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ANNUAL REPORT 2010

**GETTING IN SHAPE,
LEVERAGING OUR ASSETS,
DEVELOPING THE OPPORTUNITIES**



London
Stock Exchange Group

How the markets work

To understand all the services offered by a diversified exchange business, it is important to recognise both the process of trading financial instruments, and the various trading platforms available within the EU. With an effective date of introduction of November 2007, the EU's MiFID sought to increase competition and consumer protection in investment services. Information provided here focuses on two main areas:

THE PROCESS OF TRADING

PROCESS	EXPLANATION	LSE GROUP'S INVOLVEMENT
ELECTRONIC TRADING	Computerised systems for matching orders of financial instruments, such as equities, bonds and derivatives.	<ul style="list-style-type: none"> • Equities – London and Italian trading platforms • ETFs, ETCs – London and Italian trading platforms • Bonds – MTS and MOT • Derivatives – EDX, IDEM and IDEX
CLEARING	After a trade has been matched, usually by a trading system, it is cleared. At this stage, a central counterparty (CCP) stands between the buyer and seller. By simultaneously buying from the seller, and selling to the buyer, the CCP reduces the counterparty risk to both parties. This is because if one party defaults, the CCP will manage the loss using margin collected.	CC&G acts as a CCP for Italian cash equities, derivatives and fixed income.
SETTLEMENT	Settlement is the process of delivering title to the financial instrument to the buyer against payment to the seller. For equities, this normally takes place three days after the trade. Netted settlement reduces a large number of positions to a single position/payment.	Monte Titoli operates the X-TRM and EXPRESS II systems, which cover Italian pre-settlement and settlement, creating netted settlement instructions, making the actual payments and delivering securities.
CUSTODY	A custodian or Central Securities Depository (CSD) undertakes the safekeeping and administration of securities on behalf of issuers and investors.	Monte Titoli provides Italian custody services for all the financial instruments it holds, whether dematerialised or in paper form. De-materialised securities are those that can be held without the need for paper certificates.

POST TRADE

TRADING UNDER MIFID

	EXPLANATION	ATTRIBUTES	LSE GROUP'S INVOLVEMENT
EXCHANGE MODEL FOR TRADING	<ul style="list-style-type: none"> Traded through trading platforms run by an operator of a regulated market. Reported business done off order book and reported to regulated market. 	<ul style="list-style-type: none"> Regulated Order driven Neutral Transparent Liquid Widest stock coverage Widest client base Telephone trading 	<ul style="list-style-type: none"> Trading platforms offered by the London Stock Exchange and Borsa Italiana, including securities listed on the Group's primary markets On exchange trade reporting and publication
MTF	MiFID allowed for the setting up of Multilateral Trading Facilities (MTF), new pan-European trading ventures thereby promoting venue choice. Trading is of securities listed on the primary market of a regulated exchange.	<ul style="list-style-type: none"> Regulated Order driven Neutral Transparent Can include dark pool trading 	<ul style="list-style-type: none"> MTF services provided through Turquoise
OTC	Over the counter (OTC)/negotiated market operated by electronic networks or telephone. Electronically connected market consisting of dealers who are in constant contact thereby facilitating trading directly between two parties. OTC accounts for approximately 40-50 per cent of equity trades throughout Europe by value.	<ul style="list-style-type: none"> Regulated Large or block trades Way to trade less liquid stock 	<ul style="list-style-type: none"> OTC trade reporting and publication service

WHAT IS DARK POOL TRADING?

Private trading networks (within Europe these are MTFs) developed to enable the internal matching of orders between buyers and sellers without being visible until the trade is complete, thereby creating a regulated environment in which to execute larger trades. Turquoise, the Group's pan-European MTF provides a dark pool service, as well as 'Lit' trading whereby traders can see potential buy and sell orders in advance. Brokers also operate OTC dark pools.

Glossary

AIM

The Group's market for smaller and growing companies established in London and now extended to AIM Italia and TOKYO AIM

Baikal

The Group's dark pool now merged into Turquoise

Bit

Borsa Italiana, the Group's Italian exchange business

CCP

Central Counterparty – stands between two parties to a trade to eliminate counterparty risk by ensuring that settlement takes place

CC&G

Cassa di Compensazione e Garanzia S.p.A., the Group's Italian subsidiary which manages the Italian CCP for equity, derivative and fixed income trades

Central Securities Depository (CSD)

An entity that enables securities to be processed, settled and held in custody

Company

London Stock Exchange Group plc or LSEG

Code of Conduct

The European Code of Conduct for Clearing and Settlement, signed by trading and post-trading infrastructures on 7 November 2006, to provide links between post trade providers for greater efficiency and choice of service

CONSOB

Commissione Nazionale per le Società e la Borsa, Italy's official body for regulating and supervising companies and trading infrastructure providers

CREST

The system for the paperless settlement of trades in securities and the holding of uncertified securities in the UK operated by Euroclear UK & Ireland Limited and regulated by the FSA

Dark Pool

Electronic trading networks developed by regulated venues such as Regulated Markets, MTFs and by OTC broker dealers to enable the matching of orders between buyers and sellers without being visible until the trade is complete, using exemptions permitted under MiFID thereby creating a secure environment in which to execute larger trades

Depository Receipts/Global Depository Receipts (GDR)

Tradeable certificates representing ownership of a number of underlying shares, mainly for companies in developing or emerging markets

Derivatives

Tradeable financial instruments whose value is determined by the value of other underlying financial instruments

EDX

EDX London Limited – the Group's UK based derivatives subsidiary which provides futures and options trading in a range of international markets

ESOP

Employee Share Option Plan

ETC

Exchange Traded Commodity – simple and efficient securities that provide exposure to a range of commodities and commodity indices

ETF

Exchange Traded Fund – simple, low-cost and flexible investments that track indices and sectors

FSA

Financial Services Authority, the regulator of providers of financial services in the UK

FTSE Group

The Group's 50 per cent joint venture which creates and manages indices on a global basis

FTSE 100 index

The index developed by FTSE and LSE for leading UK quoted companies

FTSE MIB index

The index developed by FTSE and Borsa Italiana for leading Italian quoted companies

FTSEurofirst 100 index

The index of leading European quoted companies

Group

The Company and its group undertakings

Group undertakings

Group undertakings shall be construed in accordance with s1161 of the Companies Act 2006 and, in relation to the Company, includes London Stock Exchange plc and Borsa Italiana S.p.A., together with respective direct and indirect subsidiaries

IDEM

The Group's Italian Derivatives Market, trading contracts based on equities and related indices

IDEX

The Group's Italian energy derivatives segment, trading contracts based on commodities and related indices

Infolect

The Group's high performance market data system that provides real time tick-by-tick data essential for anyone trading on our markets

IOB

International Order Book – the Group's electronic trading service for international securities

IPO

Initial Public Offering – the process whereby companies join our markets and raise capital for the first time

LCH.Clearnet

LCH.Clearnet Limited is the third party recognised clearing house that is the CCP to London Stock Exchange equity trades and EDX London derivatives

Main Market

The market for companies who have been admitted to trading on the London Stock Exchange's principal market; and in Italy, the market for companies listed on Borsa Italiana's principal MTA market

MiFID or Markets in Financial Instruments Directive

EU Directive introduced in November 2007 to harmonise cross border trading of equities, providing greater choice of trading venues

MillenniumIT

The Group's subsidiary that is the developer of low cost, high performance trading platforms and financial markets software serving both the Group's own businesses and third parties

Monte Titoli

Monte Titoli S.p.A., the Group's Italian Central Securities Depository and settlement company

MOT

Mercato Obbligazionario Telematico is the Group's Italian retail bond trading platform

MTA

Mercato Telematico Azionario is the Group's Italian electronic market on which shares, convertible bonds, warrants and option rights are traded

MTS

Società per il Mercato dei Titoli di Stato S.p.A., the Group's 60 per cent subsidiary which owns and operates an electronic trading platform for European fixed income securities

Multilateral Trading Facility (MTF)

Alternative electronic trading systems as categorised under MiFID

OTC

Over the counter transactions completed away from an exchange or MTF

Proquote

The Group's financial market software and data services provider

Repo

Repurchase Agreement – the process of borrowing money by combining the sale and subsequent repurchase of an asset

RNS

Regulatory News Service, the Group's Primary Information Provider, for dissemination of regulatory and non-regulatory news to the market

RPI

The Retail Price Index which measures inflation in the UK economy

SEDOL Masterfile (SMF)

The Group's securities identification service

SETS

The electronic order book operated by the London Stock Exchange for the most liquid securities

SOLA®

Derivatives trading platform used by EDX, supplied to the Group by TMX

Specialist Fund Market (SFM)

The Group's regulated market for highly specialised investment entities that wish to target institutional, professional and highly knowledgeable investors

Target 2 Securities (T2S)

Initiative led by the European Central Bank to provide a platform for settlement of bonds and equities traded in the Eurozone, expected to be launched at some point beyond 2013

TradElect

The Group's trading technology for SETS introduced in 2007, to be replaced with MillenniumIT technology in the latter half of 2010

Turquoise

The Group's 51 per cent owned pan-European MTF trading subsidiary, a venture between the Group and 12 global investment bank clients

UnaVista

The Group's web based matching, reconciliation and data integration engine that provides matching of post trade data in a simple, automated process

X-TRM

The Group's post-trade router, to manage the trade flows between two competing CCPs and onward to settlement

Investor relations

Shareholder services

Equiniti registrars shareview service

Shareview is a free service provided by our registrars, Equiniti. It may be accessed through the internet at www.shareview.co.uk. By creating a Shareview portfolio, you will gain online access to information about your Exchange shares and other investments including:

- Direct access to information held for you on the share register including share movements;
- A daily indicative valuation of all investments held in your portfolio; and
- A range of information and practical help for shareholders.

To register at Shareview you will need your shareholder reference (which can be found on your share certificate) and you will be asked to select your own personal identification number. A user ID will then be posted to you.

If you have any problems in registering your portfolio for the Shareview service, please contact Equiniti on 0871 384 2544. Calls to this number are charged at eight pence per minute from a BT landline. Other telephone providers' costs may vary. For calls from outside the UK, please contact Equiniti on +44 121 415 7047. Please note that you should only use electronic addresses included in this Annual Report for the purposes expressly stated.

Group's share price service

To obtain share price information for London Stock Exchange Group plc, please see our website at: www.londonstockexchange.com

By clicking on the Investor Relations tab you will find the Exchange's share price, historical closing prices and volumes and an interactive share price graph.

Alerting service

To receive email alerts when financial reports, news releases and webcasts are posted on our Investor Relations website, register at: www.londonstockexchange.com and follow the link in the section on financial performance – reports and key documents.

Substantial Shareholders

As at 20 May 2010 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with DTR 5 of the FSA's Disclosure and Transparency Rules:

Borse Dubai Limited	20.6%
Qatar Investment Authority	15.1%
Unicredito Italiano S.p.A.	6.0%
Intesa Sanpaolo S.p.A.	5.3%
Legal & General Group plc	5.0%
Horizon Asset Management Inc.	3.7%

Financial calendar (provisional)

AGM	14 July 2010
Q1 Interim Management Statement (revenues only)	14 July 2010
Ex-dividend date for final dividend	21 July 2010
Final dividend record date	23 July 2010
Final dividend payment	16 August 2010
Half year end	30 September 2010
Interim Results	November 2010
Q3 Interim Management Statement (revenues only)	January 2011
Financial year end	31 March 2011
Preliminary Results	May 2011

The financial calendar is updated on a regular basis throughout the year.

Please refer to our website www.londonstockexchange.com and click on the shareholders services section for up-to-date details.

Investor relations contacts

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Visit the investor relations section of our website for up-to-date
information including the latest share price, announcements,
financial reports and details of analysts and consensus forecasts
www.londonstockexchange.com

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Stock Exchange Group

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