



*London Stock Exchange Group plc
Management Update*

24 September 2009



Xavier Rolet
Chief Executive



Introduction

- Executive team members
 - Xavier Rolet - CEO
 - Doug Webb - CFO
 - Massimo Capuano - Post Trade, and deputy CEO
 - Raffaele Jerusalmi - Capital Markets
 - David Lester - Information & Technology
- Outline for this morning
 - Observations, developments, way forward - XR
 - Pre-close trading update - DW
 - Update by business area - RJ, MC, DL
- Summary
- Q&A



Starting Point

Backdrop

- Difficult markets, but opportunities:
 - Equity capital raising to fuel growth (debt markets remain difficult)
 - European market still immature (US daily value traded 10x level of Europe despite comparable economic scale)
- Regulatory changes underway:
 - Regulators and market require liquidity and transparency
 - Exchanges are stable, trusted and neutral providers of market infrastructure



Starting Point

Strengths

- Brand - internationally renowned - leading international listings franchise
 - *Need to ensure not disadvantaged by regulation*
- Lead position in European cash equities trading - strong network of trading members
 - *Area of greatest current challenge; need to keep enhancing our proposition*
- Good product portfolio (inc derivatives and fixed income)
 - *Need to scale-up, expand product users and geographies*
- Track record of integration
 - *Merger with Borsa Italiana completed, savings exceeded*
- Value of Exchange as independent, neutral, efficient and profitable provider of core capital markets infrastructure
 - *Need to ensure value is recognised, clear client focus and addressing market needs*



Challenges

- Clients becoming increasingly international
 - *Need service providers across range of products with scale and efficiency*
- Competition in trading will continue (and clients becoming competitors)
 - *Pricing pressure and challenge to market share will remain - need the right technology and to re-engage with clients*
- Cost base needs to come down
 - *Ongoing focus on costs across all areas to continue*
- Need scale in operations
 - *Grow derivatives and fixed income; more efficient equities trading with increased volumes to offset price pressures*



Getting in shape

Actions already undertaken

- New management team
 - *Streamlined, faster decision taking, reorganising business with client facing activities*
- Client engagement
 - *Large investment banks are biggest customers so renewing relationships*
- Reducing costs
 - *12% headcount reduction actioned in H1, with continued and ongoing focus on cost efficiency*
- Tariff changes
 - *Equal treatment of liquidity, re-alignment of discounts, reducing costs of trading to grow volume*

.../more



Getting in shape (cont'd...)

- Technology review
 - *Complete review of options in 3 months; Millennium IT acquired to provide in-house, high performance systems, faster development and innovation, and lower costs*
- Launching new products
 - *Baikal phased start since June; UK retail bond market*



Way Forward

We intend to be a top tier exchange:

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



Doug Webb
CFO



Pre-close trading statement

Capital Markets

- Primary market fund-raising in line with prior year
- UK cash equity average value traded down 43% against strong comparators
- Italian cash equity volumes up 4%
- Derivatives volumes up 6% following price cuts

Post Trade

- Clearing and settlement benefiting from higher Italian equity and derivative volumes

Information & Technology Services

- UK professional terminals down 4,000 to date in Q2
- Continued strength from other information services businesses



Operating Costs

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

	Annual saving		Cost to deliver in FY 10	
	£m	From	£m	£m
Borsa integration	13	FY10	2	All in H1
Staff reductions	11	H2 FY10	14	All in H1
TradElect replacement	10	FY12	25	18.5 in H1
	<u>34</u>		<u>41</u>	34.5 in H1

- If €:£ rate holds at 1.15, FY 2009 costs would increase by £7m



Capital Markets
Raffaele Jerusalemi



Capital Markets

A team with years of experience, a solid track record, great focus on clients and capable of facing and countering competition

- LSEG - leader in European listing attracting on its markets more than 300 foreign companies
- AIM - with more than 1350 companies listed of which 500 are internationally based
- Equity - Italian cash equity has the highest turnover velocity in Europe in the past 10 years
- IDEM (Equity derivatives) - third market in Europe by turnover
- MTS - leading electronic platform in Europe for wholesale trading
- MOT - largest Fixed Income electronic retail market in Europe
- ETF - n.1 market for number of contracts traded
- SEDEX - second largest market in Europe for securitised derivatives



Capital Markets

The future

- Equity derivatives - new opportunities in UK and Europe
- TMX partnership - provides a complementary client base - state of the art derivatives platform- opens the door to the North American market-increases the scale of our product developments-commodities
- Baikal - Dark pool space
- MTS - geographical expansion
- product expansion
- MOT - to develop a UK retail Fixed Income market
- Primary Market - not only a listing venue but a way to develop new products
(Russian derivatives)
- ETF - huge potential to grow
- year to date average daily trading volume in the USA is \$57.7bn, in Europe \$2.2bn



Post Trade
Massimo Capuano



Post Trade - Strategic objectives

- To maximise and extend our existing cross asset class capability across other markets, supporting our capital markets developments
 - To reduce process complexity and fees in the markets we serve
 - To internationalise our services beyond Italy and the UK
 - To provide appropriate post trade services to OTC trades
 - To provide new services to support innovation in markets
- = We aim to double Post Trade's contribution to group revenues



Progress is on track

- Using X-TRM (Monte Titoli pre-settlement system) for IOB, for Baikal and with UK retail bonds to follow
- Planning to use X-TRM to support cheaper and wider interoperability in the UK
- Having received ROCH accreditation, CC&G will offer services to other parts of LSEG's business and external providers
 - Baikal will use later CC&G, which will have full European capability
 - EDX will use CC&G's process
- Will also continue to support external markets (e.g. BrokerTec, TLX)



*Information & Technology Services -
David Lester*



MillenniumIT

The acquisition of MillenniumIT provides LSE Group with:

- A new, high performance, scalable matching engine
- In-house software development expertise with dedicated R&D
- The ability to roll-out multiple new products and services
- Surveillance, ticker plant, desktop, SOR and post trade technology
- A vibrant and innovative culture in capital markets IT
- A reduction in software development charges
- An offshore footprint; presence in Asia
- A new revenue stream with a good pipeline of existing and new clients

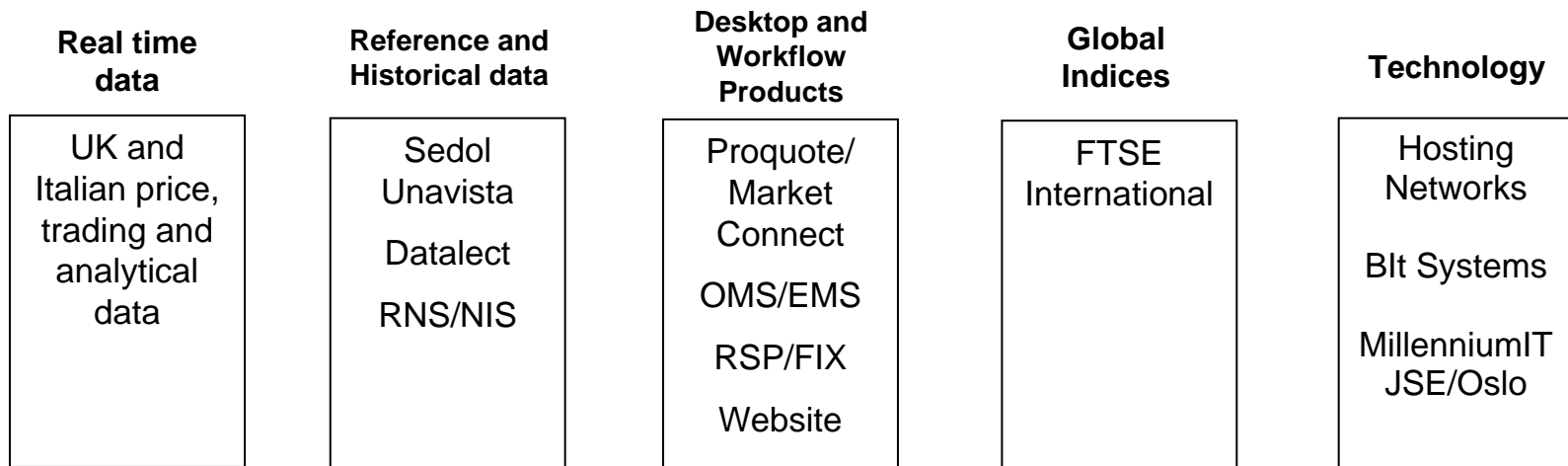
**UK/Italy current 100m messages per day; US 10 billion messages per day
for equity flows**



Information and Technology - Products

Since 2002 the Group has been growing its products in many segments of the £50bn market for financial information and technology services

- Our position in central price formation is central to efficient functioning of the overall market
- We are actively looking at opportunities to grow organically, through partnership or acquisition in a number of areas





Xavier Rolet



Summary

- A good business, strong in many places, but challenges to be met
- Actions already underway, benefits coming through
- Getting in shape
 - *streamlined management team*
 - *technology transformation/improvement*
 - *lowering costs*
 - *re-focusing the business*
- Leveraging our assets
 - *organic growth across range of assets - equities, derivatives, fixed income, information products and post trade services*
 - *jvs, partnerships, other links*
- A dynamic market environment, many opportunities, still everything to play for
- We will stay in regular contact to keep you updated



Questions?