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STOCK EXCHANGE

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Reject Nasdaq's offer

This document is important and requires your immediate attention

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This document contains statements that are or may be forward-looking with respect to the financial condition, results of operations and businesses of London Stock Exchange Group plc. These statements can be identified by the use of forward-looking terminology such as "believe", "expects", "prospect", "estimated", "forecast", "should", "plan", "may" or the negative thereof, or other variations thereof, or comparable terminology indicating expectations or beliefs concerning future events. These forward-looking statements include risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. In addition, certain of these statements are subject to assumptions including as set out in this document and the First Circular and Second Circular. There are a number of factors which could or may cause actual results or developments to differ materially from those expressed or implied by such forward-looking statements.

**Reject Nasdaq's
wholly inadequate
offer**

**Do not complete
any form of
acceptance**



London
STOCK EXCHANGE

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Oscar Fanjul, Non-Executive Director
Peter Meinertzhagen, Non-Executive Director
Nigel Stapleton, Non-Executive Director
Robert Webb QC, Non-Executive Director

5 February 2007

To holders of London Stock Exchange Group Ordinary Shares and B Shares and, for information only, to holders of employee share options and participants of London Stock Exchange Group Share Schemes

Dear Shareholder,

I have written to you twice recently to set out why your Board believes that Nasdaq's offer significantly undervalues your company. We believe that 1,243 pence ignores the Exchange's outstanding financial performance, excellent growth prospects and unique strategic position at the centre of the world's international equity flows.

Nasdaq's offer is wholly inadequate

Since the announcement of Nasdaq's final offer on 20 November 2006, share prices across the exchange sector have continued to rise, emphasising the inadequacy of Nasdaq's offer:

- P/E multiples of global exchanges have risen by, on average, 10.5 per cent
- the trading P/E multiple of Deutsche Börse has risen above Nasdaq's offer multiple
- at 24.4 times earnings, the offer is at a much lower multiple than Nasdaq's withdrawn proposal of 29.8 times earnings in March 2006
- it is below the 30.6 times offered to Euronext shareholders in its agreed merger with NYSE

Registered in England No. 5369106

Your Board strongly believes that Nasdaq's offer:

- does not reflect the Exchange's unique strategic position
- does not share any of the synergy benefits
- does not pay you a premium for control
- does not even give you standalone value

Recent comments from Nasdaq, in particular relating to its long term intentions and the competitive environment, continue to highlight the inconsistency of its position. Its repeated attempts to undermine the value of your company, and therefore its own investment in it, demonstrate how Nasdaq's interests continue to conflict with those of other shareholders. Your Board believes that this posture is neither credible nor is it sustainable.

It is from the Exchange's position of strength with excellent organic growth prospects that your Board continues to explore a range of strategic opportunities.

Recommendation

The Board of the Exchange Group, which has been so advised by Merrill Lynch and Lehman Brothers, its financial advisers, strongly recommends that Exchange Group shareholders continue to reject Nasdaq's wholly inadequate offer and take no action in respect of their shareholdings. In providing advice to the Directors of the Exchange Group, Merrill Lynch and Lehman Brothers have taken into account the commercial assessments of the Directors. The Directors will not be accepting the offer in respect of their own shareholdings.

If you have already accepted the offer, you have the right to withdraw your acceptance. Please use the form enclosed with this document.

Yours sincerely

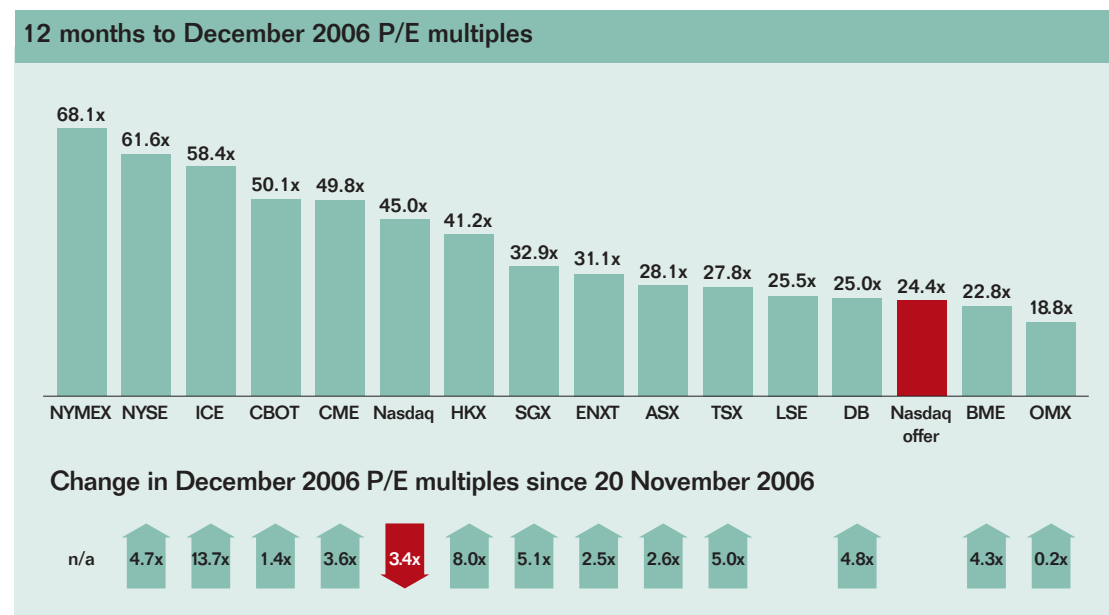


Chris Gibson-Smith
Chairman

A wholly inadequate offer

Nasdaq is not even offering standalone value...

- Nasdaq's offer of 1,243 pence ignores our outstanding financial performance, excellent growth prospects and unique strategic position at the centre of the world's international equity flows
- The offer only represents a multiple of 24.4 times the Exchange's December 2006 adjusted basic EPS, far below the trading multiples of virtually all other major listed exchanges
- The trading P/E multiples of Deutsche Börse and TSX have now also risen above the multiple of Nasdaq's wholly inadequate offer

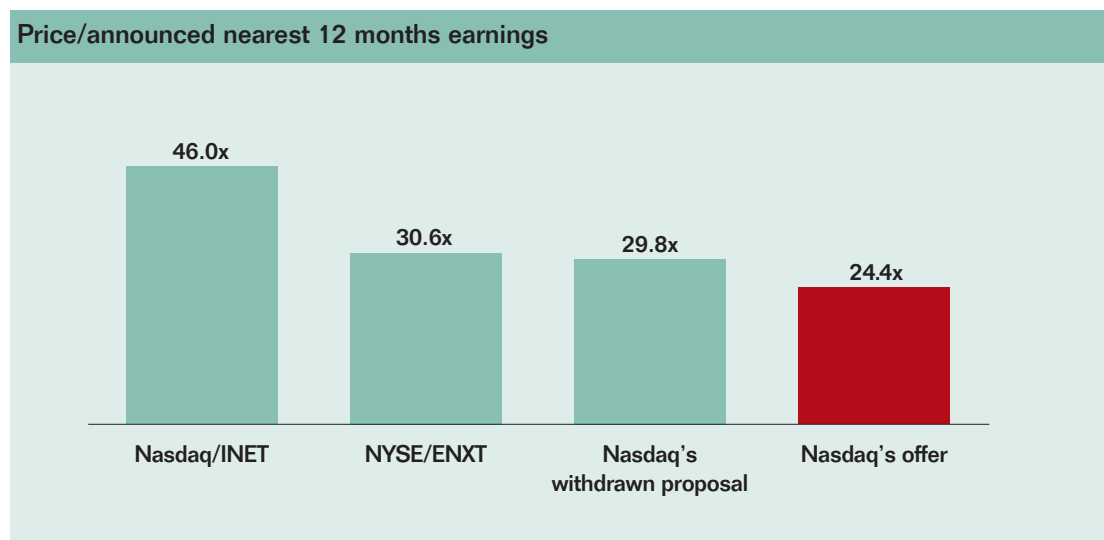


- Since mid November alone, P/E multiples have risen across the global exchange sector by an average of 10.5 per cent

...peer group comparison shows this ever more clearly

Synergies not shared, no premium for control

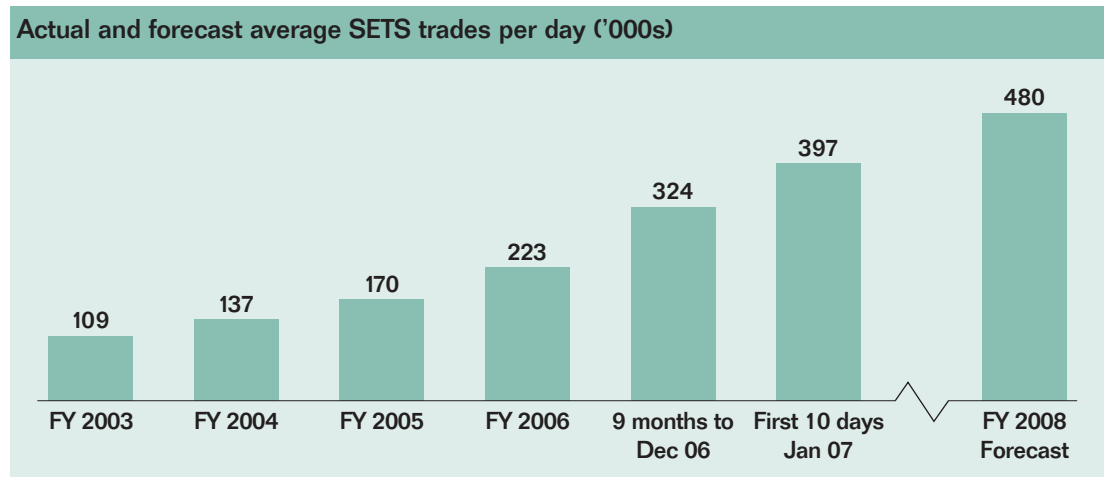
- In its document of 23 January 2007, Nasdaq claimed that its offer includes a “fair share” of synergies but it continues to refuse to disclose their value
- Nasdaq’s offer is at a **lower** multiple of earnings than its withdrawn proposal of 29.8 times earnings in March 2006
- The offer is also below the 30.6 times offered to Euronext shareholders in its **agreed merger** with NYSE



Nasdaq's offer does not begin to reflect the Exchange's excellent prospects or its unique strategic position

SETS powers ahead

- SETS trading grew in every month in 2006 over the same month in 2005 by an average 52 per cent. In the first ten days of January 2007, the average number of trades per day on SETS was 397,000



- In addition to the structural shift in UK equity trading and other growth drivers, the annual tariff changes for financial year 2008 and the launch of TradElect in the second quarter are designed to drive SETS growth
- Given the increasing success of SETS in an ever more competitive market, we believe that SETS will continue to be the UK's trading platform of choice and that MiFID creates pan-European opportunities for the Exchange
- After considerable and careful analysis, the Board expects trading on SETS to increase to an average of at least **480,000** trades per day in financial year 2008
- SETS growth has been outstanding through bull and bear markets alike. As volumes have increased, yield per trade has declined and SETS revenue has grown strongly
- Your Board continues to expect strong growth in Broker Services revenues

Issuer and Information Services

- We are confident that we will continue to be the destination of choice for international IPOs
- Growth in real-time terminal numbers is expected to continue into financial year 2008 with increasing demand from international users

Compelling value creation

Shareholder returns

- A forecast **50 per cent** increase in dividend to at least **18 pence per share** for financial year 2007
- Increased share buyback programme of up to **£250 million**
- Actual or committed capital returns totalling up to **£974 million** over the last two and a half years; 35 per cent of current market capitalisation

Strategic opportunities for the world's capital market

- Our standalone value is based on our very strong organic growth prospects. As our vision to be the world's capital market becomes a reality, your company becomes increasingly valuable
- Nasdaq's wholly inadequate offer did not provide a basis on which your Board could have initiated meaningful discussions

“Although the Exchange's organic growth has been outstanding, your Board has consistently stated that a combination, on the right terms, with another exchange could be in the best interests of shareholders and customers.”

LSE circular, 18 January 2007

- Your Board remains committed to exploring strategic opportunities that would be in the best interests of shareholders and customers

Quite simply, Nasdaq is not even close on price

“Nasdaq’s problem is that the LSE announces record trading volumes every time it speaks. The value of the bid may have looked generous six weeks ago but has not withstood scrutiny. On a multiple of earnings, the LSE is being valued at less than most major exchanges in the world. Given that the global financial winds are at London’s back, that does not look right.”

The Guardian, 19 January 2007

“Are LSE management volume forecasts credible?”

Although they appear aggressive, we have chosen to factor into our model the management volumes estimates for the following reasons.

Excellent track record: management has clearly exceeded the guidance ... it gave when LSE was facing the Macquarie offer last January.

New trading platform and Market velocity: ...The new trading platform (TradElect) ... should help LSE increase its market velocity in our view.

Finally, other reasons such as the development of algorithmic trading and hedge funds will bring some structural support to increase the number of trades executed on the platform.”

Elie Darwish, Analyst, Exane BNP Paribas, 19 January 2007

“One of the most telling charts in LSE’s first defence document compared the LSE’s valuation multiple of 24.7 times earnings with that of its peers abroad... If Nasdaq’s bid put the same value on London as it enjoys itself, it would be offering 2,367p a share, not 1,243p. That is one reason why everyone in New York thinks LSE is a steal at the price Nasdaq is offering.”

Investors Chronicle, 26 January 2007

“London’s Alternative Investment Market, commonly known as AIM, has become ... in the eyes of some commentators, a viable alternative for US issuers... during the first ten months of 2006, the volume of new issuances on the two exchanges was very similar: \$10.4 billion on AIM versus \$11.9 billion on NASDAQ.”

Bloomberg/Schumer report, 22 January 2007

On Nasdaq's tactics

“But hang on a sec. If Nasdaq in partnership with ... the Turquoise banks ... were to take business from the LSE, and if they were to drive down the LSE's share price, who exactly would be hurt. Well the LSE's shareholders for one. And who is the LSE's biggest shareholder? Oh yes, it's Nasdaq.”

BBC website, 1 February 2007

“Blustering Bob

... his latest comments ... lack coherence. Greifeld is not only threatening to hang on to his near 29% stake in the LSE for 18 months; he is also considering selling technology to rival trading platforms seeking to compete with London. Oh, and to protect the value of Nasdaq's own stake, which could be undermined by this emerging competition, he may also hedge some of his exposure so he wouldn't lose out if the LSE's share price fell.

...

As for the hedging idea, in theory that makes sense. But it's not very smart to talk about it before you've actually done it – especially when your strategy could involve undermining the value of the very asset you are attempting to secure. It's a bit like setting fire to your own house and then seeking to insure it.

... his threats would carry more conviction if he didn't hold a third of the shares himself.”

Breakingviews, 1 February 2007

Nasdaq wants to transform itself at your expense

**Don't give
away your
future in
the world's
capital market**

**Reject Nasdaq's
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**Do not complete
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APPENDIX 1 – ADDITIONAL INFORMATION

1. First Circular and Second Circular

This document should be read in conjunction with the First Circular and the circular from the Exchange Group to shareholders dated 18 January 2007 ("Second Circular"). Copies of the First Circular and Second Circular are available on the Company's website at www.londonstockexchange-ir.com/lse/bid or from the Exchange at 10 Paternoster Square, London EC4M 7LS, during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) for so long as the offer remains open for acceptance. Copies of the First Circular and Second Circular are also available for inspection as described in paragraph 8 of this Appendix 1.

Save as disclosed in this document, as at 1 February 2007 (being the latest practicable date prior to the posting of this document), the Directors are not aware of any material change in the information contained in the Second Circular and in particular to the information set out in Appendix 1 of the Second Circular in relation to: (i) interests and dealings; (ii) dealing arrangements; (iii) Directors' service contracts; and (iv) material contracts.

2. Responsibility

The Directors accept responsibility for the information contained in this document except that the only responsibility accepted by the Directors in respect of information contained in this document relating to Nasdaq, Nightingale, any of their subsidiary undertakings and the directors of any such entity and/or any such subsidiary undertakings which has been compiled from published sources, is to ensure that it has been correctly and fairly reproduced and presented. Subject as aforesaid, to the best of the knowledge and belief of the Directors (having taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

3. Disclosure of interests and dealings in relevant securities

As at the close of business on 1 February 2007 (being the latest practicable date prior to the posting of this document) the interests in relevant securities set out in the First Circular and updated in the Second Circular have been modified in relation to paragraph 3 of Appendix 1 of the Second Circular as follows:

Mourant & Co. Trustees Limited (as trustee of the London Stock Exchange Employee Benefit Trust) have interests in, or rights to subscribe for, 1,907,789 Ordinary Shares and 25,363 B Shares.

Terms defined in paragraph 3 of Appendix 1 of the First Circular bear the same meaning in this paragraph.

4. Q3 Trading Statement

The Directors confirm that the unaudited financial information set out in the Q3 Trading Statement as included in Appendix 2 of the Second Circular remains valid for the purpose of the offer. Each of Merrill Lynch, Lehman Brothers and PricewaterhouseCoopers LLP has confirmed in writing that it has no objection to its letter included in the Second Circular relating to the unaudited financial information as set out in the Q3 Trading Statement continuing to apply.

5. Consents

Each of Merrill Lynch, Lehman Brothers and PricewaterhouseCoopers LLP 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.

6. Right of withdrawal

Any shareholder who holds shares in certificated form and has accepted the offer may withdraw their acceptance of the offer before 10 February 2007 by completing the notice of withdrawal form enclosed with this circular.

Any shareholder who holds shares in un-certificated form through CREST and has accepted the offer may withdraw their acceptance of the offer before 10 February 2007 and should refer to the instructions as set out in paragraph 3 of Part B of Appendix 1 of Nasdaq's Offer Document.

7. Non-Executive Directors

Each of the Non-Executive Directors of Exchange Group except the Chairman has a letter of appointment as described in paragraph 5.3 of Appendix 1 of the First Circular except that each appointment was renewed on the same terms on 1 February 2007 for three years until 31 January 2010.

8. Documents on display

8.1 Copies of the written consents referred to in paragraph 5 of this Appendix 1, the Non-Executive Directors' letters of appointment referred to in paragraph 7 of this Appendix 1, the documents referred to in paragraph 7 of Appendix 1 of the Second Circular and the additional documents listed below are available for inspection at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS and at the registered office of the Exchange at 10 Paternoster Square, London EC4M 7LS during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) until the end of the offer period (being the period commencing on (and including) 20 November 2006 until the later of: (i) 1.00 p.m. (London time) on Saturday 10 February 2007, (ii) the time and date on which the offer lapses, and (iii) the time and date on which the offer becomes unconditional as to acceptances):

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- 8.1.1 a list of sell-side analysts whose expectations the Exchange's adjusted basic EPS outperformed for FY 2005 and FY 2006;
- 8.1.2 information detailing the number of international IPOs on NYSE and Nasdaq;
- 8.1.3 calculations of the Exchange's FY 2004 and FY 2007 dividend yield as at 15 January 2007 (being the latest practicable date prior to the posting of the Second Circular);
- 8.1.4 information sources for the growth in number of order book trades and growth in number of financial derivative contracts traded on all major listed equity and financial derivatives exchanges; and
- 8.1.5 the reports containing the quotations referred to in paragraph 2 of Appendix 2 of this document (page references 8(a) and 8(b)).

APPENDIX 2 – BASES OF CALCULATION AND SOURCES OF INFORMATION

1. General

1.1 Unless otherwise stated, in this document:

1.1.1 the definitions contained in Appendix 4 of the First Circular and Appendix 4 of the Second Circular shall also apply in this document (excepting that “offer” shall mean the ordinary offer and/or the B share offer (as the context requires), as set out in the Offer Document (expressed in Nightingale’s announcement of 1 February 2007 to be final offers except that Nightingale reserves the right to revise such offers if a firm intention to make a competing offer for Exchange Group is announced, whether or not subject to any preconditions));

1.1.2 closing prices, consensus earnings estimates and exchange rates are as at the close of market on 1 February 2007 (being the latest practicable date prior to the posting of this document);

1.1.3 share price and exchange rate data is sourced from Bloomberg;

1.1.4 consensus earnings and earnings per share estimates are sourced from Reuters and are adjusted for exceptional items where applicable;

1.1.5 calculations are prepared on the basis of there being 213,216,890 Ordinary Shares and 7,845,459 B Shares in issue as at 1 February 2007 (being the latest practicable date prior to the posting of this document) and up to a further 4,460,776 Ordinary Shares to be issued pursuant to the exercise of options or the grant of awards granted up to and including 1 February 2007 (being the latest practicable date prior to the posting of this document) under the Exchange Group Share Schemes; and

1.1.6 references to interim and final dividends are expressed on a pence per Exchange Group Ordinary Share basis.

1.2 Unless otherwise stated, the financial information concerning the Exchange Group has been extracted from the published interim and annual reports and accounts of the Exchange Group or the Exchange for the relevant periods, the Q3 Trading Statement and other information made publicly available by the Exchange Group.

1.3 Unless otherwise stated, information contained in this document regarding market position, sector, division and product analysis, stock exchange trading, listings and IPOs and the international financial market in relation to the Exchange Group, its competitors and these markets generally, is based on the Exchange Group’s management estimates and calculations sourced from publicly available information, including Main Market and Secondary Market fact sheets and Professional Securities Market fact sheets, AIM Market Statistics, Monthly Market reports and the Exchange Group’s and its subsidiaries’ internal market and trading databases and where applicable is presented by reference to calendar years rather than financial years.

1.4 Unless otherwise stated, information regarding Nasdaq’s offer is sourced from the Offer Document, the Response Document, the document dispatched to shareholders on 23 January 2007 by Nasdaq (“Second Response Document”) and other material made publicly available by Nasdaq, Nightingale or any other person mentioned in the Offer Document, the Response Document or the Second Response Document.

1.5 The relevant bases of calculation and sources of information contained in this document which repeat information contained in the First Circular or Second Circular are set out in Appendix 3 of the First Circular and Appendix 3 of the Second Circular, respectively.

2. Page references

The relevant bases of calculation and sources of information are provided below by reference to page numbers of this document. Where such information is repeated in this document, the underlying bases and sources are not.

Page 2

(a) The reference to the P/E multiples of global exchanges rising 10.5 per cent is based on the market capitalisation weighted average P/E multiple change as set out in page reference 4(d) below.

(b) The reference to the Deutsche Börse trading multiple rising above the Nasdaq offer multiple relates to the change in P/E multiple for the 12 months ended 31 December 2006 as set out in page reference 4(a) below.

(c) The reference to the multiple of 30.6 times offered to Euronext in its merger with NYSE is calculated as explained in paragraph 2 of Appendix 3 of the Second Circular (page reference 5(b)), based on the NYSE offer value assuming a NYSE share price and the \$:€ exchange rate as at 1 February 2007 (being the latest practicable date prior to the posting of this document).

Page 4

- (a) The P/E multiples to December 2006 for NYSE, ICE, Nasdaq, HKX, Euronext, Deutsche Börse and BME are calculated using the 12 months ended 31 December 2006 earnings per share estimates as sourced from Reuters and the share prices as at 1 February 2007 (being the latest practicable date prior to the posting of this document). The multiples for CME, CBOT, NYMEX, TSX and OMX are calculated using the EPS for the 12 months ended 31 December 2006 adjusted for exceptionals (where applicable) as disclosed in the respective company announcements up to and including 1 February 2007. The LSE and Nasdaq offer multiples are calculated using the adjusted basic EPS for the 12 months ended 31 December 2006 of 50.9 pence as disclosed in the Q3 Trading Statement. ASX and SGX are calendarised earnings estimates sourced from Reuters and their respective company filings adjusted for exceptionals.
- (b) The changes in December 2006 P/E multiples are calculated as the difference in P/E multiple for each company for the 12 months ended 31 December 2006 as at 17 November 2006 (the last business day prior to Nasdaq's announcement of its offer) and 1 February 2007 (being the latest practicable date prior to the posting of this document). The multiples as at 17 November 2006 are calculated using the 12 months ended 31 December 2006 earnings per share estimates as sourced from Reuters and the share prices as at 17 November 2006. No change has been shown in the NYMEX P/E multiple for the 12 months ended 31 December 2006 as an EPS consensus estimate is not available from Reuters for 17 November 2006. No change has been shown for the Exchange and Nasdaq offer P/E multiples as neither of these are components of the Exchange's peer group.
- (c) The reference to the global exchange sector means all major listed exchanges with a market capitalisation greater than £1 billion as at 1 February 2007 (being the latest practicable date prior to the posting of this document).
- (d) The change in the average P/E multiples since mid November is calculated as the percentage difference between the average P/E multiple weighted by the market capitalisations of each company for the year ended 31 December 2006 as at 17 November 2006 (being the last business day prior to Nasdaq's announcement of its offer) and as at 1 February 2007 (being the latest practicable date prior to the posting of this document). The market capitalisations are based on shares outstanding and exchange rates sourced from Bloomberg and each average includes the P/E multiples for the companies shown in the chart on page 4 excluding NYMEX, the Exchange and the Nasdaq offer P/E multiples.

Page 6

- (a) Information for the actual and forecast average SETS trades per day is sourced from the Exchange's audited financial reports, internal databases and the Second Circular.
- (b) The reference to SETS growth through bull and bear markets refers to the growth in SETS volumes in the period FY 2001 to 9 months ended 31 December 2006.

Page 7

- (a) The reference to the total capital returned to shareholders as a percentage of market capitalisation includes the share buyback programme of up to £250 million announced in the Second Circular and is based on the number of Exchange Group Ordinary Shares in issue and the closing price for an Exchange Group Ordinary Share as at 1 February 2007 (being the latest practicable date prior to the posting of this document).

Page 8

- (a) The statement from Elie Darwish is sourced from the Exane research report entitled "GBP250m share buyback and strong guidance to offset fee reductions and fend off NASDAQ offer" dated 19 January 2007.
- (b) The statement from the Bloomberg/Schumer report is sourced from the report by McKinsey & Co., commissioned by Michael Bloomberg and Charles Schumer, entitled "Sustaining New York's and the US' Global Financial Services Leadership" dated 22 January 2007, as sourced from http://www.senate.gov/~schumer/SchumerWebsite/pressroom/special_reports/2007/NY_REPORT%20_FINAL.pdf.

