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Stock Exchange Group



# London Stock Exchange Group plc

Interim results FY 2012

16<sup>th</sup> November 2011

# Agenda



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Introduction

Financial Review

Doug Webb, Chief Financial Officer

CEO Overview

Xavier Rolet, Chief Executive

Q&A





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**Xavier Rolet**

Chief Executive

# Introduction



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- Strong financial results:
  - Total income up 20%,
  - Profit before tax up 79%
- Growth in revenue across all segments, underlying costs flat
- Diversified business well placed, resilient and performing well
- Clear strategy - delivering on cost control, driving innovation in partnership with customers, leveraging opportunities
- Regulatory space evolving - well positioned to capitalise on change
- Making good progress, more to come



**Doug Webb**

Chief Financial Officer

# Key financial highlights



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- Strong performance - total income up 20% to £386.5m
- Increased diversification - half Group's income from Post Trade Services and Information Services
- Organic operating expenses were flat in real terms
- Adjusted operating profit up 38% at £214.3m
- Adjusted EPS up 48% to 47.6p; basic EPS up 86% to 43.1p
- Strong net cash flow from operations of £154.2m; net debt reduced by £120m
- Interim dividend up 6% at 9.3 pence per share

# Overview of results



	Six months ended 30 September			Variance at constant currency
	2011 £m	2010 £m	Change %	%
<b>Revenue</b>	<b>328.1</b>	300.6	9%	7%
<b>Total income</b>	<b>386.5</b>	321.1	20%	18%
<b>Adjusted Operating expenses*</b>	<b>(174.5)</b>	(167.9)	4%	2%
<b>Adjusted operating profit *</b>	<b>214.3</b>	154.8	38%	35%
<b>Operating profit</b>	<b>192.5</b>	122.9	57%	54%
<b>Net finance expense</b>	<b>(19.2)</b>	(22.7)		
<b>Adjusted profit before tax*</b>	<b>195.1</b>	132.1	48%	44%
Underlying effective tax rate	<b>29.4%</b>	33.0%		
<b>Basic earnings per share (p)</b>	<b>43.1</b>	23.2	86%	
<b>Adjusted earnings per share (p)*</b>	<b>47.6</b>	32.2	48%	
<b>Dividend per share (p)</b>	<b>9.3</b>	8.8	6%	

\* Excluding amortisation of purchased intangibles (£20m) and non-recurring items (£1.8m)

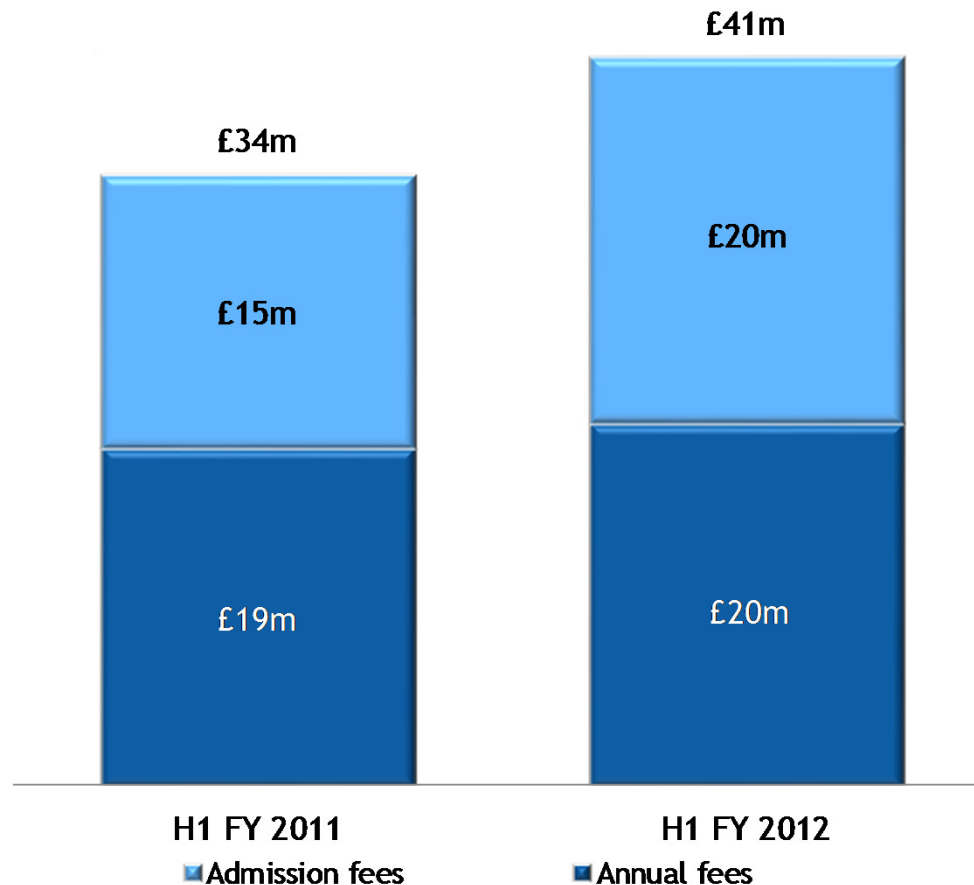
A €0.05 movement of the Euro versus GBP would have changed adjusted operating profit by c£6m

# Capital Markets - Primary



Strong uplift - in new issues and capital raised

## Revenues up 19%



## Highlights

- Strong new issue growth:
  - 102 new issues (H1 FY2011: 89)
  - 24 new international companies (19)
  - Strong pipeline - pending favourable market conditions
- £11.9bn raised by new issues (H1 FY 2011 £5.0bn)
- Total money raised of £23.3bn (H1 FY 2011 £17.6bn)

Note: Minor rounding differences, figures may not cast down

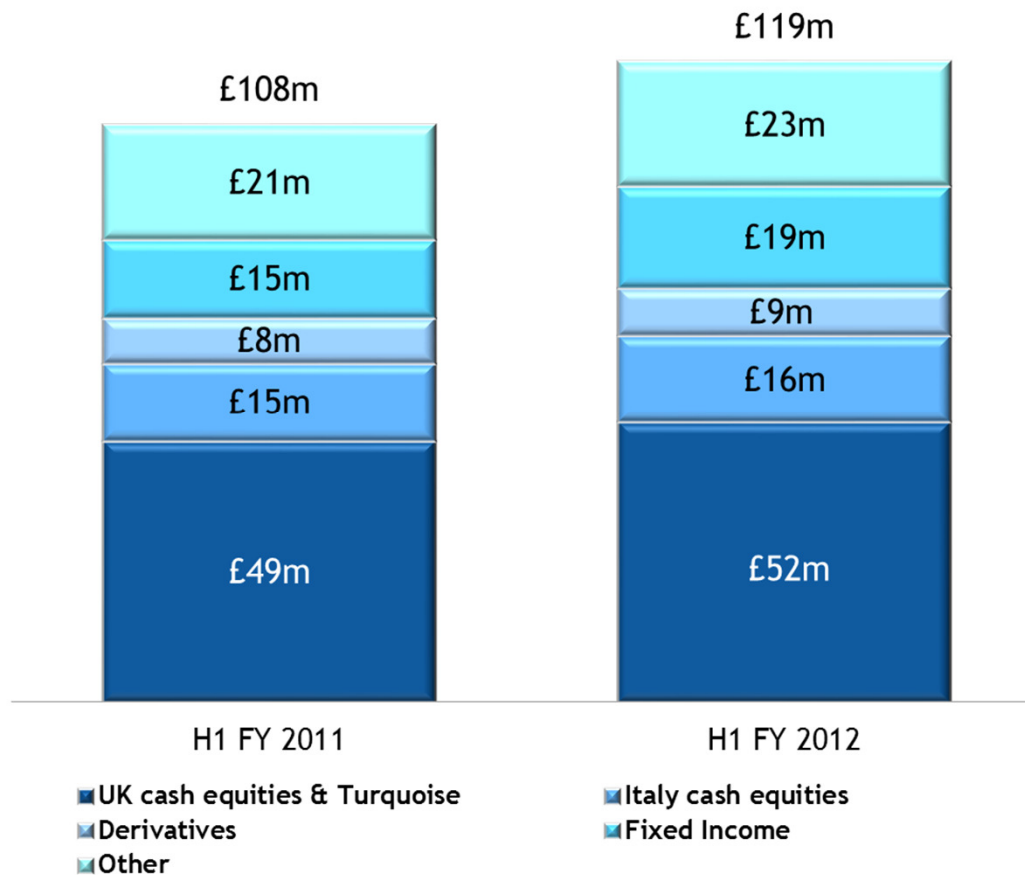


# Capital Markets - Secondary



## Growth across all asset classes

### Revenues up 11%



### Highlights

- UK equity average daily value traded up 2% on H1 FY 2011, average yield stable at 0.70bps
- Turquoise - No 2 Lit and Dark MTF in Europe, European share of trading 5.4% (H1 FY 2011 3.5%)
- Italian equity average daily trades up 7% on FY 2011
- Derivatives - IDEM 28m contracts traded, up 6%, Turquoise 22m contracts traded, up 26%
- Fixed Income growth - MTS cash value traded up 6%, MTS repo up 5%

Note: Minor rounding differences, figures may not cast down

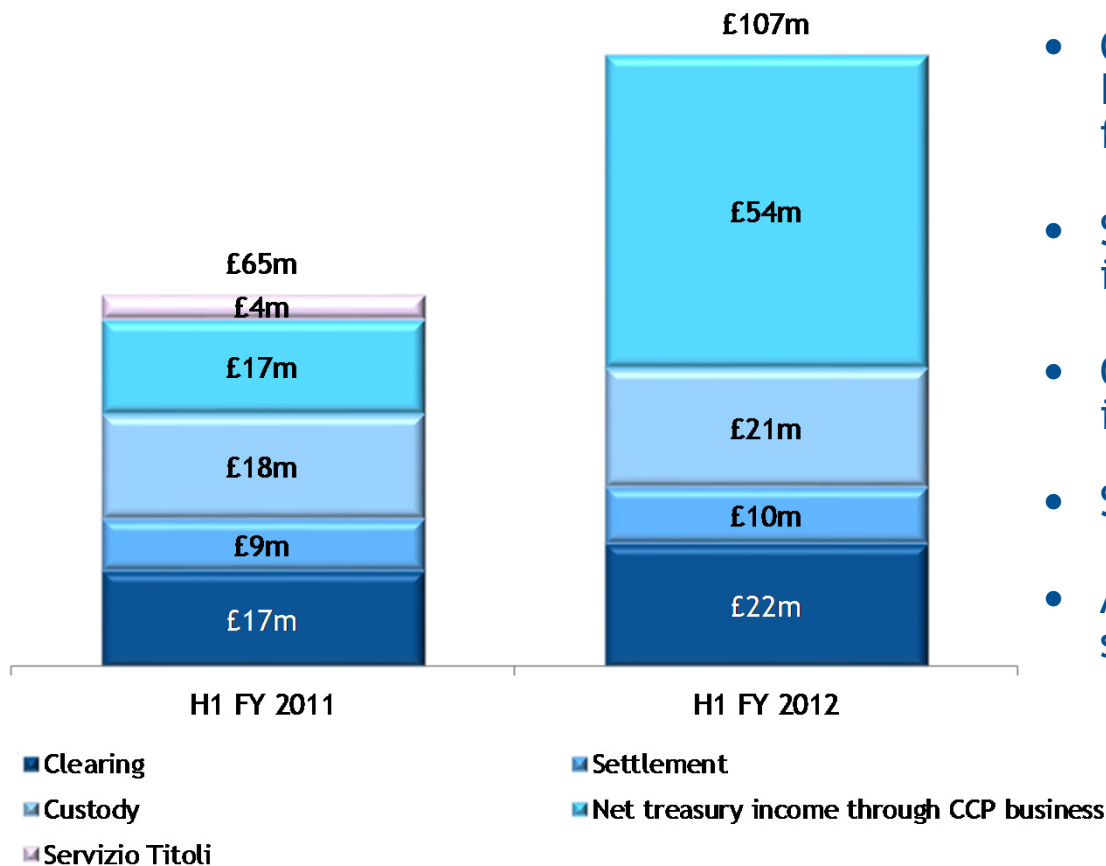
# Post Trade Services



Growth in underlying volumes and good treasury management

Total income up 64%

Highlights



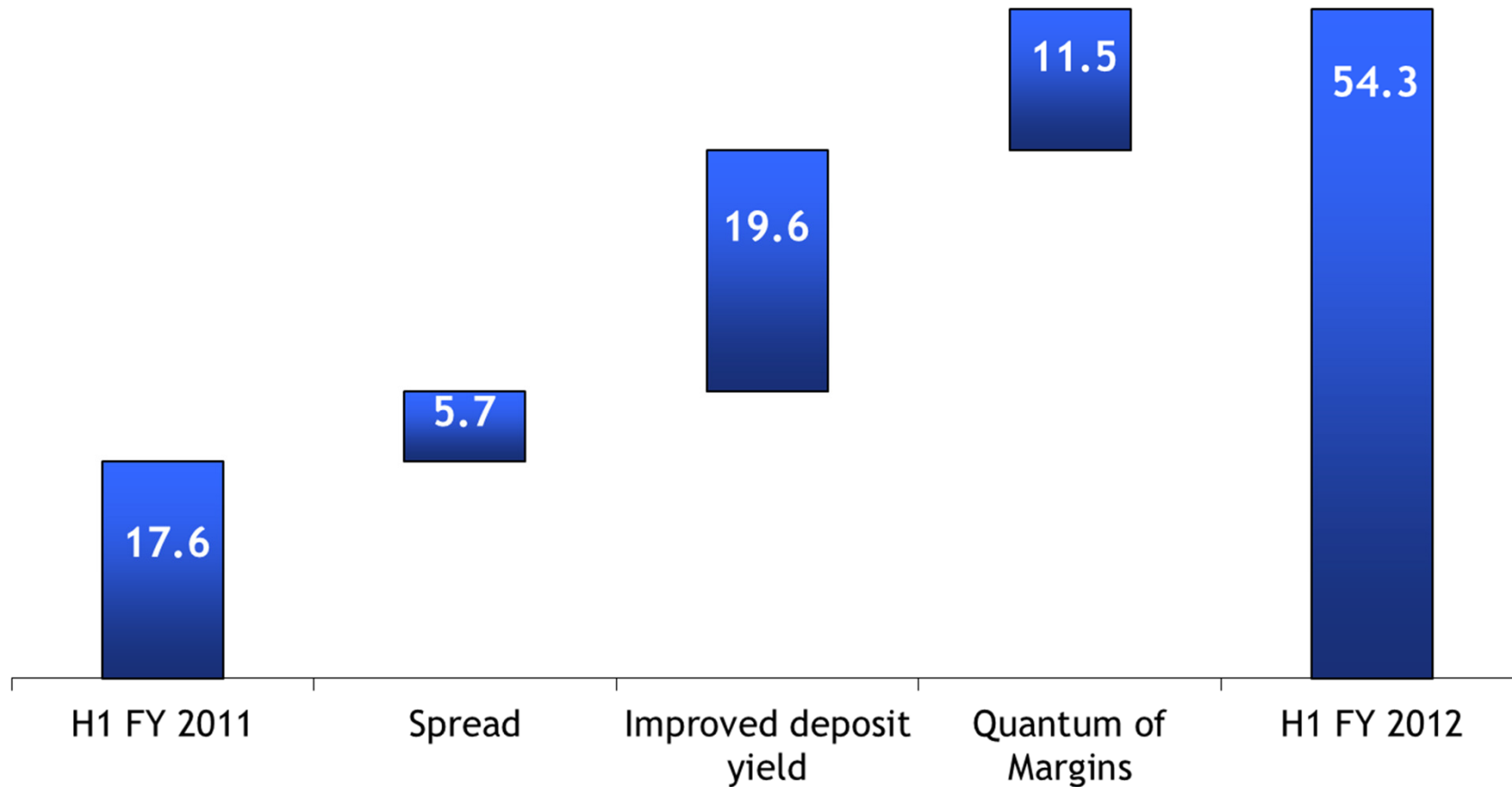
- Clearing revenues higher on increased Italian equities, derivatives and MTS fixed income volumes
- Settlement revenues higher on increased pre-settlement volumes
- Custody Assets under management increased 2% to over €3.0 trillion
- Servizio Titoli disposal completed
- Acquisition of remaining 13.6% minority stake in CC&G November 2011 for €62m
  - 100% economic benefit retained from 1<sup>st</sup> April 2011
  - Would have added 2.3p to adjusted EPS in H1

Note: Minor rounding differences, figures may not cast down

# Post Trade Services



## CCP Net treasury income - significant step up in performance



- Spread - difference between Euribor over EONIA
- Improved deposit yield - negotiated rate above Euribor
- Quantum of margins - increase in cash margins held and deposited with banks

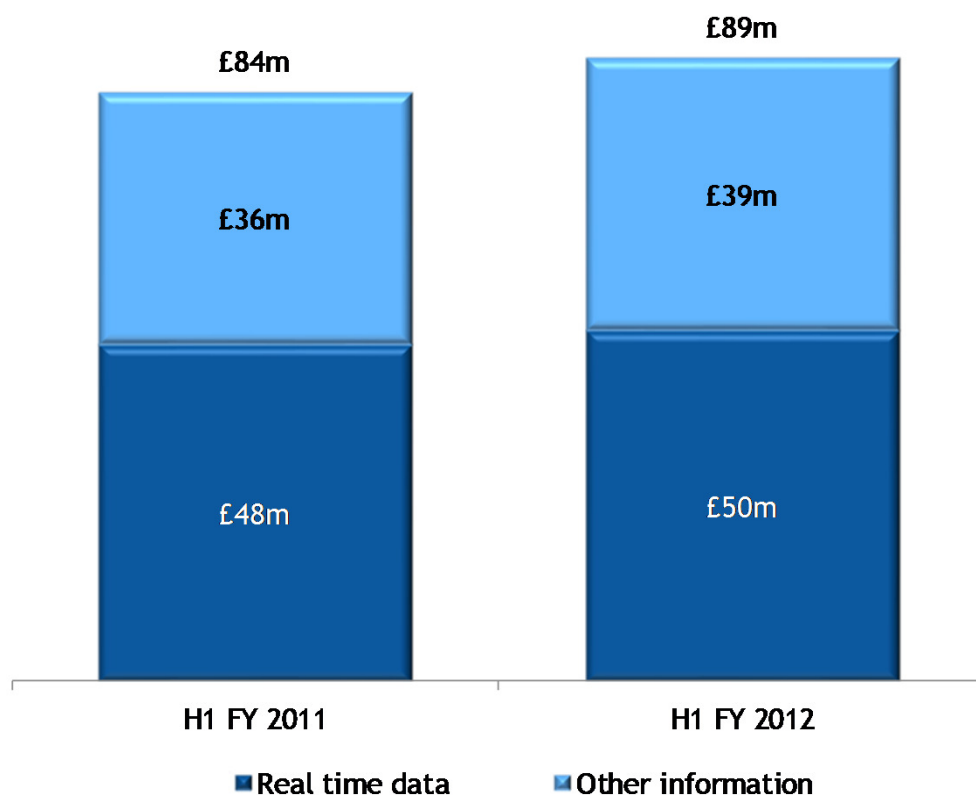
H1 FY 2011 restated for FX movement

# Information Services



## Good growth across range of products

### Revenues up 6%



### Highlights

- Real time data professional terminals numbers stable
  - UK 93,000 - unchanged on 31 March 2011
  - Italy 134,000 - down 5,000 on 31 March 2011
  - Non-displayed data revenues increasing (HFTs, MTFs, Algos)
- Revenue from Other Information products up 8%
  - FTSE - royalties received up 26%
  - UnaVista - post trade solutions;
    - FSA TRS acquisition
    - gaining new customers
  - SEDOL - global numbering system, revenues up 8%

Note: Minor rounding differences, figures may not cast down



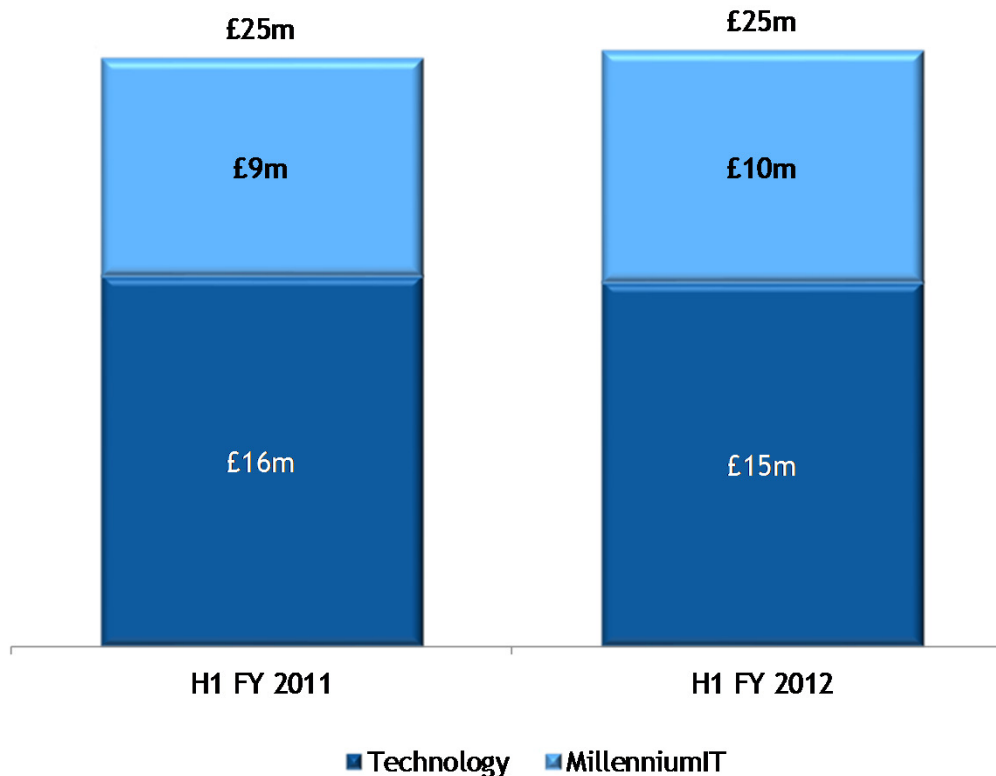
# Technology Services



## MillenniumIT and other technology / data centre services

Revenues up 1%

Highlights



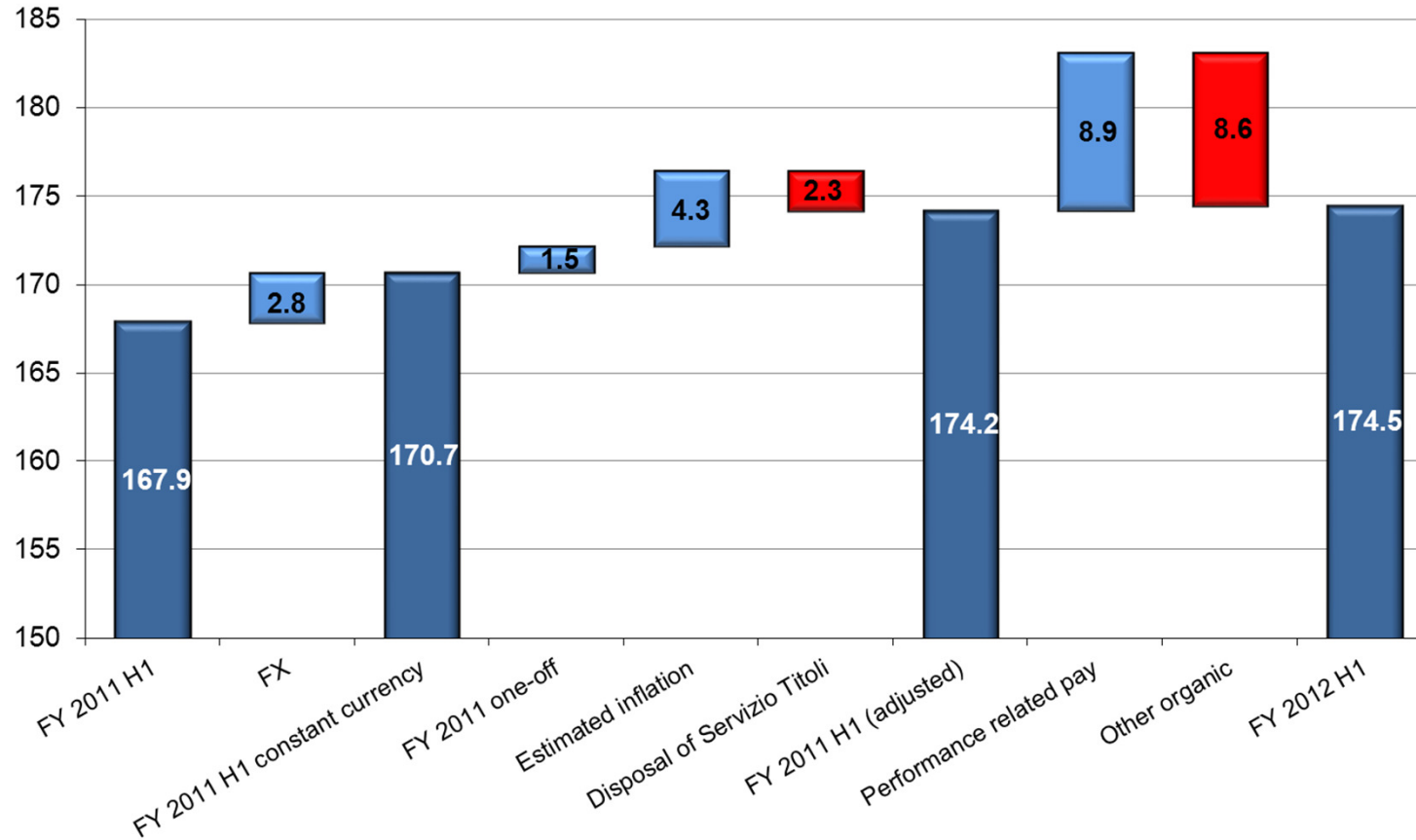
- MillenniumIT
  - Revenues up 10% at constant currency
  - Remains focused on providing technology for LSEG
  - Live:
    - Mongolia SE - first deliveries made Q2
    - Chittagong Stock Exchange (trading and surveillance)
    - Tullett Prebon (trading)
- Data centre co-location services continue to expand

# Operating expenses



## Major movements

£ million

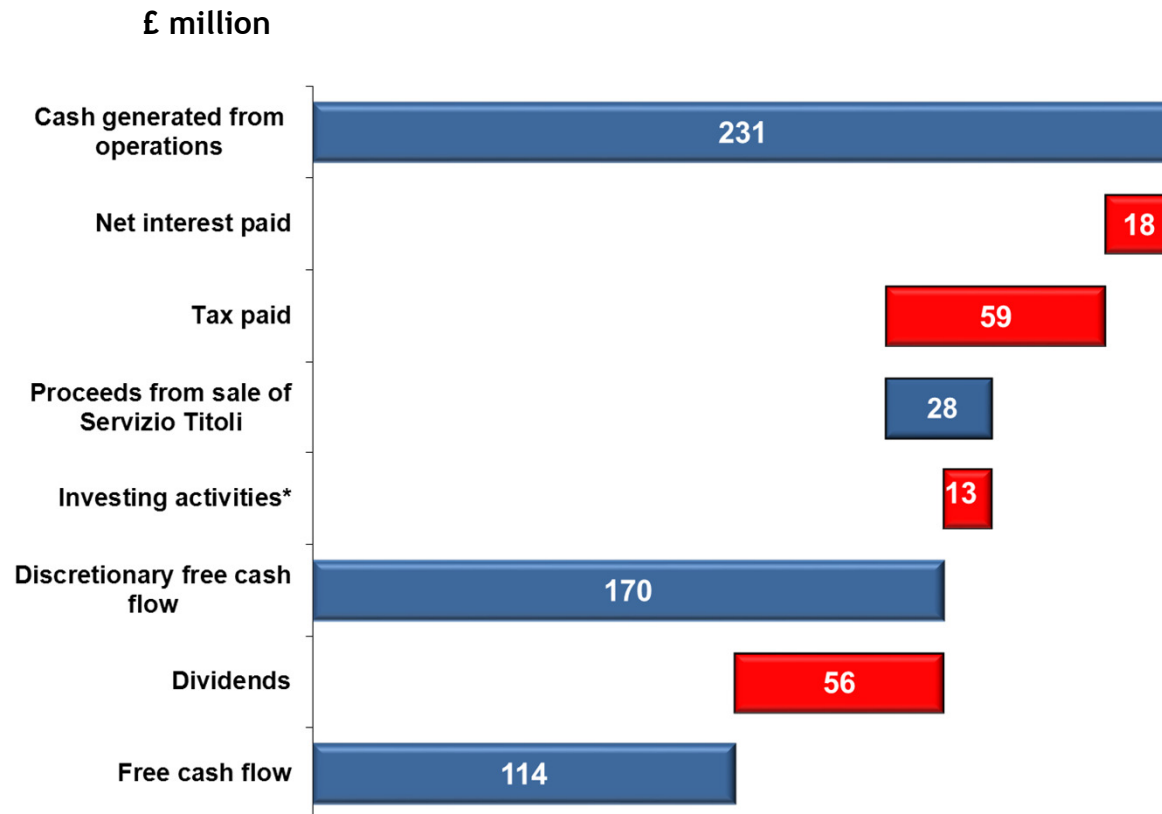


- Underlying costs remain flat in real terms

Note: Excluding amortisation of purchased intangibles and non-recurring items

# Summarised cash flow

## Continued strong cash generation



## Investment activities

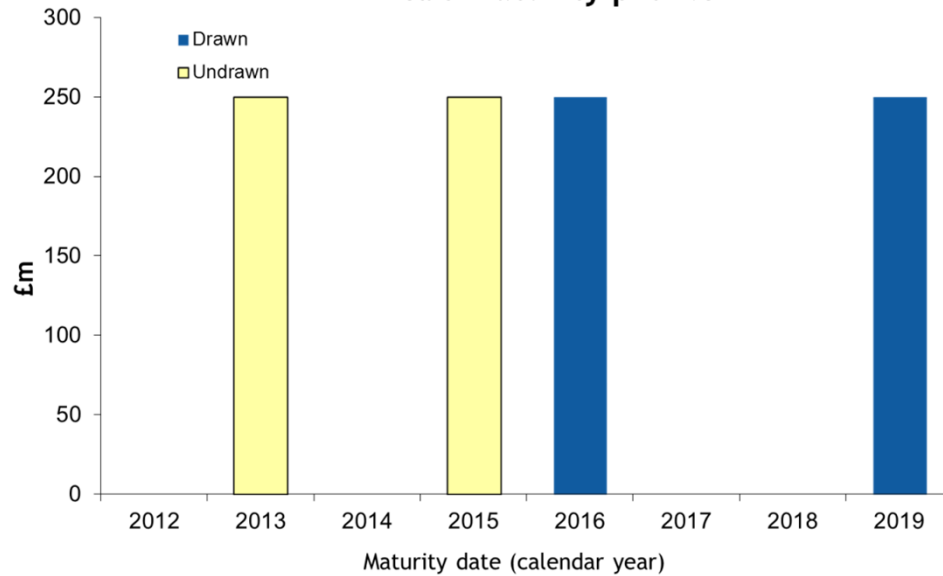
- £14.8m capex - includes Turquoise Derivatives platform, MillenniumIT clearing technology and commencement of work on Borsa Italiana cash market switch to Millennium Exchange
- Annual capex expected to approach c£50m
- Discretionary free cash flow per share 63.0p (46.8p)

\* Investing activities includes £14.8m Capital expenditure less £1.8m Dividends received

# Borrowings

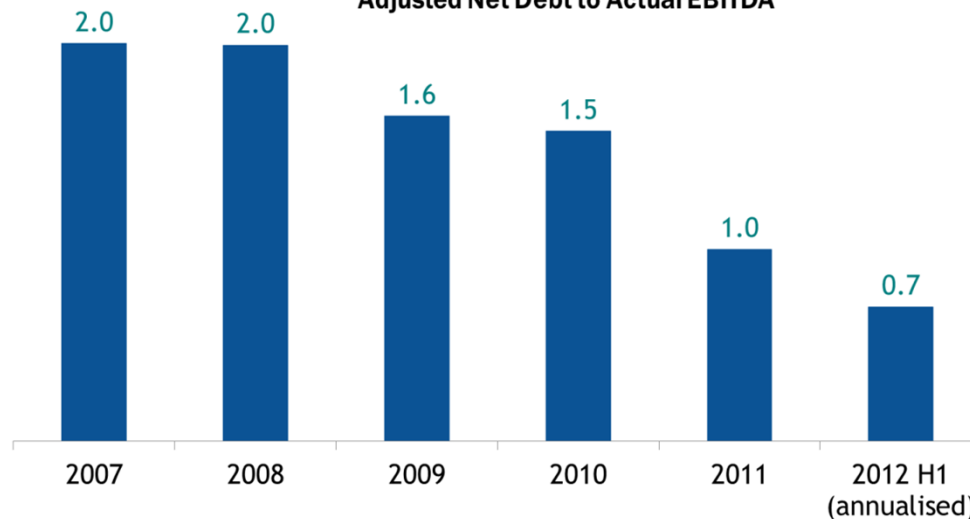


**Debt maturity profile**



- Net debt £125m
- £165m cash reserved for regulatory and operational purposes (FY 2011 : £125m)
- £790m available funding at 30 September 2011

**Adjusted Net Debt to Actual EBITDA**



Adjusted Net debt to Actual EBITDA excludes cash held for regulatory purposes

## LSEG ratings

- S&P A- (stable)
- Moody's Baa2 (negative outlook)



# October trading



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- IPO pipeline full, however timing subject to market conditions
- UK cash equities average daily value traded £4.4bn, up 1% on October 2010; Italian cash equities average daily trades of 279,000, up 20% on October 2010;
- Derivatives contracts traded up 3% on October 2010
- Fixed income; average daily value MTS cash down 20%, MTS Repo down 8%
- Post Trade - clearing continues to perform well with open interest at 6.3m contracts up 13% on September
- Good demand for non-real time Information products, including first TRS revenues
- MillenniumIT - phase 1 of Tullett Prebon contract went live in November



**Xavier Rolet**  
Chief Executive

# Successful strategy implementation



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- **Strong first half performance across increasingly diversified Group**
- Executing against clear stated strategy to deliver operational efficiency and drive growth:
  - **Getting in shape**
    - Costs well controlled, flat in real terms
  - **Leveraging our assets**
    - Range of initiatives launched
  - **Developing opportunities**
    - Exclusive discussions with LCH.Clearnet
- Reaping the rewards of successful M&A implementation - Borsa Italiana, Turquoise and MillenniumIT

# Delivering performance across the Group



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- Strategy is creating a diversified and resilient global exchange
- Good growth across each of the four divisions
- Range of initiatives and services in the period including:
  - Capital Markets - launch of Turquoise Derivatives; MTS new bond services, ORB retail bond market development
  - Post Trade - Acquisition of minority interest in CC&G, X-Com testing for launch at Monte Titoli
  - Information - Acquisition of TRS, UnaVista expanding and gaining clients
  - Technology wins for MillenniumIT - Oslo Børs and Delhi Stock Exchange and IT deliveries to Mongolian SE, Chittagong SE and Tullett Prebon

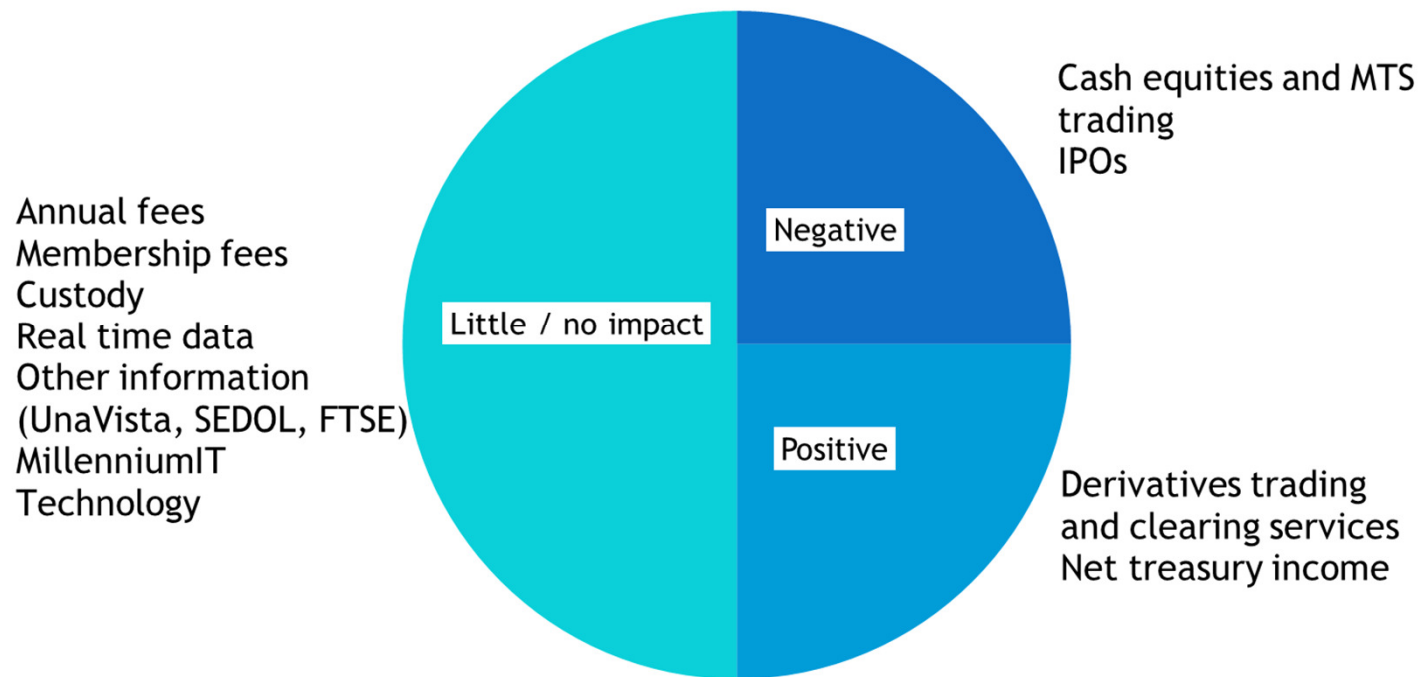


# Strength through business balance



- Large majority of our business either unaffected or positively impacted by short term volatility
- Diversified and balanced portfolio presents opportunities in both volatile and stable markets

Typical sensitivity to elevated short term volatility



Illustrative of general effects rather than exact revenue

# On-going commitment to efficient markets



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- Promoting equity, efficient capital raising and product innovation
- Assisting SMEs in raising capital and in turn creating jobs
- Services for the retail market including ORB retail bond market
- Promoting equity as an asset class
- Corporate access to innovative funding
- Continued customer focus
  - Partnerships with customers to drive innovation and new services - MTS, Turquoise
  - Internal action to widen distribution of services

# Regulatory landscape



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## Changes create both opportunity and challenges

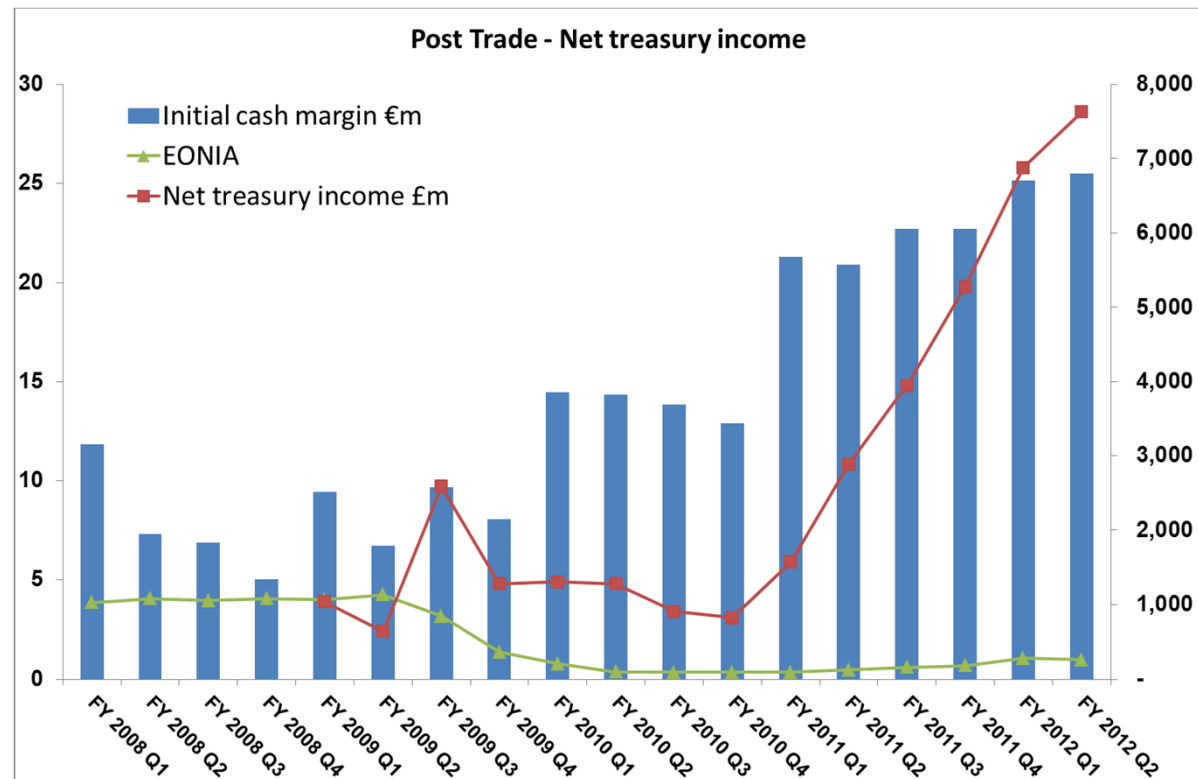
- MIFID/MIFIR review *Live 2013/14*
  - Non-discriminatory access to CCPs, fungibility and cross-asset margining
  - Non-exclusive licensing of IPR in indices
  
- EMIR (European Markets Infrastructure Regulation) *Live 2012*
  - OTC derivatives mandated to use CCP service - limited scope has impact on competition in exchange traded derivatives
  - Harmonised requirements for CCPs
  
- Other
  - Capital Requirements Directive IV, FTT, T2S, Short selling
  - Deutsche Borse / NYSE Euronext merger - could create opportunities, working with our customers



# Post Trade - risk management and opportunities

- Risk management
  - CC&G carefully managing clearing and treasury risks
  - Growth in trading - derivatives and fixed income
  - Regulators want trusted infrastructure to provide solutions

- Opportunities
  - LCH.Clearnet



# Summary



- **Strong financial performance**
- **Balanced and diversified Group**
- **Well placed to deliver further performance:**
  - All four diversified core businesses performing well
  - Strong cost control and highly cash generative
  - Focused on growth opportunities and partnering with customers to drive innovation and new services

**Our sights remain firmly set on being one of the world's leading diversified exchange groups**



## Appendices



**Adjusted operating profit** - excludes amortisation of purchased intangible assets and non-recurring items, to enable comparison of the underlying earnings of the business with prior periods.

## Adjusted earnings per share

Based on number of shares 269.4m (H1 FY 2011: 268.3m), excludes ESOP.

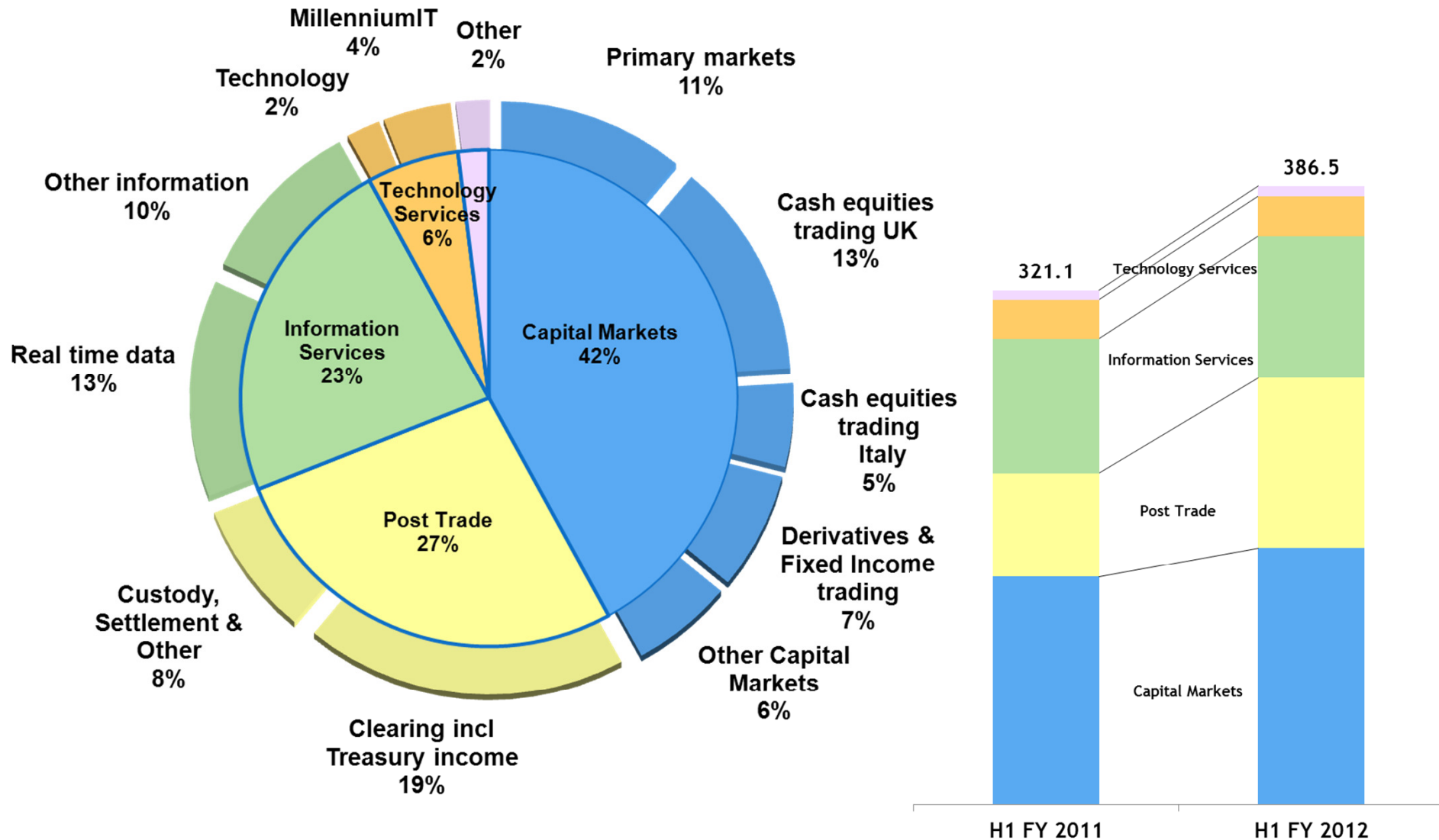
## Exchange rates

	<b>Closing € : £ rate</b>	<b>Average € : £ rate for the period ended</b>
<b>30 September 2011</b>	<b>€ 1.154</b>	<b>€ 1.136</b>
30 September 2010	€ 1.154	€ 1.187
31 March 2011	€ 1.131	€ 1.177

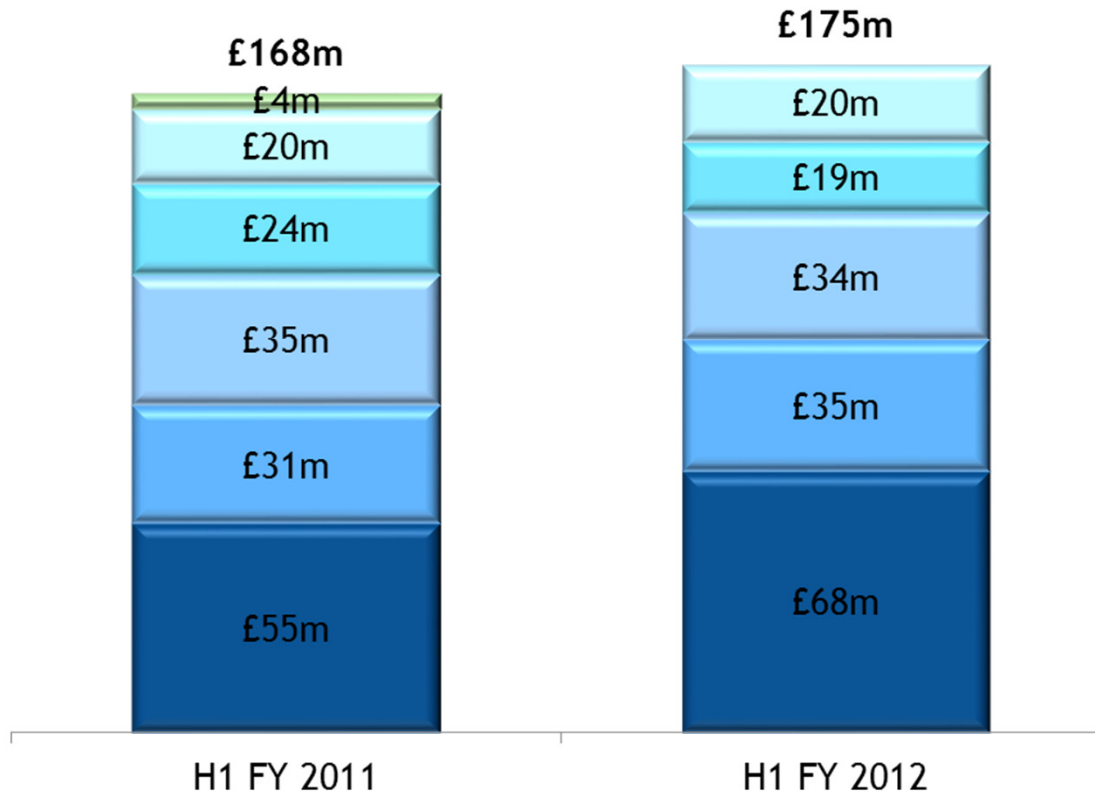
# Diversified Group income



H1 FY 2012 £386.5m



# Operating expenses



**Cost : Income ratio 45%**  
(H1 FY 2011 51%)  
(excluding TradElect effects)

- TradElect replacement (non-recurring)
- Cost of sales
- Depreciation
- IT/Network
- Property/marketing/other
- Staff

Excluding amortisation of purchased intangibles and non-recurring items  
Note: Minor rounding differences, figures may not cast down

# Revenues - Quarterly



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£ millions	FY 2011					FY 2012	
	Q1	Q2	Q3	Q4	FY 2011	Q1	Q2
Annual Fees	9.3	9.4	9.6	9.4	37.8	9.9	10.2
Admission Fees	8.8	6.5	9.5	8.3	33.0	12.2	8.2
Cash equities UK & Turquoise	26.7	21.9	21.6	26.2	96.4	24.3	27.8
Cash equities Italy	8.7	6.0	6.8	9.3	30.7	7.7	8.5
Derivatives	4.9	3.5	3.8	4.5	16.8	4.3	4.7
Fixed Income	7.4	7.2	8.3	9.5	32.4	9.8	9.0
Other	10.7	10.5	11.9	11.2	44.4	11.5	11.7
<b>Capital Markets</b>	<b>76.5</b>	<b>65.0</b>	<b>71.5</b>	<b>78.4</b>	<b>291.4</b>	<b>79.7</b>	<b>80.1</b>
Clearing	9.7	7.2	8.4	10.7	35.9	9.9	11.7
Settlement	5.0	3.9	4.5	4.8	18.2	4.8	5.0
Custody & other	12.2	10.3	11.0	11.6	45.2	11.3	9.7
<b>Post Trade Services</b>	<b>26.9</b>	<b>21.4</b>	<b>23.9</b>	<b>27.1</b>	<b>99.3</b>	<b>26.0</b>	<b>26.4</b>
Real time data	24.4	24.6	24.7	27.5	101.2	25.2	25.0
Other information	17.6	17.5	17.8	17.7	70.6	19.5	19.3
<b>Information Services</b>	<b>42.0</b>	<b>42.1</b>	<b>42.5</b>	<b>45.2</b>	<b>171.8</b>	<b>44.7</b>	<b>44.3</b>
MillenniumIT	5.0	4.0	4.1	5.0	18.2	3.2	6.4
Technology	7.6	7.9	7.3	7.7	30.4	7.4	7.8
<b>Technology Services</b>	<b>12.6</b>	<b>11.9</b>	<b>11.4</b>	<b>12.7</b>	<b>48.6</b>	<b>10.6</b>	<b>14.2</b>
<b>Other</b>	<b>1.5</b>	<b>0.7</b>	<b>1.3</b>	<b>1.2</b>	<b>4.7</b>	<b>1.4</b>	<b>0.7</b>
<b>Total Revenue</b>	<b>159.6</b>	<b>141.1</b>	<b>150.6</b>	<b>164.6</b>	<b>615.8</b>	<b>162.4</b>	<b>165.7</b>
Net treasury income through CCP	5.9	10.8	14.8	19.8	51.3	25.8	28.5
Other income	1.9	1.9	2.0	1.9	7.7	2.0	2.1
<b>Total income</b>	<b>167.3</b>	<b>153.8</b>	<b>167.4</b>	<b>186.3</b>	<b>674.9</b>	<b>190.2</b>	<b>196.3</b>

Note: Minor rounding differences may mean quarterly and other segmental figures may differ slightly.  
FY 2011 Capital Markets prior quarters restated to include Turquoise revenues gross of maker rebates

# Capital Markets - key performance indicators



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## Capital Markets - Primary Markets

	Six months ended		Variance %
	30 September 2011	2010	
<b>New Issues</b>			
UK Main Market, PSM & SFM	39	35	11%
UK AIM	58	51	14%
Borsa Italiana	5	3	67%
<b>Total</b>	<b>102</b>	<b>89</b>	<b>15%</b>
<b>Company Numbers (as at period end)</b>			
UK Main Market, PSM & SFM	1,457	1,479	(1%)
UK AIM	1,156	1,204	(4%)
Borsa Italiana	294	295	(0%)
<b>Total</b>	<b>2,907</b>	<b>2,978</b>	<b>(2%)</b>
<b>Market Capitalisation (as at period end)</b>			
UK Main Market (£bn)	1,713	1,824	(6%)
UK AIM (£bn)	64	66	(3%)
Borsa Italiana (€bn)	337	418	(19%)
Borsa Italiana (£bn)	292	363	(20%)
<b>Total (£bn)</b>	<b>2,069</b>	<b>2,253</b>	<b>(8%)</b>
<b>Money Raised (£bn)</b>			
UK New	11.5	5.0	130%
UK Further	3.3	11.5	(71%)
Borsa Italiana new and further	8.5	1.1	673%
<b>Total (£bn)</b>	<b>23.3</b>	<b>17.6</b>	<b>32%</b>

## Capital Markets - Secondary Markets

	Six months ended		Variance %
	30 September 2011	2010	
<b>Equity Volume Bargains (m)</b>			
UK	87.5	76.1	15%
Borsa Italiana	34.2	32.1	7%
<b>Total</b>	<b>121.7</b>	<b>108.2</b>	<b>12%</b>
<b>Equity Value Traded</b>			
UK (£bn)	626	613	2%
Borsa Italiana (€bn)	367	414	(11%)
Borsa Italiana (£bn)	324	350	(7%)
<b>Total (£bn)</b>	<b>950</b>	<b>963</b>	<b>(1%)</b>
<b>Equity Average Daily Bargains ('000)</b>			
UK	700	604	16%
Borsa Italiana	267	249	7%
<b>Total</b>	<b>967</b>	<b>853</b>	<b>13%</b>
<b>Equity Average Daily Value Traded</b>			
UK (£bn)	5.0	4.9	2%
Borsa Italiana (€bn)	2.9	3.2	(9%)
Borsa Italiana (£bn)	2.5	2.7	(7%)
<b>Total (£bn)</b>	<b>7.5</b>	<b>7.6</b>	<b>(1%)</b>
<b>SETS Yield (basis points)</b>	0.70	0.71	(1%)
<b>Derivatives (contracts m)</b>			
Turquoise	21.7	17.2	26%
IDEM	28.3	26.6	6%
<b>Total</b>	<b>50.0</b>	<b>43.8</b>	<b>14%</b>
<b>Fixed Income</b>			
MTS cash and Bondvision (€bn)	1,318	1,247	6%
MTS money markets (€bn term adjusted)	33,008	31,296	5%
MOT number of trades (m)	2.12	1.83	16%

# Post Trade - key performance indicators



## Post Trade Services

	Six months ended		Variance %
	30 September 2011	2010	
<b>CC&amp;G Clearing (m)</b>			
Equity clearing (trades)	36.1	34.0	6%
Derivative clearing (contracts)	28.3	26.6	6%
<b>Total Contracts</b>	<b>64.4</b>	<b>60.6</b>	<b>6%</b>
Open interest (contracts as at period end)	5.6	4.3	30%
Initial margin held (average €bn)	8.7	6.5	34%
<b>Monte Titoli</b>			
Pre Settlement instructions (trades m)	16.8	15.1	11%
Settlement instructions (trades m)	17.4	19.9	(13%)
<b>Total Settlement</b>	<b>34.2</b>	<b>35.0</b>	<b>(2%)</b>
Custody assets under management (average €tn)	3.05	2.98	2%

# Information Services - key performance indicators

## Information Services

	Six months ended		Variance %
	30 September 2011	2010	
<b>UK Terminals</b>			
Professional - UK	38,500	38,000	1%
Professional - International	54,500	55,000	(1%)
<b>Total</b>	<b>93,000</b>	<b>93,000</b>	<b>0%</b>
<b>Borsa Italiana Professional Terminals</b>	<b>134,000</b>	<b>140,000</b>	<b>(4%)</b>





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