
- (ii) where Shareholders elect to redeem B Shares, the redemption of those B Shares will not give rise to a liability to stamp duty or SDRT; and
- (iii) an agreement to sell New Ordinary Shares or B Shares will normally give rise to a liability on the purchaser to SDRT, at the rate of 0.5% of the actual consideration paid. If an instrument of transfer of the New Ordinary Shares or B Shares is subsequently produced it will generally be subject to stamp duty at the rate of 0.5% (rounded up to the nearest multiple of £5) of the actual consideration paid. When stamp duty is paid, the SDRT charge will be cancelled and any SDRT already paid will be refunded.

## **7. Anti-avoidance Provisions**

In certain circumstances, section 703 of the Income and Corporation Taxes Act 1988 (*ICTA*) may apply where a person obtains a tax advantage in consequence of a "transaction in securities". If these provisions were to apply to the Scheme, the general effect would be to counteract the tax advantage obtained. Exchange Group has not applied to HM Revenue & Customs for a clearance under section 707 of the *ICTA* in this regard. However, in the opinion of Exchange Group, as confirmed by leading Counsel, section 703 of the *ICTA* should not generally apply to Scheme Shareholders who receive New Ordinary Shares and B Shares pursuant to the Scheme.

New anti-avoidance rules provide that in certain circumstances redeemable shares held by companies and which are designed to produce a return which equates to a commercial rate of interest may be characterised as debt for tax purposes. The consequences of such recharacterisation would be that, subject to transitional rules, dividends and profits and losses would fall to be recognised under the loan relationship regime. The new rules may apply to the B Shares held in the following limited circumstances:

- (i) by companies which (together with connected persons) acquired at least 10% of the B Shares and the main purpose, or one of the main purposes, of the acquisition of the shares was tax avoidance; or

- (ii) by companies whose main purpose, or one of whose main purposes, in acquiring the B Shares was to avoid section 95 of the ICTA; or
- (iii) by companies which are associates of banks (unless such companies can show that they carry on a business of making and holding investments and that the shares were acquired in the ordinary course of that business).

#### **8. PEPs and ISAs**

If existing Shareholders of the Exchange currently hold their Existing Ordinary Shares in a PEP or the stocks and shares component of an ISA, the New Ordinary Shares and B Shares should qualify for inclusion in a PEP or in the stocks and shares component of an ISA.



**PART 6:**  
**ADDITIONAL INFORMATION**

**1. Incorporation and registered office of the Exchange and Exchange Group**

- 1.1 The Exchange was incorporated and registered in England and Wales with registered number 2075721 on 19 November 1986 as a private limited company under the Companies Act with the name The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. On 9 December 1995, the Exchange changed its name to London Stock Exchange Limited. On 8 June 2000, the Exchange was re-registered as a public limited company pursuant to section 43 of the Companies Act and changed its name to London Stock Exchange plc. On 20 July 2001, the shares of the Exchange were listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.
- 1.2 Exchange Group was incorporated and registered in England and Wales on 18 February 2005 under the Companies Act as a private company limited by shares with registered number 5369106 and with the name Milescreen Limited. On 16 November 2005, it changed its name to London Stock Exchange Group Limited. On 7 December 2005, it re-registered as a public limited company pursuant to section 43 of the Companies Act and changed its name to London Stock Exchange Group plc.
- 1.3 The registered and head office of the Exchange and of Exchange Group is at 10 Paternoster Square, London EC4M 7LS. The telephone number is 020 7797 1000.
- 1.4 The principal legislation under which Exchange Group will operate and the share capital of Exchange Group will be created is the Companies Act.
- 1.5 Exchange Group has not traded nor prepared any accounts since its incorporation. PricewaterhouseCoopers LLP, whose address is Southwark Towers, 32 London Bridge Street, London SE1 9SY are the auditors of Exchange Group and have been the only auditors of Exchange Group since its incorporation.
- 1.6 PricewaterhouseCoopers LLP, whose address is at Southwark Towers, 32 London Bridge Street, London SE1 9SY are the auditors of the Exchange. PricewaterhouseCoopers LLP audited the financial statements of the Exchange for the years ended 31 March 2003, 31 March 2004 and 31 March 2005. The reports in respect of the financial statements for each of the three years up to 31 March 2005 were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act.

**2. Share capital of Exchange Group**

- 2.1 On incorporation the authorised share capital of Exchange Group was £1,000 divided into 1,000 ordinary shares of £1.00 each. Of such shares, one ordinary share was taken by the subscriber to the memorandum of association and was paid up in full. On 20 October 2005, the subscriber's ordinary share of £1.00 was transferred to Oded Shomroni, an employee of the Exchange. On 5 December 2005, Catherine Thomas, an employee of the Exchange, subscribed for one ordinary share of £1.00 in Exchange Group which was paid up in full.
- 2.2 On 5 December 2005, resolutions were passed by the shareholders of Exchange Group at that time to the effect that:
  - (a) the authorised share capital was increased from £1,000 to £51,000 by the creation of one fixed rate redeemable preference share of £50,000 (the **Redeemable Preference Share**);
  - (b) amended Exchange Group Articles including the rights associated with the Redeemable Preference Share and other changes relating to the re-registration of Exchange Group as a public limited company, were adopted; and
  - (c) the Redeemable Preference Share was created and allotted as paid up in full in order to enable Exchange Group to obtain a certificate to commence business under section 117 of the Companies Act. Following completion of the Scheme, the Redeemable Preference Share, to the extent that it has been issued but remains unredeemed, will continue to be held by the holder thereof, but will carry no right to vote. The Redeemable Preference Share may be redeemed by Exchange Group by notice to the holder thereof and upon any redemption the

Redeemable Preference Share will be cancelled and Exchange Group will pay to the holder thereof the amount paid up on such Redeemable Preference Share. Exchange Group intends to redeem the Redeemable Preference Share as soon as reasonably practicable after the Scheme Effective Date.

2.3 On 9 March 2006 and 17 March 2006, resolutions were passed at extraordinary general meetings of Exchange Group to the effect that:

- (a) the authorised share capital of Exchange Group was increased by the creation of:
  - (i) 350,000,000 New Ordinary Shares of £5.00 each having the rights of ordinary shares as set out in the Exchange Group Articles;
  - (ii) 260,000,000 B Shares of £2.00 each having the rights and being subject to the restrictions summarised in Part 4 of this document; and
  - (iii) 399,999,900,000 Class A Ordinary Shares of 1 pence each having the rights of ordinary shares as set out in the Exchange Group Articles; and
- (b) each of the existing 1,000 ordinary shares of £1.00 each in the capital of the Company was sub-divided and reclassified into 100,000 Class A Ordinary Shares of 1 pence.

In the event that in connection with the Scheme the issue of New Ordinary Shares with a nominal value of £5.00 each would or may (in the reasonable opinion of the directors of Exchange Group) result in the issue of Exchange Group's shares at a discount, Exchange Group will prior to the Scheme becoming effective take steps in accordance with the provisions of the Exchange Group Articles and the Companies Act to procure that the New Ordinary Shares are issued with a lower nominal value which is, in the reasonable opinion of the Directors of Exchange Group, appropriate to ensure that such New Ordinary Shares are not issued at a discount to their nominal value.

2.4 Catherine Thomas and Oded Shomroni, employees of the Exchange, each currently hold 100 Class A Ordinary Shares of 1 pence each. It is expected that, following the Scheme becoming effective, these shares will be reduced and cancelled as part of the Exchange Group Reduction of Capital with no consideration payable to the holders.

2.5 JPMorgan Cazenove holds the Redeemable Preference Share. It is expected that, following the Scheme becoming effective, the Redeemable Preference Share will be redeemed for an amount equal to the amount paid up on such Redeemable Preference Share.

2.6 Accordingly, as at the date of this document, the authorised and issued share capital of Exchange Group is, and immediately prior to completion of the Scheme it will be, as follows:

Class	Authorised Number	Nominal Value (£)	Issued and fully paid	
			Number	Nominal Value (£)
New Ordinary Shares . . . . .	350,000,000	5.00	Nil	Nil
B Shares . . . . .	260,000,000	2.00	Nil	Nil
Class A Ordinary Shares . . . . .	400,000,000,000	0.01	200	2.00
Redeemable Preference Share . . . . .	1	50,000	1	50,000

2.7 Prior to the Scheme Effective Date, resolutions will be passed at an extraordinary general meeting by the current shareholders of the Exchange Group so that, subject to and conditional upon the Scheme becoming effective:

- (a) subject to the confirmation by the Court as required by section 135(1) of the Companies Act, the share capital of Exchange Group be reduced by (i) reducing the nominal value of the fully paid up New Ordinary Shares in issue to 7½ pence (or such other nominal value as Exchange Group shall resolve) and crediting the amount represented by such reduction to a separate reserve of Exchange Group (to be applied, to the extent required, in respect of the Return including in respect of the Initial B Share Dividend); and (ii) reducing the nominal value of the Ordinary Shares not in issue to 7½ pence (or such other nominal value as Exchange Group shall resolve), and that the authorised share capital of Exchange Group be reduced accordingly;

- (b) the Directors of Exchange Group be authorised pursuant to the Exchange Group Articles to capitalise the full amount standing to the credit of the merger reserve established by Exchange Group as a result of the Scheme becoming effective and that the Directors of Exchange Group be unconditionally authorised and directed to appropriate such sum to the shareholders who are registered as holders of the issued New Ordinary Shares in Exchange Group immediately following the registration as holders of New Ordinary Shares of the persons required to be issued with New Ordinary Shares by Exchange Group pursuant to the Scheme in the same proportions in which such sum would have been divisible amongst them if it were distributed by way of dividend and to apply such sum on their behalf in paying up in full Class A Ordinary Shares and to allot such shares at par credited as fully paid with fractional entitlements to Class A Ordinary Shares to be aggregated into whole Class A Ordinary Shares and dealt with as the Directors of Exchange Group see fit;
- (c) subject to the passing of the resolution in (b) above and the confirmation of the Court under section 135(1) of the Companies Act (i) the share capital of Exchange Group shall be reduced by cancelling and extinguishing all of the paid up share capital on the Class A Ordinary Shares without payment of consideration to the holders of such Class A Ordinary Shares and crediting the amount represented by such reduction to a separate reserve of the Company, and (ii) the unissued Class A Ordinary Shares in the authorised share capital of Exchange Group shall be cancelled, and that the authorised share capital of Exchange Group be reduced accordingly;
- (d) the Directors are generally and unconditionally authorised in accordance with section 80 of the Companies Act to allot relevant securities (within the meaning of that section):
  - (i) up to an aggregate nominal amount of £6,269,999,998 as required for the purposes of the Scheme; and
  - (ii) up to an aggregate nominal amount of £4,950,000 (representing approximately one third of the expected issued ordinary share capital of Exchange Group immediately following implementation of the Scheme and the Exchange Group Reduction of Capital) on such terms as the Directors think fit,

such authority to expire on the conclusion of the next annual general meeting of Exchange Group (unless previously revoked or varied by the Company in general meeting), whichever is earlier, save that Exchange Group, pursuant to the authority granted by that resolution may enter into a contract to allot relevant securities which would or might be completed wholly or partly after such expiry; and

- (e) the Directors are generally empowered (pursuant to section 95 of the Companies Act) to allot securities (within the meaning of section 94(2) to section 94(3A) of the Companies Act) for cash as if section 89(1) of the Companies Act did not apply to such allotment at any time up to the conclusion of the next annual general meeting of Exchange Group (unless previously revoked or varied by the Company in general meeting), whichever is earlier:
  - (i) in connection with an offer to Shareholders of the Exchange of shares in the capital of Exchange Group in proportion (as nearly as maybe) to their existing holdings of New Ordinary Shares in the Exchange but subject to such exclusions or other arrangements in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any applicable body or stock exchange in another territory; and
  - (ii) up to an aggregate nominal amount of £742,500 (representing approximately 5% of the expected issued ordinary share capital of Exchange Group immediately following implementation of the Scheme and the Exchange Group Reduction of Capital), but so that Exchange Group, pursuant to the power granted by that resolution, may enter into a contract to allot equity securities which would or might be completed wholly or partly after the expiry of such power; and
- (f) conditional upon the Exchange Group Reduction of Capital becoming effective, that Exchange Group be generally and unconditionally authorised to make market purchases (as

defined in section 163 of the Companies Act) of its New Ordinary Shares of 7½ pence (or such other nominal value as Exchange Group shall resolve) provided that:

- (i) it does not purchase under this authority more than 19,000,000 New Ordinary Shares (representing approximately 10% of the expected number of issued New Ordinary Shares of Exchange Group immediately following implementation of the Scheme and the Exchange Group Reduction of Capital);
  - (ii) it does not pay less than 7½ pence (or such other nominal value as Exchange Group shall resolve) for each New Ordinary Share (being the nominal value of a New Ordinary Share following the Exchange Group Reduction of Capital);
  - (iii) it does not pay more for each New Ordinary Share than the higher of: (i) the amount equal to 105% of the average of the middle market price of the New Ordinary Shares for the five business days immediately preceding the date on which Exchange Group agrees to buy the New Ordinary Shares concerned and (ii) an amount equal to the higher of the price of the last independent trade of a New Ordinary Share and the highest current independent bid for an ordinary share as derived from the Stock Exchange Electronic Trading Service (**SETS**);
  - (iv) this authority shall continue in force until the conclusion of the next annual general meeting of Exchange Group (unless previously revoked or varied by the Company in general meeting), whichever shall be the earlier; and
  - (v) it may agree before the authority terminates under (iv) above to purchase New Ordinary Shares where the purchase will or may be executed after the authority terminates (either wholly or in part). Exchange Group may complete such a purchase even though the authority has terminated;
- (g) the rules of the London Stock Exchange Long Term Incentive Plan 2004, the London Stock Exchange SAYE Scheme and the London Stock Exchange Share Incentive Plan are approved (as amended pursuant to resolution (D) of the resolutions to be passed at the Extraordinary General Meeting);
- (h) new Exchange Group Articles, containing provisions appropriate for Exchange Group as a listed company, are adopted; and
- (i) upon redemption of the Redeemable Preference Share in the share capital of Exchange Group, the Exchange Group Articles be amended by deleting all the terms relating to the Redeemable Preference Share.
- 2.8 The Exchange Group Articles which will be in place at the time of the Scheme Effective Date will be substantially the same as the current Exchange Articles adopted on 13 July 2005, although they will include a simplified procedure for shareholders to provide authority to the Directors of Exchange Group for allotment of New Ordinary Shares under section 80 of the Companies Act up to a prescribed amount for a prescribed period specified by ordinary or special resolution and for shareholders to disapply pre-emption rights under section 89 of the Companies Act up to a prescribed amount for a prescribed period and will increase the limit on aggregate fees payable to Non-Executive Directors (but excluding the Chairman) from £500,000 to £750,000.
- 2.9 The Exchange does not hold any Existing Ordinary Shares in treasury. The Directors of Exchange Group have no present intention to make any allotments pursuant to the authority contemplated in the resolution described in paragraph 2.7(d) above other than pursuant to the issue of shares following the exercise of options or vesting of share awards granted under the Exchange Employee Share Schemes.
- 2.10 The New Ordinary Shares and B Shares will, when issued, be in registered form and will be capable of being held in uncertificated form. No temporary documents of title have been or will be issued in respect of the New Ordinary Shares or the B Shares.
- 2.11 The New Ordinary Shares and B Shares have not been marketed and are not available in whole or in part to the public otherwise than pursuant to the Scheme.
- 2.12 No commissions, discounts, brokerages or other special terms have been granted in respect of the issue of any share capital of Exchange Group.

- 2.13 The Redeemable Preference Share will be in registered form but will not be listed or traded and will carry no rights to vote (other than at any meeting of its class).
- 2.14 Under the Scheme, Exchange Group will issue New Ordinary Shares and B Shares, credited as fully paid, to the Scheme Shareholders on the basis of 3 New Ordinary Shares for every 4 Existing Ordinary Shares and one B Share for every one Existing Ordinary Share held at the Scheme Effective Date and the Class A Ordinary Shares resulting from the capitalisation of the merger reserve of Exchange Group created upon the Scheme becoming effective shall be allotted to the Shareholders of Exchange Group who are registered as holders of the New Ordinary Shares immediately following the registration as holders of New Ordinary Shares of the persons required to be issued with New Ordinary Shares by Exchange Group pursuant to the Scheme and, together with the 200 Class A Ordinary Shares in issue at the date of this document, shall be reduced and immediately cancelled pursuant to the Exchange Group Reduction of Capital. It is proposed then to redeem the Redeemable Preference Share. Accordingly, the proposed authorised, issued and fully paid share capital of Exchange Group as it will be immediately following Admission (on the basis that the Redeemable Preference Share has been redeemed and that all options over shares in the Exchange exercisable before the Scheme Effective Date have been exercised) is expected to be as follows:

Class	Authorised Number	Nominal Value	Issued and fully paid	
			Number	Nominal Value
New Ordinary Shares . . . . .	350,000,000	7 $\frac{7}{8}$ p	193,835,774	7 $\frac{7}{8}$ p
B Shares . . . . .	260,000,000	£2.00	256,230,499	£2.00

### 3. Directors of the Exchange

- 3.1 The business address of each of the Directors of the Exchange is 10 Paternoster Square, London EC4M 7LS.

### 4. Directors' interests

- 4.1 The interests of the Directors and persons connected with them (within the meaning of section 346 of the Companies Act), all of which are beneficial, in the issued share capital of the Exchange are as follows:

Directors	As at the date of this Circular	
	Number of Existing Ordinary Shares	% Holding of Existing Ordinary Shares
CS Gibson-Smith . . . . .	60,214	0.0235
CHF Furse . . . . .	341,977	0.1335
JAG Howell . . . . .	103,356	0.0403
GJ Allen . . . . .	1,865	0.0007
J Cohen . . . . .	1,443	0.0006
O Fanjul . . . . .	25,976	0.0101
NJ Stapleton . . . . .	1,645	0.0006
RS Webb . . . . .	1,424	0.0006

Share awards and share options granted under the current and closed share schemes for the Directors are summarised in paragraphs 4.5 and 4.6.

- 4.2 Save as disclosed in paragraphs 4.1, 4.5 and 4.6, none of the Directors or their immediate families, nor any person connected with any Director (within the meaning of section 346 of the Companies Act) has any interest, whether beneficial or non beneficial, in any share or loan capital of the Exchange or any of its subsidiaries.
- 4.3 As at the date of this Circular:
- (i) No outstanding loans or guarantees have been granted or provided to or for the benefit of any Director by Exchange Group or any of its subsidiaries.

(ii) The interests of the Directors and persons connected with them together represent 0.21% of the issued ordinary share capital of Exchange and will represent 0.21% of the issued ordinary share capital of Exchange Group after Admission.

4.4 Upon the Proposals becoming effective, the Directors may have interests in New Ordinary Shares and B Shares arising pursuant to their interests in Existing Ordinary Shares under the Exchange Employee Share Schemes referred to in paragraph 6. Directors are required (or, in the case of the SAYE Scheme, invited) to exchange their options and awards which have not been exercised at the effective date of the Proposals for equivalent rights over New Ordinary Shares. Where share options or share awards are subject to performance criteria based on the performance of the Exchange, the replacement share options and share awards will be subject to identical performance criteria linked to the performance of Exchange Group. Clara Furse has indicated that she will agree to roll over any HM Revenue & Customs approved share options which she holds under the SAYE Scheme. Jonathan Howell does not hold any options under the SAYE Scheme.

#### 4.5 Current Share Schemes

(a) The London Stock Exchange Long Term Incentive Plan 2004

The following performance share awards, the vesting of which is dependent on the achievement of performance targets, are held under the LTIP:

	<u>Number of shares awarded</u>	<u>Price at award date (£)</u>	<u>Date of award</u>	<u>Final vesting date</u>
CHF Furse . . . . .	27,687	3.63	15/07/04	15/07/07
	<u>44,620</u>	8.55	28/02/06	28/02/09
	<u>72,307</u>			
JAG Howell . . . . .	18,194	3.63	15/07/04	15/07/07
	<u>28,772</u>	8.55	28/02/06	28/02/09
	<u>46,966</u>			

Clara Furse and Jonathan Howell elected to invest in 13,108 and 8,127 shares respectively under the LTIP and were awarded matching shares as follows, the vesting of which is dependent on the achievement of performance targets:

	<u>Maximum number of matching shares</u>	<u>Price at award date (£)</u>	<u>Date of award</u>	<u>Final vesting date</u>
CHF Furse . . . . .	44,444	8.60	03/03/06	03/03/09
JAG Howell . . . . .	27,480	8.64	06/03/06	06/03/09

(b) The London Stock Exchange SAYE Option Scheme

The following options are held under the SAYE Scheme:

	<u>Number of shares under option</u>	<u>Option Price (£)</u>	<u>Date of grant</u>	<u>First vesting date</u>	<u>Expiry date</u>
CHF Furse . . . . .	6,048	2.79	16/08/01	01/10/06	01/04/07

#### 4.6 Share Schemes Closed to New Awards

##### (a) The London Stock Exchange Executive Share Option Scheme

The following options, the vesting of which are dependent on the achievement of performance targets, are held under the ESOS:

	<u>Number of shares under option</u>	<u>Option Price (£)</u>	<u>Date of grant</u>	<u>First vesting date</u>	<u>Expiry date</u>
CHF Furse . . . . .	76,924	3.90	15/07/02	15/07/05	15/07/12
	102,168	3.23	16/05/03	16/05/06	16/05/13
	87,072	3.79	20/05/04	20/05/07	20/05/14
	<u>266,164</u>				
JAG Howell . . . . .	47,436	3.90	15/07/02	15/07/05	15/07/12
	61,920	3.23	16/05/03	16/05/06	16/05/13
	52,771	3.79	20/05/04	20/05/07	20/05/14
	<u>162,127</u>				

##### (b) The London Stock Exchange Initial Share Plan

The following share options are held under the Initial Share Plan:

	<u>Number of shares under option</u>	<u>Option Price (£)</u>	<u>Date of grant</u>	<u>First vesting date</u>	<u>Expiry date</u>
CHF Furse . . . . .	285,450	2.52	25/01/01	25/01/02	25/01/11
	211,450	3.15	25/01/01	25/01/02	25/01/11
	<u>496,900</u>				
JAG Howell . . . . .	242,600	2.37	16/11/00	16/11/01	16/11/10
	179,700	2.97	16/11/00	16/11/01	16/11/10
	<u>422,300</u>				

No share awards (as distinct from share options) remain unvested under the Initial Share Plan.

##### (c) The London Stock Exchange Annual Share Plan

The following share options are held under the Annual Share Plan:

	<u>Number of shares under option</u>	<u>Option Price (£)</u>	<u>Date of grant</u>	<u>First vesting date</u>	<u>Expiry date</u>
CHF Furse . . . . .	3,430	3.65	25/06/01	25/06/02	25/06/11
JAG Howell . . . . .	12,350	3.65	25/06/01	25/06/02	25/06/11

## 5. Directors' Service Agreements and Letters of Appointment, Emoluments of Directors

### 5.1 The Directors were appointed Directors of the Exchange on the following dates:

<u>Director</u>	<u>Position</u>	<u>Date</u>
Chris Gibson-Smith . . . . .	Chairman	1 May 2003
Clara Furse . . . . .	Chief Executive	24 January 2001
Jonathan Howell . . . . .	Director of Finance	25 March 1999
Gary Allen . . . . .	Non-Executive Director	14 July 1994
Baroness Janet Cohen . . . . .	Non-Executive Director	1 February 2001
Oscar Fanjul . . . . .	Non-Executive Director	1 February 2001
Peter Meinertzhagen . . . . .	Non-Executive Director	22 May 1997
Nigel Stapleton . . . . .	Non-Executive Director	1 February 2001
Robert Webb QC . . . . .	Non-Executive Director	1 February 2001

- 5.2 Each Executive Director has a service agreement with the Exchange which will continue after the Proposals become effective. The terms are set out below:
- (a) Clara Furse entered into a service agreement with the Exchange on 24 January 2001 to act as Chief Executive. The service agreement may be terminated by Mrs Furse or the Exchange on not less than 12 months' notice. In addition, on a change of control of the Exchange, Mrs Furse has the right to terminate her contract on 30 days' notice provided such notice is given within 30 days of the change of control. In the event of (i) her resignation following a change of control; (ii) an unlawful termination of her employment by the Exchange; or (iii) the Exchange terminating her employment in the event that she is unable to perform her duties due to illness or injury for a period of 6 months in any 12 month period and she is not eligible to receive a permanent health insurance benefit, Mrs Furse is entitled to a severance payment equal to one year's salary, benefits in kind and the amount of the last bonus awarded in the twelve month period prior to termination;
  - (b) Jonathan Howell entered into a service agreement with the Exchange dated 25 January 2000. The service agreement may be terminated by Mr Howell or the Exchange on not less than 12 months' written notice by the Exchange or Mr Howell;
  - (c) the Executive Directors each receive benefits in kind, principally private health care and life assurance arrangements. In addition, each of the Executive Directors is entitled to:
    - (i) participate in the Exchange Annual Bonus Plan. Bonus awards are approved by the Exchange's Remuneration Committee and are based on annual financial targets and individual performance; and
    - (ii) participate in the LTIP which comprises a conditional award of performance shares and an award of matching shares linked to investment by the Executive Directors in Existing Ordinary Shares;
  - (d) Exchange staff participate in a flexible benefit plan whereby they receive an allowance from which they can purchase additional benefits or receive all or a proportion as a cash supplement. This allowance is not used to calculate bonus payments or pension contributions. Clara Furse receives a flexible benefit allowance of £20,000 per annum. Jonathan Howell's flexible benefit allowance is £19,520 per annum; and
  - (e) save as mentioned in this paragraph 5, there are no entitlements to commissions, profit sharing arrangements or any other specific compensation payments under the Executive Directors' service agreements.
- 5.3 It is intended that each of the Executive Directors will enter into a letter of appointment with Exchange Group (to which the Exchange is also a party) prior to, and conditional upon, the Proposals becoming effective. Under these letters of appointment the Executive Directors will be appointed to the Board of Directors of Exchange Group and will owe duties to Exchange Group. In the case of Clara Furse, it is intended that the letter of appointment will also amend her service agreement so that her existing entitlement to a severance payment upon her resignation following a change of control of the Exchange (as described above) will not be exercised as a result of the Proposals but will be preserved upon a change of control of Exchange Group.
- 5.4 Each of the Non-Executive Directors except the Chairman has a letter of appointment, with no notice period, dated 1 February 2001 which sets out their responsibilities and commitments. Each of the appointments were for an initial period of three years and have been renewed until 31 January 2007, unless the Non-Executive Director is not re-elected by shareholders at the next Annual General Meeting at which he is required to stand for re-election.
- 5.5 The Chairman has a letter of appointment dated 7 April 2003. His appointment is for an initial period of three years until the Annual General Meeting in 2006, is terminable on six months' notice and is renewable for a further period of three years.
- 5.6 It is intended that the Non-Executive Directors including the Chairman will enter into new letters of appointment with Exchange Group on the same terms as the existing letters prior to, and conditional upon, the Proposals becoming effective.
- 5.7 The Non-Executive Directors including the Chairman are not eligible to participate in any incentive or pension arrangements.



- 5.8 Save as specified in paragraphs 5.2, 5.3, 5.4 and 5.5, there are no existing or proposed service agreements between any of the Directors and the Exchange or any of its subsidiaries.
- 5.9 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year ended 31 March 2005.
- 5.10 In the financial year ended 31 March 2005 the amount of remuneration paid (including any contingent or deferred compensation) and benefits in kind granted to each of the Directors of the Exchange is shown in the Remuneration Report on page 31 of the Annual Report 2005 and incorporated by reference herein.
- 5.11 There are no amounts set aside or accrued by the Exchange or its subsidiaries to provide pension, retirement or similar benefits to Directors.
- 5.12 Other than current or former directorships of the Group, during the five years immediately prior to the date of this Circular, the Directors have been members of the administrative, management or supervisory bodies or partners of the companies or partnerships, (excluding subsidiaries of any company of which he is also a member of the administrative, management or supervisory bodies) specified below:

### **Directors**

**Chris Gibson-Smith** — current directorships are as follows: British Land Company plc, Arts & Business Limited and Arts & Business Services Limited. In addition, Chris Gibson-Smith has had the following former directorships: BP Car Finance Limited (resigned 2001), BP plc (resigned 2001), BP Pension Trustees Limited (resigned 2001), Powergen Limited (resigned 2002), The BOC Foundation (resigned 2003), Lloyds TSB Bank plc (resigned 2005), Lloyds TSB Group plc (resigned 2005), National Air Traffic Services Ltd (resigned 2005), NATS (En Route) Public Limited Company (resigned 2005), NATS (Services) Limited (resigned 2005), NATS Holdings Limited (resigned 2005) and Institute for Public Policy Research (resigned 2005).

**Clara Furse** — current directorships are as follows: Euroclear plc and LCH.Clearnet Group Limited. In addition, Clara Furse has had the following former directorship: RICS Foundation (resigned 2005).

**Jonathan Howell** — current directorships are as follows: FTSE International Ltd. In addition, Jonathan Howell has had the following former directorship: CRESTCo Limited (resigned 2001).

**Gary Allen** — current directorships are as follows: N V Bekaert SA, The National Exhibition Centre Ltd, NEC Finance plc and Temple Bar Investment Trust plc. In addition, Gary Allen has had the following former directorships: IMI Group Services (resigned 2001), IMI Kynoch Limited (resigned 2001), IMI Overseas Investment Limited (resigned 2001), The Lord's Taverners Limited (resigned 2001), Polypipe Building Products Limited (resigned 2001), Birmingham Royal Ballet Trust (resigned 2002), Birmingham Royal Ballet (resigned 2003), IMI plc (resigned 2004) and Industry in Education Limited (resigned 2005).

**Janet Cohen** — current directorships are as follows: BPP Holdings plc, Management Consulting Group plc and Proudfoot Trustees Limited. In addition, Janet Cohen has had the following former directorships: CCF Charterhouse Corporate Finance Limited (resigned 2001), Informed Sources Holdings Limited (resigned 2002) and Defence Logistics Organisation (resigned 2005).

**Oscar Fanjul** — current directorships are as follows: Unilever plc, Marsh & McLennan Companies Inc., Lafarge, Acerinox, Omega Capital, S.L. and 59 Cadogan Place Limited. In addition, Oscar Fanjul has had the following former directorships: Ericsson S.A. (resigned 2001), Hidroeléctrica del Cantábrico (resigned 2001), Banco Bilbao Vizcaya Argentaria (resigned 2002) and Técnicas Reunidas (resigned 2005).

**Peter Meinertzhagen** — former directorships are as follows: ABN Amro Equities Holdings (UK) Limited (resigned 2004), ABN Amro Management Services (resigned 2004), Hoare Govett Trustees Limited (resigned 2004), Hoare Govett Limited (resigned 2004) and MVM Limited (resigned 2005).

**Nigel Stapleton** — current directorships are as follows: Ashley Walls Investment Limited, Reliance Security Group plc, Uniq plc and Uniq Prepared Foods Limited. In addition, Nigel Stapleton has had the following former directorships: PBI Media Limited (resigned 2001), The Royal Opera House

Foundation (resigned 2001), ITE Group plc (resigned 2001), AXA UK plc (resigned 2002), Centaur Communications Limited (resigned 2002), Origindeal Limited (resigned 2002), Veronis Suhler Stevenson International Limited (resigned 2002), M (2003) plc (resigned 2002) and Cordiant Communications Group Limited (resigned 2003).

**Robert Webb** — current directorships are as follows: London First and Hakluyt & Company Limited. In addition, Robert Webb has had the following former directorships: British Airways Pension Trustees Limited (resigned 2002) and Air Mauritius (resigned 2005).

- 5.13 Save as set out in paragraph 5.15 below, none of the Directors has any business interests nor performs any activities outside the Exchange which are significant with respect to the Exchange.
- 5.14 The Directors in the five years before the date of this document:
- (a) do not have any convictions in relation to fraudulent offences;
  - (b) do not have any bankruptcies, receiverships or liquidations through acting in the capacity of a member of administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company; and
  - (c) do not have any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) and have not been disqualified by court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company.
- 5.15 By virtue of her position as Chief Executive Officer of the Exchange, Clara Furse was invited to be a director of LCH.Clearnet Group Limited and Euroclear plc both of which provide services to the Exchange. Peter Meinertzhagen is Non-Executive Chairman of Hoare Govett Limited, one of the Exchange's customers.
- 5.16 No outstanding loans or guarantees have been granted or provided to or for the benefit of any Director by the Exchange or any of its subsidiaries.
- 5.17 None of the Directors has or has had any interest, whether direct or indirect in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Exchange and which taken as a whole was effected by the Exchange in the current or two immediately preceding financial years of the Exchange or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- 5.18 No Director has any conflict of interest between his duties to the Exchange and any private interests or other duties.
- 5.19 There are no family relationships between any of the Directors.

## 6. Exchange Employee Share Schemes

- 6.1 Share awards and share options have been granted to employees (including Executive Directors) in previous years under the Exchange Employee Share Schemes in accordance with the rules of the relevant scheme prevailing at the time of grant. All plans established prior to 2004, with the exception of the SAYE Scheme, have now been closed in respect of new awards.

As at 17 March 2006 (the latest practicable date prior to the publication of this document), the following awards and options had been granted over the Existing Ordinary Shares:

<u>Date granted</u>	<u>Option price</u>	<u>Exercisable from</u>	<u>Number of shares for which right is exercisable</u>
<b>Share Awards</b>			
16/05/03 . . . . .	—	16/05/06	34,056
15/07/04 . . . . .	—	15/07/07	459,856
20/08/04 . . . . .	—	20/08/07	243,674
28/02/06 . . . . .	—	28/02/09	633,597
03/03/06 . . . . .	—	03/03/09	44,444
06/03/06 . . . . .	—	06/03/09	78,366
09/03/06 . . . . .	—	09/03/09	207,205

<u>Date granted</u>	<u>Option price</u>	<u>Exercisable from</u>	<u>Number of shares for which right is exercisable</u>
<b>Share Options</b>			
16/11/00 .....	2.37	16/11/01	486,860
16/11/00 .....	2.97	16/11/01	295,850
25/01/01 .....	2.52	25/01/02	285,450
25/01/01 .....	3.15	25/01/02	211,450
25/06/01 .....	3.65	25/06/02	278,386
25/06/01 .....	4.56	25/06/02	63,410
15/07/02 .....	3.90	15/07/05	547,614
16/05/03 .....	3.23	16/05/06	1,327,229
20/05/04 .....	3.79	20/05/07	1,344,211
12/07/04 .....	3.73	12/07/07	10,252
18/08/04 .....	3.45	18/08/07	139,333
<b>SAYE</b>			
07/12/00 .....	1.90	01/01/06	48,180
16/08/01 .....	2.79	01/10/06	202,635
06/09/02 .....	3.09	01/10/07	98,529
01/08/03 .....	2.73	01/08/08	123,645
01/08/04 .....	2.93	01/08/09	173,600

The total number of awards and options granted over the Existing Ordinary Shares as at 17 March 2006 (being the latest practicable date prior to the publication of this document) of 7,337,832 represents approximately 2.86% of the issued ordinary share capital of the Exchange on that date and approximately 3.82% of the expected issued ordinary share capital of Exchange Group immediately following completion of the Scheme and the Exchange Group Reduction of Capital.

Subject to Shareholder approval of resolution D in the Notice of Extraordinary General Meeting, and, in the case of the SAYE Scheme and the SIP, the approval of HM Revenue & Customs, the terms of the LTIP, the SAYE Scheme and the SIP will be amended so that appropriate references to Existing Ordinary Shares are changed to New Ordinary Shares and appropriate references to the Exchange are changed to references to the Exchange Group. This will enable the LTIP, the SAYE Scheme and the SIP to continue to be operated in relation to New Ordinary Shares for the remainder of each scheme's life.

Further details of the Exchange Employee Share Schemes are incorporated by reference herein and are set out in:

- (i) for the LTIP and the SIP, the notice of annual general meeting dated 14 June 2004;
- (ii) for the ESOS, the notice of annual general meeting dated 13 June 2002;
- (iii) for the Initial and Annual Share Plans and the SAYE Scheme, the Listing Particulars of the Exchange dated 18 June 2001;
- (iv) pages 27 to 33 of the Annual Report 2005.

6.2 As the purpose of the Scheme is to implement a corporate reorganisation of the Exchange to give effect to the Return of approximately £510 million to shareholders, the Board and the Remuneration Committee will seek (to the extent possible) to ensure that participants' rights under the Exchange Employee Share Schemes are rolled over into equivalent rights relating to New Ordinary Shares when the Scheme becomes effective.

6.3 The following paragraphs summarise how the Exchange Employee Share Schemes are currently operated, and will continue to be operated after the Scheme becomes effective. References in these summaries to the Remuneration Committee and the Board of Exchange Group include, where the context requires, references to the Remuneration Committee and Board of the Exchange (in respect of the period before the Scheme Effective Date). References to Exchange Group include, where the context requires, references to the Exchange (in respect of the period before the Scheme Effective Date). References to "shares" refer to Existing Ordinary Shares or New Ordinary Shares as the context requires.

## 6.4 Current Share Schemes

### (a) The London Stock Exchange Long Term Incentive Plan 2004

In July 2004, shareholder approval was given to adopt a new LTIP to replace the Exchange's existing ESOS. The LTIP has two elements, a conditional award of performance shares and an award of matching shares linked to investment by the executive of his annual bonus in the Exchange's shares. The matching shares element of the LTIP only applies to the Executive Directors and selected other executives. A wider group of executives, as well as the Executive Directors and selected executives are also eligible for the performance shares element of the LTIP.

The proportion of performance and matching shares which vest will be determined by the Exchange's Total Shareholder Return (**TSR**) performance over a single three year period beginning on the first day of the financial year in which the award is made. For median performance, in comparison to companies constituting the FTSE 51 to 200 (excluding investment trusts), 30% of the award will vest. For upper quartile performance against this group, 100% of the award will vest. For performance below median, none of the award will vest.

### (b) The London Stock Exchange SAYE Option Scheme

All UK employees, including Executive Directors, are eligible to participate in the HM Revenue & Customs approved SAYE Scheme. Under the rules of the SAYE Scheme, participants can save up to £250 each month for a period of five years. Savings plus interest may be used to acquire Existing Ordinary Shares by exercising the related option. The options may be granted at an exercise price which represents a 20% discount to market value at the start of the five year period. No performance conditions are attached to SAYE options.

### (c) The London Stock Exchange Share Incentive Plan

The Exchange has obtained Shareholder approval for the SIP. No awards have been made under the SIP.

## 6.5 Share Schemes Closed for New Awards

### (a) The London Stock Exchange Executive Share Option Scheme

The ESOS was approved by Shareholders in July 2002 and is now closed to further grants. Options granted under the ESOS will not normally become exercisable unless the growth in the Exchange's earnings per share (adjusted for certain items including exceptional items and the amortisation of goodwill) exceeds the Retail Price Index (**RPI**) over the initial three year period after the date of grant by an average of at least 4% per annum.

If the criteria have not been met when the options are due to vest then the options will lapse and there will be no opportunity for re-testing. In addition, all options expire after 10 years.

### (b) The London Stock Exchange Annual and Initial Share Plans

The London Stock Exchange Initial Share Plan was introduced in November 2000 following the Exchange's conversion to a public limited company. Share awards and a grant of options were made to senior executives and other employees. The share awards had a vesting period of three years and share options vested at 20% per annum over five years.

Under the London Stock Exchange Annual Share Plan, awards of shares and grants of options were first made in November 2000. Further awards and grants were made in subsequent years. Share awards have a vesting period of three years and share options vest at 20% per annum over five years.

No performance conditions are attached to the vesting of shares and options under the Annual and Initial Share Plans, although some options under the Plans were granted at a premium to the market price at grant.

## 7. Significant Shareholders

As at 17 March 2006 (the latest practicable date prior to the publication of this document), the Exchange had been notified of the following substantial interests in accordance with sections 198 to 208 of the Companies Act:

Name	Current Holding of Existing Ordinary Shares	% of issued Existing Ordinary Shares of the Exchange
Threadneedle Investments . . . . .	33,657,375	13.14
UBS AG . . . . .	15,875,746	6.20
Lloyds TSB Group plc and subsidiaries (including Scottish Widows Investment Partnership) . . . . .	13,087,252	5.11
Barclays plc . . . . .	10,292,309	4.02
Legal & General Group plc . . . . .	9,786,474	3.82
Goldman Sachs Group, Inc . . . . .	9,461,986	3.69
Wellington Management Company LLP . . . . .	8,510,900	3.32

## 8. Material Contracts

Set out below is a summary of each contract (not being contracts entered into in the ordinary course of business) entered into by any member of the Group: (a) within the two years immediately preceding the date of this Circular and which are or may be material to the Group or (b) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this Circular:

- (a) the Service Management Agreement between the Exchange and Accenture plc (**Accenture**) dated 11 October 1996 as amended and extended by letters dated 31 July 2001 and 1 April 2003, whereby Accenture is the main facilities manager for the London Stock Exchange's trading and information systems. Key elements of London Stock Exchange's Technology Road Map (**TRM**) project for the development, implementation and maintenance of its new trading and information system are covered by this Agreement. The net annual payment to Accenture under this Agreement during the financial year ended 31 March 2005 was £15.7 million. The term of this Agreement has been extended until 31 March 2008;
- (b) the Exchange Solutions Centre Agreement between the Exchange and Accenture dated 28 March 2002 (as subsequently amended), whereby Accenture is the main development resource provider for London Stock Exchange's trading and information systems. Key elements of London Stock Exchange's TRM project for the development, implementation and maintenance of its new trading and information system are covered by this Agreement. The net annual payment to Accenture under this Agreement during the financial year ended 31 March 2005 was £14.1 million. The Term of this Agreement has been extended until 31 March 2008;
- (c) the Agreement between MCI Worldcom and the Exchange for the Implementation and Management of the London Stock Exchange's primary IP Network dated 22 June 2001 (as subsequently amended). The term of this Agreement will expire on 21 June 2006 with automatic 12 month extensions thereafter (unless either party gives the requisite 3 months' notice to terminate). The Exchange may terminate at any time subject to payment of certain charges. The net annual payment to MCI Worldcom under the Agreement during the financial year ended 31 March 2005 was £4.7 million;
- (d) the Agreement between the Exchange and The London Clearing House Limited (now known as LCH.Clearnet Limited) dated 24 November 2003. Under the agreement, the Exchange has appointed LCH.Clearnet to act as the central counterparty for the clearing of securities on the Exchange's SETS trading platform. There are no financial flows between the parties relating to this activity. The agreement remains in force until validly terminated by either party on not less than 12 months' prior written notice;
- (e) the Agreement between the Exchange and The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC (the **Revolving Facility**)

**Agreement** dated 9 February 2006, for a revolving loan facility amounting to £200 million (the **Revolving Facility**) terms of which are as follows:

- (i) The Revolving Facility is for general corporate purposes including to fund a return of capital to the shareholders of Exchange Group. The Revolving Facility Agreement provides that Exchange Group and subsidiaries of the Exchange may become borrowers and guarantors under the Revolving Facility. If the Exchange Group becomes a party to the Revolving Facility Agreement, the borrowings under the Revolving Facility will be secured by a charge over the shares in the Exchange owned by Exchange Group. The final maturity date of the Revolving Facility is the fifth anniversary of the date of the Revolving Facility Agreement.
  - (ii) The borrowings under the Revolving Facility bear interest at a floating rate per annum equal to LIBOR (in the case of US Dollar and Sterling advances) and EURIBOR (in the case of euro advances) plus mandatory costs (if any) plus a margin. The Revolving Facility margin shall initially be 40 basis points per annum and thereafter is determined in accordance with a margin adjustment mechanism. This mechanism provides that the margin may change depending on the Group's leveraged ratio as reflected in the latest compliance certificate delivered semi-annually with the financial statements. The leverage ratio is the ratio of the Group's consolidated net debt to consolidated EBITDA. The Revolving Facility margin may vary between 35 and 55 basis points according to the leverage ratio. 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.
  - (iii) 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 Exchange or Exchange Group on the terms set out in the Revolving Facility Agreement.
  - (iv) The Revolving Facility Agreement contains certain customary covenants which restrict the obligors (being any borrowers or guarantors under the Revolving 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 Exchange or the Group, and (v) incurring subsidiary borrowings. The Revolving Facility also requires the Group to maintain certain specified financial covenants.
  - (v) The Revolving Facility Agreement contains certain customary representations and events of default.
- (f) the Agreement between the Exchange and The Royal Bank of Scotland plc and Barclays Capital, the investment banking division of Barclays Bank PLC (the **Facility Agreement**) dated 9 February 2006, for a loan facility amounting to £250 million (the **Facility**) terms of which are as follows:
- (i) The Facility is available to fund a return of capital to the shareholders of Exchange Group. The Facility Agreement provides that Exchange Group and subsidiaries of the Exchange may become borrowers and guarantors under the Facility. If the Exchange Group becomes a party to the Facility Agreement, the borrowings under the Facility will be secured by a charge over the shares in the Exchange owned by Exchange Group. 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 outstanding amounts under the Facility may be converted into term loans for a maximum period of eighteen months.
  - (ii) The borrowings under the Facility bear interest at a floating rate per annum equal to LIBOR (in the case of US Dollar and Sterling advances) and EURIBOR (in the case of euro advances) plus mandatory costs (if any) plus a margin. The Facility margin shall initially be 40 basis points per annum and thereafter is determined in accordance with a margin adjustment mechanism. This mechanism provides that the margin may change depending on the Group's leveraged ratio as reflected in the latest compliance certificate delivered semi-annually with the financial statements. The leverage ratio is the

ratio of the Group's consolidated net debt to consolidated EBITDA. The Facility margin may vary between 35 and 60 basis points according to the leverage ratio. 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.

- (iii) 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 Exchange or Exchange Group under the terms set out in the Facility Agreement. The Facility must be repaid in full from the proceeds of any bond issue.
- (iv) The Facility Agreement contains certain customary covenants similar to those contained in the Revolving Facility Agreement described above and contains certain customary representations and events of default.

## 9. Consent

JPMorgan Cazenove 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.

## 10. Documents on Display

Copies of the following documents will be available for inspection at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS and at the registered office of the Exchange and Exchange Group (both at 10 Paternoster Square, London EC4M 7LS) during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Scheme is completed or lapses and will also be available for inspection at the Court Meeting and the Extraordinary General Meeting:

- (a) the Memorandum of Association of the Exchange and Exchange Articles (as currently in force, and as they will be following the proposed amendment at the Extraordinary General Meeting);
- (b) the current Memorandum of Association of Exchange Group and Exchange Group Articles;
- (c) service agreements of the Executive Directors and letters of appointment of the Chairman and the Non-Executive Directors;
- (d) the rules of the London Stock Exchange Long Term Incentive Plan 2004, the London Stock Exchange SAYE Option Scheme and the London Stock Exchange Share Incentive Plan as they are proposed to be amended;
- (e) the rules of the Exchange Employee Share Schemes;
- (f) the consent letter referred to in paragraph 9 above; and
- (g) this document.

## 11. Checklist of documents incorporated by reference

<u>Information incorporated by reference</u>	<u>Document reference</u>	<u>Page number in Circular</u>
Summary of the rules of the LTIP and the SIP	Notice of annual general meeting dated 14 June 2004	47
Summary of the rules of the ESOS	Notice of annual general meeting dated 13 June 2002	47
Summary of the rules of the Initial and Annual Share Plans and the SAYE Scheme	Listing Particulars of the Exchange dated 18 June 2001 (pages 83 to 85)	47
Remuneration Report	Annual Report 2005 (pages 27 to 33)	45, 47

<b>Information incorporated by reference</b>	<b>Document reference</b>	<b>Page number in Circular</b>
Annual historical financial information for the year ended 31 March 2003 and auditors report	Annual Report 2003 (pages 43 to 62)	37
Annual historical financial information for year ended 31 March 2004 and auditors report	Annual Report 2004 (pages 47 to 66)	37
Annual historical financial information for year ended 31 March 2005 and auditors report	Annual Report 2005 (pages 37 to 64)	37



**PART 7:**  
**DEFINITIONS**

The following definitions apply throughout this document (except in those parts of this document containing the Scheme, the Notice of Court Meeting and the Notice of the Extraordinary General Meeting which contain separate definitions) unless the context requires otherwise.

Admission	admission of the New Ordinary Shares and B Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's market for listed securities in accordance with the Admission and Disclosure Standards
Admission and Disclosure Standards	the requirements contained in the publication "Admission and Disclosure Standards" dated April 2002 and issued by the London Stock Exchange (as amended from time to time) containing, <i>inter alia</i> , the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities
Alternative 1	Initial B Share Dividend alternative, as described in Part 4 of this document
Alternative 2	Initial Redemption alternative, as described in Part 4 of this document
Alternative 3	Future Redemption Right alternative, as described in Part 4 of this document
Annual and Initial Share Plans	the London Stock Exchange Annual and Initial Share Plans
B Share Alternatives	the alternatives of Initial B Share Dividend, Initial Redemption and/or Future Redemption Right which are available to Shareholders in connection with the B Shares, as described in Part 4 of this document
B Share Continuing Dividend	the dividend to be paid on the B Shares retained by the Shareholders, as described in Part 4 of this document
B Shares	the B Shares of nominal value £2.00 each in the capital of the Exchange Group to be allotted and issued pursuant to the Scheme and carrying the rights, as described in Part 4 of this document
Board	the Board of Directors of the Exchange, whose names are set out in Part 6 of this document, or the Board of Directors of Exchange Group, as the context may require
business day	a day (excluding Saturday or Sunday or a public holiday) on which banks generally are open for business in the City of London for the transaction of normal banking business
Circular	this document issued by the Exchange on 21 March 2006 in conjunction with the Proposals
Class A Ordinary Shares	Class A Ordinary Shares of nominal value 1 pence in the capital of Exchange Group created pursuant to the resolutions described in paragraph 2.3 of Part 6 of this document and reduced and cancelled as part of the Exchange Group Reduction of Capital
Closing Price	the closing middle market quotation of the relevant share as derived from the Daily Official List of the London Stock Exchange or the London Stock Exchange's website

Companies Act	the Companies Act 1985, including any statutory modification or re-enactment thereof for the time being in force
Court	the High Court of Justice of England and Wales
Court Hearing	the hearing of the petition to sanction the Scheme by the Court and the reduction of capital of the Exchange involved in the Scheme
Court Meeting	the meeting, notice of which is set out in Part 8 of this document, of the holders of Existing Ordinary Shares convened for 19 April 2006 by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Scheme, and any adjournment thereof
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
CRESTCo	CRESTCo Limited
Deferred Shares	the class of shares which B Shares will be reclassified as if an Initial B Share Dividend is paid on such B Shares, as described in Part 4 of this document
Directors	the directors of the Exchange, or the directors of Exchange Group, as the context may require
ESOS	London Stock Exchange Executive Share Option Scheme
Exchange	London Stock Exchange plc, a public limited company incorporated in England and Wales with registered number 2075721
Exchange Act	the United States Securities Exchange Act of 1934, as amended
Exchange Articles	the Articles of Association of the Exchange as adopted or amended from time to time
Exchange Employee Share Schemes	the London Stock Exchange Executive Share Option Scheme, the London Stock Exchange Initial Share Plan, the London Stock Exchange Annual Share Plan, the London Stock Exchange Long Term Incentive Plan 2004, the London Stock Exchange SAYE Option Scheme and the London Stock Exchange Share Incentive Plan
Exchange Group	London Stock Exchange Group plc, a public limited company incorporated in England and Wales with registered number 5369106
Exchange Group Articles	the Articles of Association of Exchange Group as adopted or amended from time to time
Exchange Group Reduction of Capital	the proposed reduction of capital of Exchange Group under section 135 of the Companies Act described in paragraph 5 of Part 1 of this document
Executive Directors	the executive directors of the Exchange whose names are set out on page 43 of this document and “Executive Director” shall mean any one of them
Existing Ordinary Shares	the ordinary shares of 5½ pence each in the capital of the Exchange existing from time to time
Explanatory Statement	Part 2 of this document which has been prepared in accordance with section 426 of the Companies Act

Extraordinary General Meeting	the extraordinary general meeting of the Exchange convened for 19 April 2006, notice of which is set out in Part 9 of this document, to consider and, if thought fit, approve, a special resolution required <i>inter alia</i> , to give effect to the Scheme, and any adjournment thereof
Final Deferred Redemption Date	1 June 2009, the date on which all remaining B Shares shall be redeemed, as described in paragraph 1.4 of Part 4 of this document
Form of Election	in relation to the B Shares the form of election in respect of the alternatives for receipt of the Return
Forms of Proxy	the forms of proxy accompanying this document relating to the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting
FSA	Financial Services Authority Limited
FSMA 2000	Financial Services and Markets Act 2000
Future Redemption Right	the right of redemption of the B Shares at Redemption Dates available to Shareholders electing for Alternative 3 on such B Shares, as described in paragraph 1.4 of Part 4 of this document
Group	before the Scheme Effective Date, the Exchange and its subsidiary undertakings and, from the Scheme Effective Date, Exchange Group and its subsidiary undertakings
holder	a registered holder, and includes any person(s) entitled by transmission
in certificated form	in relation to a share or other security, a share or other security which is not in uncertificated form
Initial B Share Dividend	the dividend of £2.00 to be paid on each B Share to Shareholders electing for Alternative 1 on such B Shares, as described in paragraph 1.1 of Part 4 above
Initial Redemption	the redemption of the B Shares for a redemption amount of £2.00 and cancellation of such B Shares, with payment of such amount to be made to Shareholders electing for Alternative 2 on such B Shares, as described in paragraph 1.3 of Part 4 of this document
Initial Redemption Date	the date on which the Initial Redemption shall be made, expected to be 22 May 2006
ISA	individual savings accounts
JPMorgan Cazenove	JPMorgan Cazenove Limited
LIBOR	the London inter-bank offered rate, being the rate at which lending banks in the London market offer to take sterling deposits from one another
Listing Rules	the rules and regulations of the Financial Services Authority made under Part VI of FSMA 2000 as amended from time to time
LTIP	London Stock Exchange Long Term Incentive Plan 2004
New Exchange Ordinary Shares	the ordinary shares of the Exchange created following the cancellation of the Existing Ordinary Shares which shall be of an aggregate nominal amount equal to the aggregate nominal amount of the Existing Ordinary Shares cancelled

New Ordinary Shares	the ordinary shares of nominal value £5.00 each (or such lower nominal value as Exchange Group shall resolve prior to the date on which the Court is asked to sanction the Scheme) in the capital of Exchange Group to be allotted and issued pursuant to the Scheme
Non-Executive Directors	the non-executive directors of the Exchange or the non-executive directors of Exchange Group in each case, including the Chairman, as the context may require whose names are set out on page 43 of this document and “Non-Executive Director” shall mean any one of them
Official List	the list maintained by the UKLA pursuant to Part VI of FSMA 2000
Optionholders	holders of options to acquire ordinary shares under the Exchange Employee Share Schemes
Payment Date	1 June and 1 December in each year, being the date on which a holder of B Shares shall receive the B Share Continuing Dividend, as described in paragraph 1.2 of Part 4 of this document
penny, pence, p, £ or pounds sterling	the lawful currency of the United Kingdom
PEP	personal equity plan
Proposals	the proposed reorganisation of the Group involving the Scheme and the subsequent Exchange Group Reduction of Capital
Prospectus	the prospectus relating to Exchange Group and the New Ordinary Shares and B Shares, prepared in accordance with the Listing Rules and Prospectus Rules, expected to be published on 5 May 2006
Prospectus Rules	the rules and regulations made by the Financial Services Authority pursuant to Part VI of FSMA 2000
Redeemable Preference Share	the one redeemable preference share of £50,000 issued by Exchange Group to facilitate the Proposals, as described in paragraph 2.2 of Part 6 of this document
Redemption Call Date	the date on which Exchange Group may call for redemption of the B Shares, as described in paragraph 1.4 of Part 4 of this document
Redemption Date(s)	1 June and 1 December in each year, being the dates on which a holder of B Shares may elect to redeem any B Shares he holds, as described in paragraph 1.4 of Part 4 of this document
Registrars	Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA
Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
Return	the payment to Shareholders proposed to be effected pursuant to the Scheme as described in this document
SAYE Scheme	London Stock Exchange SAYE Option Scheme
Scheme	the scheme of arrangement in its present form as set out in Part 3 of this document or with or subject to any modification, addition or condition approved or imposed by the Court

Scheme Effective Date	the date on which the Scheme becomes effective in accordance with Clause 7 of the Scheme, expected to be 15 May 2006
Scheme Record Date	the later of 12 May 2006 and the business day immediately preceding the Scheme Effective Date
Scheme Record Time	5.00 p.m. on the Scheme Record Date
Scheme Shareholder	a holder of Existing Ordinary Shares as appearing in the register of members of the Exchange at the Scheme Record Time
Scheme Voting Record Time	6.00 p.m. on 17 April 2006 or, if the Court Meeting is adjourned, 6.00 p.m. two days before the time appointed for any adjourned Court Meeting
Second Interim Dividend	the dividend payment of 8 pence per Existing Ordinary Share to be paid to holders of the Existing Ordinary Shares as at the Scheme Record Time
Securities Act	the United States Securities Act of 1933, as amended
Shareholder	a registered holder of Existing Ordinary Shares, or of New Ordinary Shares, as the context may require
Shareholder Helpline	the helpline available to Shareholders with any questions on the Proposals, the contents of this document or the Forms of Proxy or Form of Election. The Shareholder Helpline (which will provide practical information but not investment advice) is available on telephone number 020 7797 3322 (+44 20 7797 3322 if calling from outside the United Kingdom) open from 9.00 a.m. to 5.30 p.m. on any business day (UK time)
SIP	London Stock Exchange Share Incentive Plan
TTE instruction	Transfer to Escrow instruction to be used by shareholders holding their Existing Ordinary Shares in CREST to enable them to choose one of the B Share Alternatives
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK time	the local time in the United Kingdom
UKLA	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA 2000
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
US or United States	the United States of America, its territories and possessions, any state in the United States of America and the District of Columbia

**PART 8:  
NOTICE OF COURT MEETING**

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT**

**No. 8483 of 2005**

**Chief Registrar Baister**

**IN THE MATTER OF LONDON STOCK EXCHANGE plc  
AND  
IN THE MATTER OF THE COMPANIES ACT 1985**

**Notice is hereby given** that by an order dated the 14 March 2006 made in the above matters the Court has directed a meeting (the **Court Meeting**) to be convened of the holders (the **Shareholders**) of Existing Ordinary Shares of 5<sup>5</sup>/<sub>100</sub> pence each in the capital of London Stock Exchange plc (the **Company**) for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement (**Scheme**) proposed to be made between the Company and the Shareholders and that such meeting will be held at 20 Moorgate, London EC2R 6DA on 19 April 2006 at 9.30 a.m.

A copy of the Scheme and the Explanatory Statement required to be furnished pursuant to section 426 of the Companies Act 1985 are incorporated in the document of which this Notice forms a part.

**The Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead.**

A green Form of Proxy for use at the Court Meeting is enclosed herewith.

It is requested that the Forms of Proxy be lodged (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority) with the Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL by post (faxes will not be accepted), no later than 9.30 a.m. on 17 April 2006 or, in the event that the Court Meeting is adjourned, 48 hours before the time fixed for any adjourned meeting but, if forms are not so lodged, they may be handed to the Registrars, Lloyds TSB Registrars, at the Court Meeting who will receive the Form of Proxy on behalf of the Chairman of the Court Meeting. For the Form of Proxy to be valid, it must be clearly signed in the relevant space provided indicating the Shareholder's instruction to vote either in favour or against the Scheme.

In addition, if the Existing Ordinary Shares are held in uncertificated form, a proxy may also be appointed by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual ensuring that it is received by the Registrars, Lloyds TSB Registrars, (under CREST participant ID 7RA01) by no later than 9.30 a.m. on 17 April 2006 or, in the event that the Court Meeting is adjourned, 48 hours before the time fixed for any adjourned meeting. For the CREST proxy instruction to be valid, the Shareholder's instruction to vote either in favour or against the Scheme must be clearly entered in the relevant box provided.

In the case of a corporation, for the Form of Proxy to be valid, it must be executed either under its common seal or under the hand of an officer or attorney duly authorised in writing.

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names appear in the register of members of the Company in respect of the joint holding.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the register of members of the Company as at 6.00 p.m. on 17 April 2006 or, in the event that the Court Meeting is adjourned, in the register of members as at 6.00 p.m. two days before the time of any adjourned meeting(s), shall be entitled to attend or vote in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6.00 p.m. on 17 April 2006 or, in the event that the Court Meeting is adjourned,

after 6.00 p.m. two days before the time of any adjourned meeting(s), shall be disregarded in determining the rights of any person to attend or vote at the Court Meeting.

By the said order, the Court has appointed Christopher Gibson-Smith or, failing him, Clara Furse or, failing her, Jonathan Howell to act as chairman of the Court Meeting and has directed the chairman to report the result thereof to the Court.

The said Scheme will be subject to the subsequent sanction of the Court.

Dated 21 March 2006

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS  
Solicitors for the Company

**PART 9:**  
**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**London Stock Exchange plc**  
*(Registered in England No. 2075721)*

Notice is hereby given that an Extraordinary General Meeting of London Stock Exchange plc (the **Company**) will be held at 20 Moorgate, London EC2R 6DA on 19 April 2006 at 9.45 a.m. (or, if later, immediately following the conclusion or adjournment of the meeting of the holders of Existing Ordinary Shares of 5<sup>5</sup>/<sub>16</sub> pence each in the capital of the Company convened for 9.30 a.m. on the same day, and at the same place, by an order of the High Court of Justice of England and Wales) to consider and, if thought fit, to pass the following resolution as a special resolution:

**That:**

- (A) the Scheme of Arrangement dated 14 March 2006 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court (the **Scheme**) proposed to be made between the Company and the Scheme Shareholders (as defined in the Scheme) be approved and the Directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme into effect;
- (B) for the purpose of giving effect to the Scheme:
- (a) the issued share capital of the Company be reduced by cancelling and extinguishing the Existing Ordinary Shares (as defined in the Scheme);
- (b) forthwith and contingently upon such reduction of capital taking effect:
- (i) the authorised share capital of the Company be increased to its former amount by the creation of such number of New Exchange Ordinary Shares (as defined in the Scheme) as shall be equal to the aggregate nominal amount of the Existing Ordinary Shares cancelled pursuant to paragraph (B)(a) of this Resolution; and
- (ii) the Company shall apply the credit arising in its books of account as a result of such reduction of capital in paying up in full, at par, such New Exchange Ordinary Shares which shall be allotted and issued, credited as fully paid, to Exchange Group (as defined in the Scheme) and/or its nominee or nominees; and
- (iii) the Directors of the Company be and they are hereby generally and unconditionally authorised, for the purposes of section 80 of the Companies Act 1985, to allot such New Exchange Ordinary Shares provided that (a) the maximum aggregate nominal amount of the shares which may be allotted hereunder shall be £25,000,000, (b) this authority shall expire on 15 May 2006 (or such later date by when the Court (as defined in the Scheme) has allowed the Scheme to become effective), and (c) this authority shall be in addition to any subsisting authority conferred on the Directors of the Company pursuant to the said section 80;
- (C) the Articles of Association of the Company be amended by the adoption and inclusion of the following new Article as Article 45A.

45A. (A) For the purpose of this Article 45A, references to the Scheme are to the scheme of arrangement between the Company and the Shareholders dated 14 March 2006 under section 425 of the Companies Act 1985 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court. Terms defined in the Scheme shall have the same meanings in this Article.

45A. (B) If any Existing Ordinary Shares in the Company are allotted and issued to any person (a new member) other than Exchange Group and/or its nominee or nominees after the time at which this Article becomes effective they will:

- (i) if allotment and issue is prior to the confirmation by the Court of the reduction of capital provided for under the Scheme, be allotted and issued subject to the terms of the Scheme and shall be Existing Ordinary Shares for the purposes thereof and the new



member, and any subsequent holder other than Exchange Group and/or its nominee or nominees, shall be bound by the terms of the Scheme; and

- (ii) if allotment and issue is after the Scheme has become effective, be immediately transferred to Exchange Group and/or its nominee or nominees in consideration of and conditional on the issue or transfer to the new member of one New Ordinary Share for every one Existing Ordinary Share in the Company so transferred. The New Ordinary Shares issued pursuant to this Article 45(B)(ii) to the new member will be credited as fully paid and will rank equally in all respects with all New Ordinary Shares in issue at the time and be subject to Exchange Group Articles.

45A. (C) The number of New Ordinary Shares to be issued or transferred to the new member under this Article 45A may be adjusted by the Directors of the Company in such manner as the Company's auditors may determine on any reorganisation of or material alteration of the share capital of either the Company or of Exchange Group or any other return of value to holders of New Ordinary Shares effected after the Scheme Effective Date, provided always that any fractions of a New Ordinary Share shall be disregarded and shall be aggregated and sold for the benefit of the relevant Shareholders and the proceeds of the sale will be distributed to those Shareholders pro rata to their fractional entitlements.

45A. (D) In order to give effect to any such transfer required by this Article 45A, the Company may appoint any person to execute and deliver a form of transfer on behalf of the new member in favour of Exchange Group and/or its nominee or nominees and to agree for and on behalf of the new member to become a member of Exchange Group. Pending the registration of Exchange Group as a holder of any share to be transferred pursuant to this Article 45A, Exchange Group shall be empowered to appoint a person nominated by the Directors of the Company to act as attorney on behalf of any holder of such share in accordance with such directions as Exchange Group may give in relation to any dealings with or disposal of such share (or any interest therein), exercising any rights attached thereto or receiving any distribution or other benefit accruing or payable in respect thereof and any holder of such share shall exercise all rights attached thereto in accordance with the directions of Exchange Group but not otherwise.

- (D) the rules of the London Stock Exchange Long Term Incentive Plan 2004, London Stock Exchange SAYE Option Scheme and the London Stock Exchange Share Incentive Plan be amended in the manner described in paragraph 8 of Part 2 of the Circular to shareholders dated 21 March 2006.

By order of the Board

Lisa Condron  
Company Secretary

21 March 2006

**Notes:**

1. Members entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of them. A proxy need not be a member of the Company. Appointing a proxy will not preclude members from attending and voting at the Extraordinary General Meeting if they later decide to do so.
2. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the register of members of the Company as at 6.00 p.m. on 17 April 2006 or, in the event that the Extraordinary General Meeting is adjourned, registered in the register of members as at 6.00 p.m. two days before the adjourned meeting(s), shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00 p.m. on 17 April 2006, or in the event that the Extraordinary General Meeting is adjourned, after 6.00 p.m. two days before the time of any adjourned meeting(s) shall be disregarded in determining the rights of any person to attend or vote at the Extraordinary General Meeting.

3. A blue Form of Proxy is enclosed which, to be valid, should be completed, signed and lodged (together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority) with the Registrars, Lloyds TSB Registrars, by post (faxes will not be accepted), not less than 48 hours before the time of the Extraordinary General Meeting, any adjourned meeting or the taking of a poll at which the person named in the Form of Proxy proposes to vote.
4. Where the appointer is a corporation, the enclosed blue Form of Proxy, to be valid, must be executed either under its common seal or under the hand of an officer or attorney duly authorised in writing.
5. In addition, if the Existing Ordinary Shares are held in uncertificated form, a proxy may also be appointed by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual and ensuring that it is received by the Registrars, Lloyds TSB Registrars, (under CREST participant ID 7RA01) by no later than 48 hours before the time of the Extraordinary General Meeting or any adjourned meeting.
6. In the case of joint registered holders, the signature of one holder will be accepted and the vote of the senior who tenders a vote, whether in person or proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members in respect of the relevant joint holding.

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#### **Electronic proxy appointment through CREST:**

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Court Meeting and Extraordinary General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.



