THIS CIRCULAR 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 or, if not, from another appropriately authorised financial adviser in your own jurisdiction.

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please send this Circular 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. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this Circular and the accompanying documents.

London
STOCK EXCHANGE

London Stock Exchange Group plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5369106)

Proposed Merger of London Stock Exchange Group plc and Borsa Italiana S.p.A.

Circular to Shareholders and Notice of Extraordinary General Meeting

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Your attention is drawn to the Letter from the Chairman which is set out in Part 1 of this Circular. The Board unanimously recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting. Your attention is also drawn to the section entitled "Extraordinary General Meeting and action to be taken" on page 10 of this Circular. Please read the whole of this Circular and, in particular, the risk factors set out in the section headed "Risk Factors" on pages 12 to 17 of this Circular. You should not rely solely on the information summarised in Part 1 of this Circular.

Notice of the Extraordinary General Meeting of London Stock Exchange Group plc to be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU at 10.00 a.m. on 8 August 2007 is set out on page 80 of this Circular. Shareholders will find enclosed with this Circular a Form of Proxy for use in connection with the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, please complete and return the Form of Proxy to the Registrars as soon as possible and in any event so as to arrive by not later than 10.00 a.m. on 6 August 2007. If you hold 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 10.00 a.m. on 6 August 2007 by the Registrars (under CREST participant ID 7RA01).

Capitalised terms have the meanings ascribed to them in Part 8 (Definitions) of this Circular.

Merrill Lynch International and Lehman Brothers Europe Limited, which are authorised and regulated in the United Kingdom by the FSA, are acting as financial advisors for the Company and no one else in relation to the Proposals and will not regard any other person as their clients in relation to the Proposals and will not be responsible to any person other than the Company for providing advice in relation to the Proposals or any other matters contemplated by this Circular.

Application will be made to the FSA for the New LSEG Shares to be issued pursuant to the Proposals 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 Admission will become effective, and that dealings in those shares will commence shortly after publication of the Prospectus. In addition, the Company intends to seek a listing of its Ordinary Shares on Borsa Italiana's Mercato Telematico Azionario on or as soon as practicable following Completion.

This Circular does not constitute an offer or invitation to any person to subscribe for or purchase any securities in the Company. The Prospectus relating to the New LSEG Shares required in connection with the application for Admission is expected to be published in or around September 2007. The Prospectus will not be sent to you when published, but it will be possible to obtain a copy of the Prospectus from the Company's website (www.londonstockexchange.com) or 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. (UK time) on any business day or, on request, free of charge from the registered office of the Company (being, 10 Paternoster Square, London EC4M 7LS). A copy of the Prospectus will also be available for inspection at the Document Viewing Facility of the FSA, 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 business day.

The distribution of this Circular in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this Circular 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 Circular 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.

Forward-looking statements

This Circular contains a number of forward-looking statements which reflect the Company's, Borsa Italiana's, the Enlarged Group's or, as appropriate, the Directors' current views as to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Enlarged Group) and future benefits of the Proposed Merger. These statements typically contain words such as "anticipate", "believe", "estimate", "expect", "forecast", "intend", "may", "plan", "prospects", "should", "targets", or the negative thereof, or other variations thereof, or comparable terminology indicating expectations or beliefs concerning future events.

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, or will be, a number of factors that could cause actual results or 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 Circular 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 Borsa Italiana does business, the Company does business, or the Enlarged Group will do business are less favourable than expected; and/or conditions in the securities market are less favourable than expected.

These forward-looking statements speak only as at the date of this Circular. Subject to any obligations under the Prospectus Rules, the Disclosure Rules, the Transparency Rules and the Listing Rules and save as required by law, the Company 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.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date	Event
6 August 2007	10.00 a.m. Latest time for receipt of the Form of Proxy for the Extraordinary General Meeting or for appointment of proxy by completing and transmitting a CREST proxy instruction
6 August 2007	Record date for attending and voting at the Extraordinary General Meeting
8 August 2007	9.00 a.m. (UK time) Extraordinary General Meeting of Borsa Italiana
8 August 2007	10.00 a.m. (UK time) Extraordinary General Meeting of the Company

NOTE:

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

2. The dates given are based on the Company's current expectations and may be subject to change. Any revised times and/or dates will be notified to Shareholders by an announcement on a Regulatory Information Service and otherwise in accordance with the Articles of Association.

PART 1: CHAIRMAN'S LETTER

London Stock Exchange Group plc
(Registered in England No. 5369106)

London STOCK EXCHANGE

10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000
www.londonstockexchange.com

Chris Gibson-Smith, Chairman
Clara Furse, Chief Executive
Jonathan Howell, Director of Finance
Gary Allen CBE, Non-Executive Director
Baroness (Janet) Cohen, Non-Executive Director
Oscar Fanjul, Non-Executive Director
Peter Meinertzhagen, Non-Executive Director
Nigel Stapleton, Non-Executive Director
Robert Webb QC, Non-Executive Director

23 July 2007

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

Dear Shareholder,

PROPOSED MERGER WITH BORSA ITALIANA S.p.A.

1. Introduction

I am delighted to write to you in connection with the proposed merger of Borsa Italiana S.p.A. ("**Borsa Italiana**") with your company, London Stock Exchange Group plc (the "**Company**"), to be achieved by way of a recommended offer by the Company to the shareholders of Borsa Italiana (the "**Proposed Merger**").

The boards of Borsa Italiana and the Company announced agreement of the terms of the Proposed Merger on 23 June 2007. This Circular gives you further details of the Proposed Merger, including background to, and reasons for it, explains why the board of directors of the Company (your "**Board**") considers it to be in the best interests of the Company and recommends that you vote in favour of the resolutions to be proposed at the extraordinary general meeting of the Company to be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU at 10.00 a.m. on 8 August 2007 (or any adjournment thereof) (the "**Extraordinary General Meeting**" or "**EGM**").

The Proposed Merger is the most important step yet in realising our shared vision to be the world's capital market. The Proposed Merger will diversify the product and customer bases of the two exchanges, will create cross-access opportunities for issuers, intermediaries and investors and enlarge the liquidity pool thereby reducing trading costs and the cost of capital. Together, we will leverage our highly compatible and broad range of skills to accelerate the growth of our market places. From this position of increased strength with excellent growth prospects the board of the Company and its subsidiaries following completion of the Proposed Merger (the "**Enlarged Group**") will continue to explore ways of creating shareholder value through strategic and other opportunities.

Due to its size, the Proposed Merger requires the approval of the registered holders (the "**Shareholders**") of the ordinary shares of $6\frac{79}{86}$ pence each in the capital of the Company (the "**Ordinary Shares**") at the Extraordinary General Meeting. The Extraordinary General Meeting has been convened to consider and, if thought fit, to approve a resolution approving the Proposed Merger and authorising the Directors of the Company to allot new Ordinary Shares in the Company to shareholders in Borsa Italiana in consideration for the transfer to the Company of shares in Borsa Italiana, together with resolutions, conditional on passing the resolution approving the Proposed Merger, which approve the increase of the maximum aggregate remuneration of non-executive directors from £750,000 to £1.5 million, and conferring authority on the Company to purchase its own Ordinary Shares, (all resolutions together, the "**Resolutions**"). The Board unanimously considers that the Proposed Merger is in the best interests of the Company and recommends that the Company's Shareholders vote in favour of the Resolutions as set out in the Notice of EGM at the end of this Circular.

2. Background to and reasons for the Proposed Merger

The industry in which Borsa Italiana and the Company's wholly owned subsidiary London Stock Exchange plc (the "**London Stock Exchange**") operate is undergoing a period of unprecedented change as globalisation continues to gather pace, regulatory changes present new market opportunities, and trading practices continue to evolve, underpinned by a step change in technology capacity and speed.

The management of the Enlarged Group intends to be at the forefront of these changes in order to grow more rapidly by extending its international strategy in the fast-evolving exchange industry. Through the Proposed Merger, Borsa Italiana and the Company are creating the leading diversified exchange group in Europe which will serve as the platform for additional strong growth on a European and global scale.

The Enlarged Group will bring together two highly efficient and complementary businesses, coupling the strengths of Borsa Italiana in Italian cash equities, derivatives, securitised derivatives, fixed income products and efficient post-trade services with those of the London Stock Exchange in UK and international equities. It will bring together the best of the Italian and UK market places, and build on the international profile of the Italian financial market place by capturing the attractive macro-economic and market growth dynamics of Italian equities.

Notwithstanding the high levels of efficiency already achieved by the two companies, the Proposed Merger is expected to achieve pre-tax cost synergies and other transaction-related cost savings, comprising an equal split of IT and non-IT related savings, of £20 million (€29 million) annually, with the full run-rate being achieved in the financial year 2010. Furthermore, given the highly complementary nature of the two businesses and the prospects for growth that underpin the Proposed Merger, approximately £20 million (€29 million) of annual revenue synergies are estimated to be achieved in the financial year 2011.

The Enlarged Group will be:

- Europe's leading equities business, with 48 per cent. of the FTSEurofirst 100, the index of leading European quoted companies (the "**FTSEurofirst 100**") and the most liquid order book by value and volume traded;
- Europe's leading market for electronic trading of exchange traded funds ("**ETFs**") and securitised derivatives; and
- Europe's leading fixed income market, through its interest in the electronic trading platform Società per il Mercato dei Titoli di Stato S.p.A. ("**MTS**").

Moreover, the Enlarged Group will operate:

- the most advanced trading platform of any exchange; and
- the most efficient post-trade services in Europe.

The Proposed Merger will create a leading force in a broad range of businesses and provides strong foundations for the Enlarged Group's strategic positioning and future development in a number of areas.

Unique global strategic position

The Proposed Merger further strengthens the unique strategic position of the Enlarged Group and enhances its attractiveness as the partner of choice for other exchanges, both in the pursuit of collaborative opportunities and in the rapidly evolving world of exchange consolidation.

Largest European equities liquidity pool

The Enlarged Group will offer extensive coverage of the European markets with 48 per cent. of the FTSEurofirst 100 and leadership in terms of average daily value traded and number of order book trades. This will provide new trading opportunities for investors, thereby increasing the attractiveness of the Enlarged Group's markets for the deployment of global risk capital. The Proposed Merger will also create Europe's leading ETF and securitised derivatives electronic trading platform.

Primary European and global listings venue

The Proposed Merger will consolidate the London Stock Exchange's lead as the primary centre for international companies and increase the visibility and access to European and global capital for issuers. The Enlarged Group will be the international and European market of choice for listings with over 3,500 listed companies from 69 countries.

The Proposed Merger will build on the global success of AIM enabling the development of new growth market opportunities, targeted at Italian and Continental European mid and small cap companies.

Leading European fixed income trading platform

Following Borsa Italiana's recent announcement that it has exercised its call option to acquire control of MBE Holding S.p.A. ("**MBE**"), the Enlarged Group will control MTS. The Proposed Merger will offer potential to extend MTS's offering into new markets and products such as the rapidly expanding European corporate bond markets, other new international markets and UK fixed income products.

World leader in trading technology

The London Stock Exchange has built and delivered the world's most advanced exchange trading infrastructure. The deployment of this technology across the trading communities of both markets will accelerate the structural shift in equity trading by increasing the attractiveness of the combined markets, in particular to the rapidly expanding high velocity electronic trading community. This will drive further cost reductions and, in turn, stimulate additional business by extending the virtuous circle.

Most efficient provider of post-trade services in Europe

Borsa Italiana is acknowledged as the lowest cost provider of post-trade services, including central counterparty clearing and central securities depositary services, in Europe. As a result, the Enlarged Group will be strongly positioned to take advantage of market opportunities presented by the future implementation of the European Code of Conduct on Clearing and Settlement, signed by trading and post-trading infrastructure providers on 7 November 2006, which enables greater customer choice in the area of clearing and settlement.

A leading innovator in global information services

The Enlarged Group's information services offering will include a wide range of data and information services products supplying real-time prices, news and other information to the global financial community via a network of nearly 900,000 terminals across 106 countries. Opportunities exist to build further on this enhanced franchise in an expanding global market for sophisticated reference data and value-added information products.

Diverse derivatives market

The Proposed Merger offers potential opportunities to cross-sell Italian and international equity derivatives to EDX London Limited's and Borsa Italiana's Italian derivatives market ("**IDEM**") members, leveraging the Enlarged Group's position in a wide range of underlying markets to develop and build upon both exchanges' records for new and innovative product offerings.

3. Benefits to Customers

The Proposed Merger is expected to deliver substantial benefits to the Enlarged Group's issuer, intermediary and investor customers, strengthening the Italian financial market place and the City of London.

Issuers are expected to benefit from access to a wider investor base and reduced cost of capital, driven by the benefits of access to the Enlarged Group's liquidity pool in equity and fixed income products.

Intermediaries will have the opportunity to grow their corporate finance and trading businesses, brought about by cross-market access and supported by world-leading trading technology and Europe's most efficient post-trade services.

Investors will have a wider range of investment opportunities from the pooled liquidity across the Enlarged Group's markets, and its enhanced ability to use this as a base for the development of new products.

4. Summary of principal terms and conditions of the Proposed Merger

Under the terms of the Proposed Merger, Borsa Italiana Shareholders will be offered 4.90 Ordinary Shares in the Company for each existing Borsa Italiana Share (the "**Offer**"). Based on the Company's closing share price on, and using an exchange rate as of, 19 July 2007 (being the latest practicable date prior to the publication of this Circular), the Offer valued Borsa Italiana at £1,121.1 million (€1,664.0 million).

The Proposed Merger is subject to conditions, *inter alia*, that valid unconditional acceptances of the Offer by Borsa Italiana Shareholders must be received by the Company, and not withdrawn in accordance with the terms of the Offer, in respect of Borsa Italiana Shares representing not less than eighty five (85) per cent. (or such lower percentage as the Company may by giving notice in writing to Borsa Italiana determine, provided that such percentage shall not be less than 66.67 per cent.) of the issued share capital of Borsa Italiana and that Borsa Italiana Shareholders approve changes to the Borsa Italiana By-Laws at an extraordinary general meeting, expected to be held on 8 August 2007.

Following the Proposed Merger, the Company will become the holding company of both the London Stock Exchange and Borsa Italiana and will continue to maintain the existing Borsa Italiana and London Stock Exchange brands. The Company will remain incorporated in the UK, but it is intended in the future that the Company be renamed to reflect its international profile. In addition to its listing in London, the Company intends to seek a listing on Borsa Italiana.

5. Information on Borsa Italiana Group

Borsa Italiana is a market operating company responsible for the organisation and management of the securities market in Italy, involving equities, bonds, derivatives and structured products. Borsa Italiana's main activities involve the provision of IT systems for trading services, information services, clearing and settlement activities and central depositary operations. The responsibilities of Borsa Italiana are the listing and admission of financial instruments to its markets, admission of intermediaries, overseeing transaction activities and supervising disclosure by listed companies.

Borsa Italiana's cash equities business is the fourth largest in Europe in terms of average daily volume of order book trading. It comprises 323 listed companies as at June 2007 and is used by 74 domestic and 52 international trading participants through a completely electronic trading system. Borsa Italiana and its subsidiaries (the "**Borsa Italiana Group**") have developed the most efficient post-trade services in Europe, and through its indirect stake in MTS, the Borsa Italiana Group has strong exposure to fixed income trading. MTS is the leading regulated electronic trading platform for European wholesale government bonds and other types of fixed income securities. Borsa Italiana is also the leader in Europe in the electronic trading of ETFs and securitised derivatives and has a highly developed retail market.

In the year ended 31 December 2006, the consolidated income statement of Borsa Italiana prepared to the Company's accounting policies and set out in Part 4 of this Circular shows that Borsa Italiana generated total revenue of €249.5 million, with operating profit of €100.2 million and a net profit of €62.1 million. Since 2004, Borsa Italiana has grown revenues at a compound annual growth rate ("**CAGR**") of 13.1 per cent. and net profit at a CAGR of 30.8 per cent. Shareholders should read the whole of this Circular, including Part 4B (Financial Information) on Borsa Italiana S.p.A. and not rely solely on the summarised financial information.

Further information on Borsa Italiana Group's business is set out in Part 3.

6. Governance and management

With effect from completion of the Proposed Merger ("**Completion**"), pursuant to the Offer, the Company will be the holding company of the Enlarged Group. The Company will retain a unitary board which will continue to operate in accordance with United Kingdom corporate governance principles including the Combined Code. The Board following Completion will comprise 12 members, seven directors nominated by the existing Board (who shall include the Chairman and the two Executive

Directors of the Company), and five directors nominated by the board of Borsa Italiana (the "**Borsa Italiana Board**"), who shall include the present Chairman and the present Chief Executive of Borsa Italiana and three non-executive directors, one of whom is to be independent within the criteria specified in the Combined Code. I will continue as Chairman of the Company and Clara Furse will continue as Chief Executive. Professor Angelo Tantazzi, the present Chairman of Borsa Italiana, shall become the Deputy Chairman of the Company and Massimo Capuano, the present Chief Executive of Borsa Italiana, shall become the Deputy Chief Executive of the Company, responsible for the integration process of Borsa Italiana and the Company.

In addition, the Company's Nominations, Remuneration and Audit Committees will be reconstituted to comprise, in each case, three directors to be nominated by the existing Board and two directors to be nominated by the Borsa Italiana Board. I will chair the Nominations Committee and the Chairman of Borsa Italiana will also be a member of the Nominations Committee.

The board of directors of the London Stock Exchange and the board of directors of Borsa Italiana will each comprise approximately 12 directors, with five executive directors, and seven non-executive directors.

Given we are enlarging the Board of the Company on Completion, we are proposing a Resolution to be passed at the Extraordinary General Meeting which will, conditional on Completion, increase from £750,000 to £1.5 million the maximum amount of the aggregate remuneration of the non-executive directors (excluding the Chairman). This will provide the Company with sufficient flexibility going forward to accommodate new appointments and honour existing arrangements.

7. Employees

The Enlarged Group attaches great importance to retaining the skills and experience of existing management and employees. We believe that employees will generally have greater opportunities arising out of the Proposed Merger due to the enhanced growth prospects of the Enlarged Group. Existing employment rights, including pension rights, of employees of both Borsa Italiana and the London Stock Exchange will be fully safeguarded. It is intended that the employees of Borsa Italiana and the London Stock Exchange will participate in incentive arrangements which are aligned to the financial performance of the Enlarged Group and which reward the creation of shareholder value.

8. Financial effects of the Proposed Merger

The complementarity of the businesses of Borsa Italiana and the London Stock Exchange provides a powerful backdrop for enhanced growth and substantial revenue synergies. Furthermore, the Proposed Merger creates the opportunity for cost synergies, notwithstanding the high levels of efficiency already achieved by both businesses.

Total annual pre-tax synergies and other transaction-related cost savings are estimated at £40 million (€59 million), of which £20 million (€29 million) relate to revenue enhancements and £20 million (€29 million) relate to cost synergies and other transaction-related cost savings. The full annual run-rate of pre-tax cost synergies is expected to be achieved in the financial year 2010, and the full run-rate of revenue synergies is expected to be achieved in the following financial year.

The estimated revenue synergies, which are equivalent to 4 per cent. of the combined revenue of the Company and its subsidiaries ("**LSE Group**") and Borsa Italiana Group, are expected to arise in the following areas:

- creating attractive cross-market access opportunities via the operation of both markets on TradElect™ ("**TradElect**"), the London Stock Exchange's world-leading trading platform and enlarging the liquidity pool available to listed companies;
- accelerating the development of the small and medium enterprises' ("**SME**") market place in Italy and other European markets;
- linking the two equity derivatives product offerings, thereby creating a larger liquidity pool for existing and new products;
- adding new bond products on to the MTS trading platform; and
- expanding Borsa Italiana's highly efficient clearing services to other European markets.

The pre-tax cost synergies equate to 8 per cent. of the combined cost base (excluding exceptional costs) and are expected to comprise an equal split of IT and non-IT related savings. IT synergies are expected to arise from the integration of the Enlarged Group's IT infrastructure, including the combination of the Enlarged Group's cash equities trading on to TradElect (expected in mid-2008). Non-IT synergies are expected from consolidating overlapping operations in a number of areas and by reducing overall combined corporate expenses.

The aggregate pre-tax cost of achieving the above identified synergies is estimated to be approximately £40 million (€59 million) and is planned to be incurred in total by the end of the financial year 2010.

The identified synergies do not in themselves mean that earnings for the financial year 2008 will be greater than for the financial year 2007. The transaction is expected to be earnings neutral to positive in the financial year 2008 and earnings accretive by at least 10 per cent. in the financial year 2009, excluding amortisation of purchased intangibles and integration costs. The statements in this paragraph 8 do not constitute a profit forecast and should not be interpreted to mean that the earnings of the Company or earnings per share in the financial year in which the Proposed Merger completes, or in any subsequent period, would necessarily be greater than those in the preceding financial year.

An unaudited pro forma statement of net assets illustrating the effects of the Proposed Merger on the net assets of LSE Group at 31 March 2007 is set out in Part 5 of this Circular.

9. Funding of the Proposed Merger

The Proposed Merger will be achieved through the issue of new Ordinary Shares in the Company ("**New LSEG Shares**") to the holders of shares in Borsa Italiana. The Company has also entered into a bridge facility amounting to £460 million, conditional on Completion of the Proposed Merger. Amounts under the bridge facility can be principally used for either (a) the purposes of acquiring shares in Borsa Italiana, if required, or to the extent this is not required, for any return of capital to the Company's shareholders or (b) for refinancing borrowings of Borsa Italiana.

Fractional entitlements of any Borsa Italiana shareholder to the New LSEG Shares to be issued pursuant to the Offer shall be addressed by rounding up to the nearest number of New LSEG Shares that any Borsa Italiana shareholder is entitled to receive.

10. Dividend policy

Following the Proposed Merger, the Enlarged Group intends to continue the Company's existing progressive dividend policy. The New LSEG Shares shall be issued credited as fully paid and shall rank pari passu with the existing Ordinary Shares in the Company and shall carry the right to receive all dividends and other distributions (if any) declared, made or paid after the date of issue of the New LSEG Shares.

11. Capital management

The Company has a policy of active capital management which it intends to continue. The Proposed Merger with Borsa Italiana includes the possibility of up to £350 million cash being used in the merger and the Company has arranged appropriate banking facilities. On the assumption that this cash will not be required to fund withdrawal rights exercised by Borsa Italiana Shareholders pursuant to articles 2437 and following of the Italian Civil Code, the Board plans to use this cash, together with other cash available to the Company, to return £500 million to its shareholders by way of tender or market purchases or by a combination of methods. This is conditional on Completion of the Proposed Merger. In addition, as growth and synergies are realised through the merger, the Board envisages making further returns of capital, subject to prevailing market conditions, in line with its policy of active capital management, while maintaining its strategic objective of an investment grade credit rating.

The planned return of capital will also include all of the remaining cash that would otherwise be used for the previously announced share buy-back programme of up to £250 million. The Company has completed £154 million of this share buy-back programme to date.

The Board recommends that Shareholders vote in favour of the Resolution to confer authority on the Company to make market purchases of, or tender offers for, its Ordinary Shares. The terms of the authority are described in more detail in paragraph 3 of Part 7 of this Circular. The authority will enable the Board to implement an appropriate proposal after Completion. The method of any such return of capital would be subject to a subsequent Board decision and in considering the return of capital the Board will have regard to the impact on earnings per share and the interests of Shareholders generally.

12. Current trading and prospects

The recent financial performance of both the Company and Borsa Italiana continues to be very strong.

12.1 LSE Group

LSE Group has made a very good start to the new financial year with positive momentum in many areas of its business. Primary markets remain active with 43 new issues (including 14 by international companies) on the market for companies who have been admitted to the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange's principal market (the "**Main Market**"). Trading on the London Stock Exchange's secondary markets has been very strong this year, with average trades per day on the electronic order book operated by the London Stock Exchange for the most liquid securities ("**SETS**") reaching 535,578 in June, already above the forecast for the financial year 2008 made in January 2007 and up 62 per cent. on the same period last year. Demand for real time data is also continuing to grow.

The introduction of the London Stock Exchange's new trading platform TradElect in June 2007, together with the continuation of the structural shift in trading, should ensure further trading growth during the year to achieve its SETS growth target. While the Company expects a modest rise in operating expenses as the business grows, overall the Company is confident of delivering a strong performance in the year ahead.

12.2 Borsa Italiana Group

In the first half of 2007, the Italian primary market was highly active, with 21 new listed companies, of which 15 came through initial public offers. Trading in shares reached an average of 304,000 trades per day and €6.6 billion (up 27 per cent. and 39 per cent. on the corresponding period for the previous year). New records were also set by ETFs and exchange traded commodities (daily average of 4,900 trades and €111 million) and securitised derivatives (daily average of 21,900 trades and €396 million). In the same period, the daily average was 11,600 trades and €606 million for fixed income securities (the Mercato Obbligazionario Telematico ("**MOT**") retail market) and equity derivatives traded on IDEM reached an all time high daily average of €6.6 billion of notional turnover and 161,500 standard contracts.

13. Admission

Application will be made to the Financial Services Authority for the New LSEG Shares to be admitted to the Official List of the United Kingdom Listing Authority and to the London Stock Exchange for admission to trading on the London Stock Exchange's Main Market for listed securities. In addition, the Company intends to seek a listing of its Ordinary Shares on Borsa Italiana's Mercato Telematico Azionario on or as soon as practicable following Completion. Application has not been, and will not be, made for the New LSEG Shares in the Company issued pursuant to the transaction to be admitted to, or to trade on, any other stock exchange.

14. Extraordinary General Meeting and action to be taken

The notice convening the EGM to be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU at 10.00 a.m. on 8 August 2007 is set out at the end of this Circular. The purpose of this meeting is to seek Shareholders' approval of the Resolution required to implement the Proposed Merger, together with other Resolutions which shall take effect conditional on Shareholders' approval of the Proposed Merger. The Resolutions are being proposed to:

- approve the Proposed Merger and authorise the directors of the Company pursuant to section 80 of the Companies Act 1985 to allot relevant securities up to a maximum aggregate nominal amount of £5,505,000 for the purposes of the Proposed Merger;

- increase the aggregate maximum remuneration payable to non-executive directors of the Company (excluding the Chairman) from £750,000 to £1.5 million, conditional on passing the resolution approving the Proposed Merger; and
- confer authority on the Company to make market purchases of, or tender offers for, its own shares for a greater number of shares than, and in substitution for, the authority conferred at the Company's AGM held on 11 July 2007, conditional on passing the resolution approving the Proposed Merger.

Whether or not you propose to attend the meeting, 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) the Form of Proxy for use at the Extraordinary General Meeting 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 by no later than 10.00 a.m. on 6 August 2007. **Completed Forms of Proxy should be returned by post (faxes will not be accepted).** Alternatively, you may appoint a proxy electronically via the website run by Lloyds TSB Registrars at www.sharevote.co.uk using the number provided on the 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 the Registrars, Lloyds TSB Registrars, (under CREST participant ID 7RA01) by 10.00 a.m. on 6 August 2007 or, if the meeting is adjourned, no later than 48 hours before the time appointed for the relevant meeting. For a CREST proxy instruction to be valid, the existing Shareholder's instruction to vote must be clearly entered in the relevant box provided.

15. Recommendation

The Board, which has received financial advice from Merrill Lynch International and Lehman Brothers Europe Limited, considers the terms of the Proposed Merger to be fair and reasonable. In giving their advice to the Board, both Merrill Lynch International and Lehman Brothers Europe Limited have relied upon the Board's commercial assessments of the Proposed Merger.

The Board believes the Proposed Merger and all of the Resolutions to be in the best interests of the Shareholders as a whole, and accordingly, unanimously recommend that the Shareholders vote in favour of each of the Resolutions proposed at the Company's Extraordinary General Meeting as they have each undertaken to do in respect of their own beneficial holdings amounting to 574,226 Ordinary Shares representing 0.29 per cent. of the Company's existing issued share capital.

Yours sincerely

Chris Gibson-Smith
Chairman

PART 2: RISK FACTORS

You should carefully consider the following risk factors in addition to the other information contained in this Circular. The risks and uncertainties described below are those which, if they arose, in the opinion of the Directors and the Company could have an adverse effect on LSE Group's or the Enlarged Group's business, results of operations or financial condition. If this were to lead to a decline in the trading price of the Ordinary Shares, prospective investors may lose all or part of their investment. The risks and uncertainties described below are not the only ones faced by LSE Group or the Enlarged Group. Additional risks and uncertainties not presently known or currently deemed immaterial may also have an adverse effect on LSE Group's or the Enlarged Group's results of operations or financial condition.

You should read this Circular as a whole and not rely solely on the information set out in this section.

Risks relating to the financial markets industry

Economic environment

Business conditions in the savings market supply chain can affect investment in securities. These conditions are influenced by a variety of factors including: demographic changes, including the behaviour of the population in saving to pay for future obligations; the fiscal and monetary policies of governments and central banks; and any changes in EU and domestic legislation. Such changes may impact the ability of LSE Group, and following the Proposed Merger, the Enlarged Group to achieve its targets. LSE Group, and following the Proposed Merger, the Enlarged Group is not in a position to influence these factors directly and it is not always possible to predict or foresee the occurrence or scale of their impact on the business.

Structure of the industry

In response to the gradual liberalisation of world financial markets, participants in the securities market are undergoing a significant level of corporate restructuring. In particular, a high proportion of business in the securities market is becoming increasingly concentrated in a smaller number of institutions and LSE Group's revenue and, following the Proposed Merger, the Enlarged Group's revenue may therefore become concentrated in a smaller number of customers. Further restructuring in the global exchange sector, were it to occur, could impact the Enlarged Group's ability to implement its strategy.

Risks relating to the business of LSE Group, and following the Proposed Merger, the Enlarged Group

Market activity

LSE Group's and, following the Proposed Merger, the Enlarged Group's revenues and profitability are dependent upon the levels of activity on its markets. A slowdown in trading activity could lead to a decrease in trading volumes and fewer initial public offerings as well as to a drop in the number of information terminals receiving the relevant market data. Furthermore, given that Borsa Italiana Group's post-trading services are connected with the activity on both its own and third-party markets, the general level of market activity may have an impact on revenues and margins generated by the provision of these services. Such slowdown might adversely affect the Enlarged Group's revenues.

RIE regulation

The London Stock Exchange is authorised by the FSA as a RIE. In order to obtain RIE status, a body must satisfy the Recognition Requirements which include: the provision of proper and orderly markets; sufficiency of financial resources; safeguards for investors; monitoring and enforcement; and investigation of complaints. These requirements apply to all markets operated by the London Stock Exchange. If a RIE fails to continue to meet such Recognition Requirements, or if the RIE fails to comply with any obligation to which it is subject under FSMA 2000, then the FSA has the power to direct compliance by the RIE with such requirements and ultimately to revoke the RIE's recognition.

Regulation of Borsa Italiana

Borsa Italiana is authorised by Consob, the Italian securities and exchange commission, as the management company of regulated markets. In order to obtain authorisation to manage regulated markets, certain requirements must be satisfied which include minimum capital, integrity and experience requirements for persons performing administrative and management functions. Borsa Italiana is subject to supervision by Consob in accordance with the provisions of the law on financial intermediation (TUF). In addition, Consob supervises the regulated markets operated by Borsa Italiana (pursuant to the provisions of TUF) with the aim of ensuring transparency of the markets, orderly conduct of trading and protection of investors. Failure to adhere to Consob requirements could lead to Borsa Italiana's authorisation being revoked.

The Ministry for the Economy and Finance in Italy has the power to dissolve the administrative and control bodies of the market management company and to confer their powers to a special administrator in the event of serious irregularities in the management of markets or in the administration of market management companies and whenever necessary for the protection of investors. Where such irregularities prove to be particularly serious, the Ministry for the Economy and Finance can issue a decree revoking the authorisation to manage regulated markets.

Competitive pressure

The terms under which business has been conducted in the European Union have been further liberalised by MiFID, the Markets in Financial Instruments Directive, which is expected to come into effect on 1 November 2007. This legislation is intended to achieve increased transparency in transactions in securities traded on regulated markets and requires all business in securities traded on regulated markets to be published via a reporting venue irrespective of where the trade takes place. This legislation presents market participants with the opportunity to conduct and publish trades in different ways and on alternative venues, thereby removing national concentration rules where they exist, such as in Italy. MiFID provides the Enlarged Group with the opportunity to compete for pan-European trade reporting as well as generating a competitive threat for existing trade reporting revenues earned by the London Stock Exchange and Borsa Italiana, and execution fees earned by Borsa Italiana.

LSE Group, and following the Proposed Merger, the Enlarged Group also faces competition from other exchanges as well as from Multilateral Trading Facilities and systematic internalisation by member firms. This competition may intensify in the near future especially as technological advances create pressure to reduce the costs of trading.

Competition among trading venues might increase competition to Borsa Italiana and the London Stock Exchange in the business of value added services such as the provision of data. In addition, the information service vendors might be in a better position to collect and disseminate data creating a threat to existing information services revenues.

Borsa Italiana Group and the London Stock Exchange are among the signatories of the European Code of Conduct for Clearing and Settlement signed on 7 November 2006. The Code of Conduct aims to offer market participants the freedom to choose their preferred provider of services separately at each layer of the transaction chain (trading, clearing and settlement). Competition among post-trading organisations might intensify as a result of the implementation of the provisions of the Code of Conduct leading to a potential loss of market share for Borsa Italiana in Italian equities clearing.

The European Central Bank has indicated a plan to create a centralised settlement mechanism for Eurozone equities (to be known as Target 2 for Securities or T2S). This is expected to reduce barriers for competition in settlement services in Europe, opening up new business opportunities for Monte Titoli, although there is a risk that there could be an impact on the settlement revenues of Monte Titoli.

MTS competes with other trading platforms and with brokers for trading in wholesale fixed income products. If competitors are better able to provide a market model to meet evolving customer requirements for trading in these products, this could lead to a loss of trading at MTS with consequent impact on MTS's revenues.

Liquidity shift

A significant shift of liquidity away from the London Stock Exchange or Borsa Italiana would have a material impact on revenue for all core divisions due to the interdependencies in the London Stock Exchange's and Borsa Italiana's respective businesses. A liquidity shift could occur where: a new entrant provides lower pricing and better quality of service; a new entrant can provide these services at lower cost; customers are dissatisfied with the incumbent provider; there is a powerful, concentrated customer group; the customer group moves in a co-ordinated fashion; there are no regulatory or political barriers; and there is full access to clearing and settlement infrastructure. The Enlarged Group may also suffer from having a significant overlap of major global intermediaries, should they attempt to execute business away from the exchanges within the Enlarged Group.

IT infrastructure

Services for the provision of a platform for the execution, clearing and settlement of securities trades and for the collection and aggregation of trade and price information predominantly depend on technology which is secure, stable and performs to high levels of availability and throughput. LSE Group and Borsa Italiana Group operate sophisticated technology platforms and service management processes. LSE Group operates these platforms and processes in conjunction with Accenture and other strategic technology partners and Borsa Italiana Group in conjunction with SIA, OMX and other strategic technology partners. In the event of failure of these infrastructures, revenue and customer goodwill could be adversely impacted.

The London Stock Exchange is currently in the final stages of renewing its IT infrastructure to create a more modern, scalable and agile platform which can be operated at lower cost (TRM). Major IT replacements can have high levels of risk attached to them and there is no guarantee that the new system will bring all the benefits foreseen. In this event, the strategic flexibility of LSE Group could be hampered and its ability to respond to customer needs for services or keener pricing could be reduced.

External service providers

The maintenance and operation of efficient IT platforms is critical to the businesses of LSE Group and Borsa Italiana Group. LSE Group and Borsa Italiana Group actively manage relationships with key strategic IT suppliers to avoid any breakdown in service provision which could adversely affect their businesses. LSE Group and Borsa Italiana Group currently outsource the majority of the development and operations of their respective IT. Failure by the outsourced suppliers to meet their obligations could impact the Enlarged Group's businesses.

IT insourcing

LSE Group has announced its intention to bring in-house with effect no later than 1 January 2008 the IT maintenance services currently managed by Accenture under a services management agreement. Failure to properly manage this transition could lead to increased risk of service interruption, loss of key personnel, or delays in implementation of new systems which could adversely affect LSE Group's business.

Borsa Italiana Group has announced its intention to bring in-house with effect no later than 31 December 2007 the IT operations supporting the cash trading system, information systems and clearing systems currently managed by SIA. This process is currently in progress and will involve the implementation of a new technical infrastructure (network and hardware) that will be directly provided and managed by Borsa Italiana Group. Failure to properly manage this transition could lead to increased risk of service interruption, loss of key personnel, or delays in implementation of new systems which could adversely affect Borsa Italiana Group's business.

Clearing services

Clearing services for securities on LSE Group's markets are provided by LCH.Clearnet, a subsidiary of LCH.Clearnet Group Limited, which, at present, is partly owned by a competitor of the London Stock Exchange. LSE Group has in place detailed contractual provisions designed to ensure the fair treatment of the London Stock Exchange and its customers by LCH.Clearnet. In the event that such contractual arrangements are breached by LCH.Clearnet, this could impact on the efficiency and competitiveness of LSE Group's markets. LSE Group has entered into a letter of intent with SIS setting out terms on which SIS would provide clearing services to customers of LSE Group, which would provide customers of LSE Group with a choice of clearing partner for equity trades.

Clearing services for securities traded on the Borsa Italiana markets are provided by CC&G. CC&G acts as the central counterparty clearing house which clears business transacted both on its own markets (mainly in Italian equities, equity derivatives and equity index derivatives) and also business executed on other markets, such as Italian government bonds and repo business transacted on MTS and ICAP's BrokerTec platform.

Borsa Italiana has in place a detailed services agreement with CC&G, governing the provision of clearing services. The services agreement details the standards for the provision of clearing services as well as CC&G's responsibilities. In the operation of such clearing services, Borsa Italiana may be exposed to operational risks deriving from interruption or functioning anomalies of clearing services.

The management and provision of clearing services is regulated, *inter alia*, by article 77 of TUF and by the implementing legislation (Bank of Italy resolution of 22 October 2002). Article 77 of TUF provides that the provision of clearing services is subject to oversight by Bank of Italy and Consob. Such authorities may carry out inspections and, if necessary, the Bank of Italy may adopt any measures considered appropriate. In addition, article 77 of TUF provides that Bank of Italy may act directly in the place of the administrators and managers of the systems and services.

Acting as a central counterparty, CC&G is exposed to the risk of default by its clearing members. CC&G closely monitors its exposure to clearing members, and addresses this exposure by holding collateral in the form of margin deposits from clearing members and by maintaining default funds of clearing members' contributions. Default by a clearing member could adversely affect Borsa Italiana Group's revenues and its customers' goodwill and, in extreme circumstances, could lead to a call on CC&G's own capital, potentially impacting its capacity to continue to do business.

Settlement services

Settlement services for securities traded on Borsa Italiana's markets are provided by Monte Titoli (save for those for which the settlement system is not that referred to in article 69 of TUF). Borsa Italiana has in place a detailed service agreement with Monte Titoli governing the provision of settlement services. The service agreement details the standards for the provision of services as well as Monte Titoli's responsibilities. In the operation of such settlement services, Borsa Italiana may be exposed to operational risks deriving from interruption or functioning anomalies of such services.

The management and provision of settlement services is regulated by articles 69 and 77 of TUF and by the implementing legislation (Bank of Italy resolution of 8 September 2000). The provision of settlement services must be authorised by the Bank of Italy. Such authorisation can only be issued to a company managing the activity of central depository. The operation of settlement services is subject to the Bank of Italy's and Consob's oversight. If necessary and/or in an emergency, the Bank of Italy may adopt all appropriate measures to ensure the timely closure of settlement, and may act directly in the place of the administrators and managers of the systems and services. The Bank of Italy, in agreement with Consob, in extreme cases may revoke the authorisation.

Intellectual property rights

LSE Group and Borsa Italiana Group protect their intellectual property by relying upon a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements and other contractual arrangements with their affiliates, clients, strategic partners and others. The protective steps LSE Group and Borsa Italiana Group have taken may be inadequate to deter misappropriation of their proprietary information. Further, defending their intellectual property rights could result in the expenditure of significant financial and managerial resources, which could adversely affect the Enlarged Group's business, financial condition and operating results.

Capital

In order to develop its business, the Board expects that the capital requirements of LSE Group for the next twelve months from the date of publication of this Circular and, following the Proposed Merger, the Enlarged Group will be met from existing cash resources, internally generated funds and access to lending facilities. However, based on a variety of factors, including the rate of market acceptance of new products, the cost of service and technology upgrades, regulatory costs and other costs beyond the control of LSE Group and, following the Proposed Merger, the Enlarged Group, capital requirements may vary from those currently planned. There can be no assurance that capital will be available in the longer term on a timely basis, on favourable terms or at all.

Exchange rate fluctuations

The Enlarged Group will be subject to risks associated with exchange rate fluctuations. The Enlarged Group will file its consolidated financial reports and accounts in sterling and pay dividends to Shareholders in sterling, although Borsa Italiana Group will generate its revenue in Euros. There can be no assurance that the resources which the Enlarged Group will devote to managing currency risk will be successful in negating the potential impact of risks associated with the volatility in foreign currency rates. Such rates or changes could have a material adverse effect on the value of the Enlarged Group's future cash flow required to pay dividends and on its results of operations and financial condition.

Competition risk

In 2003, following an inquiry into its issuer fees, LSE Group provided an undertaking to the UK Office of Fair Trading not to increase UK annual and admission fees for the Main Market and AIM by more than the increase in the Office of National Statistics service sector wage index in the period from April 2003 to April 2007. In addition, the London Stock Exchange reduced annual and admission fees for AIM and annual fees for the Main Market to levels agreed with the UK Office of Fair Trading. The undertaking to the UK Office of Fair Trading expired in April 2007, but the impact on pricing may continue beyond 2007.

Property

LSE Group and Borsa Italiana Group each have a portfolio of freehold and leasehold property. Damage or destruction of property could impair the conduct of business and adversely impact revenue.

Employees

The success of LSE Group and following the Proposed Merger, the Enlarged Group depends, *inter alia*, upon the support of its employees and, in particular, the Executive Directors and senior managers within business divisions. The loss of key members of the Enlarged Group's staff could have a material adverse effect on its performance.

Borrowings

LSE Group and Borsa Italiana Group have existing borrowings with obligations to meet regular interest payments and comply with associated covenants. If LSE Group's earnings and, following the Proposed Merger, the Enlarged Group's earnings fall substantially from current levels, this may result in restrictions being placed on future financing and operating activities.

The Enlarged Group may require additional funds in the longer term if its current position changes and the Enlarged Group may attempt to raise additional funds through equity or debt financings or from other sources. Any additional equity financing may be dilutive to Shareholders and any debt financing, if available, may require restrictions to be placed on the Enlarged Group's future financing and operating activities.

Risks relating to the Proposed Merger

The Enlarged Group may fail to realise the perceived benefits of the Proposed Merger

The Enlarged Group may not realise the expected benefits and synergies from the Proposed Merger or may encounter difficulties in achieving these anticipated benefits. There can be no assurance that the Enlarged Group will realise these benefits in the time expected or at all. In addition, there can be no assurance that the costs of the implementation of the expense savings programme will not exceed those estimated by LSE Group. This could have a negative impact on the business, operating profit or overall financial condition of the Enlarged Group.

Issues may arise on integration of the IT systems

The Enlarged Group plans to migrate the trading of Italian securities onto the TradElect platform. Major IT projects of this kind can have high levels of risk attached to them and there is no guarantee that the new system will bring all the benefits foreseen. In this event, the strategic flexibility of the Enlarged Group could be hampered and its ability to respond to customer needs for services could be reduced.

The Enlarged Group may be constrained by the presence of minority shareholders in some of its subsidiaries

The presence of minority shareholders in Borsa Italiana, if any of the existing Borsa Italiana Shareholders do not accept the Offer, and the presence of minority shareholders in CC&G, may limit the Enlarged Group's ability to implement corporate reorganisations, distributions or other actions in the limited circumstances where the rights of minority shareholders are protected. The Enlarged Group's stake in MTS will be insufficient to pass special resolutions, which require a two thirds majority. Accordingly, pursuant to the By-Laws of MTS, the Enlarged Group may not be able, without the favourable vote of at least 67 per cent. of the capital of MTS, to adopt resolutions to amend the By-Laws of MTS on certain matters, *inter alia*, to change the city of the MTS registered office, the corporate purpose of MTS, the pre-emption rights, share transfer restrictions, shareholder meeting requirements, organisation of the management board and supervisory board. Without the favourable vote of at least 67 per cent. of the capital of MTS, the Enlarged Group may also not be able to pass resolutions for merging or de-merging MTS with other companies, for winding-up, reorganisation or dissolution of MTS or of its subsidiaries, for insolvency proceedings, or for redemption, purchase, repurchase or other acquisition for value of any MTS shares or any debt securities of MTS.

The exercise of the MBE Option may trigger change of control clauses in some MTS subsidiaries

Certain subsidiaries within the MTS Group are jointly owned with customers or other partners. Three of these include in their by-laws or in a shareholders' agreement provisions triggered by a change of control of MTS, which may be triggered by the exercise of the MBE Option. As a result the Enlarged Group may be obliged to sell stakes in certain MTS subsidiaries, with a consequent loss of earnings.

The Proposed Merger is conditional and the conditions may not be satisfied

The Proposed Merger is conditional, amongst other things, upon the passing of certain of the Resolutions to be proposed at the EGM, the passing of the Voting Restriction Resolution, regulatory approvals, antitrust clearances and a sufficient number of acceptances by Borsa Italiana Shareholders. There can be no assurance that these conditions will be fulfilled to the satisfaction of the Company and Completion will be achieved, but the Board is confident that the conditions will be met to their satisfaction, and have discretion to waive certain conditions. In addition, the regulatory approval processes and/or the antitrust clearance processes may take a lengthy period to complete, which would delay Completion. Although the Board is confident that the required approvals will be obtained, there can be no assurance as to the timing or outcome of the approval processes, including the undertakings that may be required for approval.

Risks relating to the Ordinary Shares

Substantial future sales of Ordinary Shares could impact the market price of the Ordinary Shares

Upon Completion and assuming all Borsa Italiana Shareholders accept the Offer, it is expected that the Borsa Italiana Shareholders will in aggregate hold up to 79,513,625 Ordinary Shares, representing approximately 28.5 per cent. of the issued Ordinary Share capital of the Company. Sales of substantial amounts of Ordinary Shares could adversely affect the prevailing market price of the Ordinary Shares. Any such sales could also make it difficult for the Enlarged Group to issue equity securities in the future at a time and at a price that it deems appropriate.

Payment of dividends

The Company is a holding company and will not conduct business of its own. Dividends from the Company's direct subsidiary, the London Stock Exchange and its subsidiaries, and following the Proposed Merger, dividends from Borsa Italiana and its other subsidiaries together with any investment income, are expected to be the Company's sole source of funds to pay expenses and to finance dividends, if any, for distribution to the Company's Shareholders. The inability of the Company's direct and indirect subsidiaries to pay dividends in an amount sufficient to enable the Company to meet its cash requirements at the holding company level could have a material adverse effect on its business and its ability to pay dividends. Existing Borsa Italiana Shareholders which do not accept the Offer may remain as minority shareholders entitling them to receive a share of dividends paid by Borsa Italiana.

Borsa Italiana may not perform in line with expectations

If the results and cash flows generated by Borsa Italiana Group are not in line with the Company's expectations, it may materially impact on the financial performance of the Enlarged Group and a write-down may be required against the carrying value of its investment in Borsa Italiana. Such a write-down may affect the Enlarged Group's business and may also reduce the Company's ability to generate distributable reserves by the extent of the write-down, and consequently affect the Enlarged Group's ability to pay dividends.

PART 3: INFORMATION ON BORSA ITALIANA S.p.A.

1. Overview

Description of Borsa Italiana's business

Borsa Italiana is a market operating company responsible for the organisation and management of markets in financial instruments.

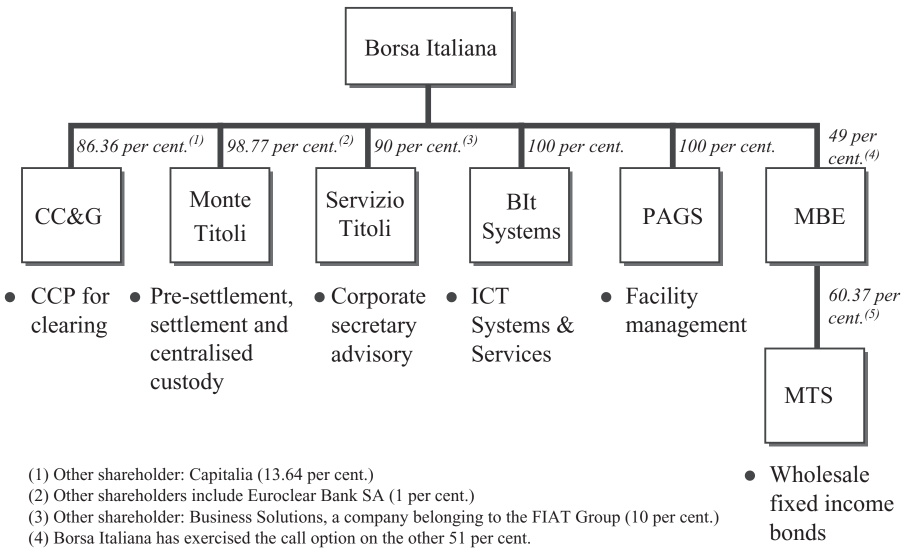
Borsa Italiana carries out the following services either directly or through companies in Borsa Italiana Group:

- preparation, operation, maintenance and marketing of software, hardware and electronic platforms and networks for trading, order transmission and data transmission systems;
- processing, distribution and marketing of data concerning financial instruments traded in the markets they operate and data relating to the markets;
- promotion of the market's image, *inter alia* by disseminating information on the market and issuers and engaging in any other activity aimed at the development of the market;
- creation and operation of systems for checking and correcting trades involving financial instruments and transmission of the related balances to the clearing and settlement service;
- creation and operation of clearing and guarantee systems for trades carried out in markets;
- clearing and settlement of trades on non-derivative financial instruments; and
- creation and operation of a central depositary system for financial instruments.

The main responsibilities of Borsa Italiana are to:

- define the rules and procedures for admission to and listing on the market of issuing companies;
- define the rules and procedures for admission of intermediaries;
- oversee transaction activities; and
- supervise listed companies' disclosure.

The corporate structure of Borsa Italiana Group is shown in the chart below.



(1) Other shareholder: Capitalia (13.64 per cent.)
(2) Other shareholders include Euroclear Bank SA (1 per cent.)
(3) Other shareholder: Business Solutions, a company belonging to the FIAT Group (10 per cent.)
(4) Borsa Italiana has exercised the call option on the other 51 per cent.
(5) Remaining shares owned by several international banks

*Cassa di Compensazione e Garanzia S.p.A. ("**CC&G**")*

Established in 1992, the purpose of CC&G is to guarantee market integrity.

CC&G manages the CCP for the Blue Chip, Star and Standard segments and the related Trading After Hours market, for MTA International and for the funds markets MTF and ETF Plus, for the IDEM derivatives market, all regulated and managed by Borsa Italiana, and for the markets regulated and managed by MTS S.p.A. and BrokerTec with exclusive reference to Italian government bonds.

CC&G's presence eliminates counterparty risk, becoming the guarantor of the final settlement of the contracts, acting as buyer towards each seller and as seller towards each buyer.

*Monte Titoli S.p.A. ("**Monte Titoli**")*

Monte Titoli is the Italian Central Securities Depository and Settlement Company.

Monte Titoli was founded in 1978 and since 1986 has been the Italian Central Securities Depository for all Italian financial instruments (Italian government bonds included since 2000) currently centralised at the company and traded almost exclusively in dematerialised form.

In October 2002, the Bank of Italy and Consob authorised Monte Titoli to manage clearing services for non-derivatives financial instruments transactions. In November of the same year, Monte Titoli started Express, the delivery versus payment real-time gross settlement service, and on 26 January 2004 completed the launch of Express II which, integrating net with gross settlement functionality, replaced the previous procedure managed by the Bank of Italy.

In support of settlement services, Monte Titoli manages X-TRM, a daily matching service, and a securities lending service.

Monte Titoli also offers its participants added value services, such as FIS and CPA.

Monte Titoli's services are available through different communication channels: RNI (the domestic interbank network), SWIFT and MT-X Monte Titoli Internet Communication System (a web based platform).

*Servizio Titoli S.p.A. ("**Servizio Titoli**")*

Servizio Titoli provides listed companies with software, outsourcing and advisory services in relation to their shareholders. Servizio Titoli has more than 130 customers and around 5 million managed shareholders.

*BIt Systems S.p.A. ("**BIt Systems**")*

BIt Systems is responsible for the management, maintenance and development of Borsa Italiana Group's information systems. BIt Systems also provides high quality IT consulting services to investment banks, brokerage houses, institutional investors, internet brokers and companies that operate market places, offering technological knowledge and valuable experience in creating solutions that integrate and rationalise business processes.

It provides consulting services on the development of complex projects and offers analysis of technological and telecommunication infrastructures. BIt Systems also liaises with other IT partners and suppliers on the development and operation of cost efficient IT solutions, both at the planning and at the implementation stage, and data and information dissemination and internet systems.

*Piazza Affari Gestione & Servizi S.p.A. ("**PAGS**")*

PAGS was established in 2000 and is entirely controlled by Borsa Italiana. It provides facility and property management to guarantee the efficient operational management of Borsa Italiana's principal premises in Milan, Palazzo Mezzanotte, and its congress and training centre.

The congress centre is available not only to the financial community but also to any Italian or international company seeking a state-of-the-art infrastructure, with advanced audio-visual facilities, and is ideal for the organisation of events, seminars, congresses and training activities.

*MBE Holding S.p.A. ("**MBE**")*

MBE, established as a joint venture between Borsa Italiana and Euronext, is the company that owns the majority stake (60.37 per cent.) in the capital of MTS. Borsa Italiana currently owns 49 per cent. of MBE, while Euronext owns the other 51 per cent.. On 20 June 2007, Borsa Italiana exercised the call option it was granted under the shareholders' agreement between Euronext and Borsa Italiana, to acquire the 51 per cent. stake owned by Euronext in MBE.

*Società per il Mercato dei Titoli di Stato S.p.A. ("**MTS**")*

MTS is a leading regulated electronic trading platform for European wholesale government bonds and other types of fixed income securities. MTS has succeeded in a short time frame in building a cross-border, truly pan-European business, improving simultaneously its technology and its user-friendly platform.

MTS is authorised to conduct such activities by Italy's Ministry for the Economy and Finance, and is regulated by the Bank of Italy and Consob. MTS plays a key role in promoting the ongoing development and integration of the European government bond market. It covers the national debt markets of every Eurozone member as well as government bond markets of other countries, including Poland and Turkey. The MTS market model uses a common trading platform for all domestic market places, while corporate governance and market supervision are based on the respective national regulatory regimes. MTS today covers over 30 market places through various companies and continues to expand its geographic scope.

Sources of revenues

The financial information set out in Part 4 of this Circular shows that during the year ended 31 December 2006, Borsa Italiana Group generated the following revenues and operating profits from the following sources:

	Revenue €m	Operating profit €m
Listing	29.8	19.5
Cash trading	52.4	24.1
Derivatives trading	20.7	2.9
Clearing	35.2	21.7
Settlement	32.1	11.4
Custody and ancillary services	40.6	24.0
Information services	40.1	23.8
Other services	22.2	1.0
Corporate	2.1	(28.2)
Intercompany elimination	(25.7)	—
	249.5	**100.2**

Listing

Borsa Italiana collects the fees associated with the admission to listing or trading of financial instruments, and annual fees from issuers having financial instruments traded on its markets. These fees are mainly related to the market capitalisation of such financial instruments (or equivalent metric).

Cash and derivatives trading

Borsa Italiana collects fees from intermediaries which are allowed to trade on their markets. These fees are paid for admission to the markets, technological infrastructure of the markets and volumes of activity generated.

Clearing

CC&G collects fees from intermediaries for the provision of risk management and information services for Borsa Italiana's and third-party markets. These fees are paid for membership, necessary technological infrastructure, volumes of activity generated and other related services (e.g. cash and collateral management, management of failed transactions).

Settlement

Monte Titoli collects fees from intermediaries and issuers for the provision of settlement and related information and ancillary services for Borsa Italiana's and third party markets. These fees are paid for membership, necessary technological infrastructure, volumes of activity generated and other related services (e.g. management of corporate actions, securities lending).

Custody and ancillary services

Monte Titoli also collects fees from intermediaries and issuers for the provision of custody and information services, related information and ancillary services. These fees are paid for membership to the necessary technological infrastructure, the outstanding amount of financial instruments and other related services.

Information services

Borsa Italiana and MTS distribute the data generated from the management of their markets (prices, trades and other information) in a variety of formats and through a broad range of information products. These information packages are bought by international and domestic information vendors, media companies and other distributors of financial information.

Other services

Borsa Italiana Group generates revenues from external clients from a series of other services, including ASP services from BIt Systems, management of the congress and training centre in Palazzo Mezzanotte by PAGS and advertising and educational services. Starting from 2007, Borsa Italiana Group (through Servizio Titoli) also provides software, outsourcing and advisory services for the management of corporate secretary functions and shareholders' meetings.

2. History

Borsa Italiana was founded in 1997 following the privatisation of the exchange and has been operational since 2 January 1998. Borsa Italiana's primary objective is to ensure the development of managed markets, maximising their liquidity, transparency and competitiveness and at the same time pursuing high levels of efficiency and profitability. Following privatisation, Borsa Italiana broadened its range of products into post-trading services and IT systems, developed new markets and introduced changes to the operation of its existing markets. In 2000, Borsa Italiana obtained a controlling stake in CC&G and in 2002, Borsa Italiana completed the acquisition of 99 per cent. of the shares of Monte Titoli. In 2005, Borsa Italiana entered the business of wholesale trading of fixed income instruments through MBE, a joint venture company established with Euronext and which holds 60.37 per cent. of MTS. On 3 April 2007, Borsa Italiana signed a sale and purchase agreement for the acquisition of 90 per cent. of the share capital of Servizio Titoli. On 20 June 2007, Borsa Italiana exercised a call option to acquire the full ownership of MBE.

3. Property

Borsa Italiana Group owns the following real estate:

- Monte Titoli offices in Milan, via Mantegna 6; and
- Servizio Titoli offices in Milan, via Griziotti 4 (financial leasing agreement).

Borsa Italiana Group rents the following real estate:

- Borsa Italiana offices in Milan, Palazzo Mezzanotte, Piazza degli Affari 6;
- BIt Systems offices in Milan, via Mazzini 9/11;
- CC&G offices in Rome, Piazza del Popolo, 18;
- Servizio Titoli offices in Turin, Corso Ferrucci 112/A;
- Servizio Titoli offices in Turin, via Oropa 28; and
- Servizio Titoli offices in Rome, via Monte Giberto 33.

4. Employees

At the end of 2006, the total number of employees of Borsa Italiana Group (excluding MTS) was 424. The total number of employees of the MTS Group was 99.

5. Key individuals

The following table shows the key individuals important to the business of Borsa Italiana:

Key Individuals	Position	Date of Appointment
Massimo Capuano	President and Chief Executive Officer	29 December 1997
Paolo Ciccarelli	Chief Financial Officer	28 March 1997
Paolo Cittadini	General Manager of Monte Titoli	4 January 2001
Andrea Giochetta	Chief Executive Officer of BIt Systems	13 September 2001
Raffaele Jerusalmi	Markets Executive Director	1 October 2001
Michele Monti	Legal & Institutional Affairs Executive Director	15 March 2001
Bruno Siracusano	New Business Executive Director	2 July 1998
Renato Tarantola	Chief Executive Officer of CC&G	5 May 2000

PART 4: FINANCIAL INFORMATION ON BORSA ITALIANA S.p.A.

PART 4A: ACCOUNTANTS' REPORT

PRICEWATERHOUSECOOPERS

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1 Embankment Place
London WC2N 6RH

The Directors
London Stock Exchange Group plc
10 Paternoster Square
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Lehman Brothers Europe Limited
(together with Merrill Lynch International the "Joint Sponsors")
25 Bank Street
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Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

23 July 2007

Dear Sirs

Borsa Italiana S.p.A. ("Borsa Italiana")

We report on the financial information on Borsa Italiana as set out on pages 25 to 49 of the Circular. This financial information has been prepared for inclusion in the circular dated 23 July 2007 (the "**Circular**") of London Stock Exchange Group plc (the "**Company**") on the basis of the accounting policies set out in note 1 to the financial information. This report is required by item 13.5.21R of the Listing Rules of the UKLA (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Circular, and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular dated 23 July 2007, a true and fair view of the state of affairs of Borsa Italiana as at the dates stated and of its profits, recognised gains and losses and cash flows for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest financial statements.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated income statement
Year ended 31 December

Continuing operations	Notes	2006 €m	2005 €m	2004 €m
Revenue				
Ongoing revenue	3	249.5	226.4	195.2
Expenses				
Operating expenses	4	(149.3)	(138.8)	(133.1)
Operating profit		100.2	87.6	62.1
Finance income		2.9	2.4	2.4
Finance costs		(3.9)	(2.5)	(3.0)
Net finance costs	6	(1.0)	(0.1)	(0.6)
Share of profit after tax of joint venture	12	2.9	—	—
Profit before taxation		102.1	87.5	61.5
Taxation	7	(40.0)	(34.9)	(25.2)
Profit for the financial year		62.1	52.6	36.3
Profit attributable to minority interest		2.2	1.9	1.2
Profit attributable to equity holders of the parent company		59.9	50.7	35.1
		62.1	52.6	36.3
Basic and diluted earnings per share	8	€ 3.66	€ 3.11	€ 2.15
Dividend per share declared in respect of financial year	9	€ 2.70	€ 2.00	€ 1.65

Statement of recognised income and expense

	Notes	2006 €m	2005 €m	2004 €m
Profit for the financial year		62.1	52.6	36.3
Retirement benefit obligations actuarial loss (net of tax)	20	(0.6)	(0.3)	(0.2)
Total recognised income and expense for the financial year		61.5	52.3	36.1
Attributable to minority interest		2.2	1.9	1.2
Attributable to equity holders of the parent company		59.3	50.4	34.9
		61.5	52.3	36.1

Balance sheets
31 December

	Notes	2006 €m	2005 €m	2004 €m
Assets				
Non current assets				
Intangible assets	10	205.5	202.8	206.6
Property, plant and equipment	11	18.5	19.5	21.6
Investment in joint venture	12	69.3	56.1	—
Deferred tax assets	13	5.1	2.9	2.6
Other non current assets		0.3	0.4	0.6
		298.7	281.7	231.4
Current assets				
Cash and cash equivalents	14	101.8	89.1	71.8
Trade and other receivables	15	37.3	31.6	29.9
Assets held at fair value	16	14.3	10.9	19.6
Current tax		1.8	—	—
Financial assets of the CCP clearing business	17	20,797.5	15,755.6	10,099.7
		20,952.7	15,887.2	10,221.0
Total assets		21,251.4	16,168.9	10,452.4
Liabilities				
Current liabilities				
Trade and other payables	18	71.4	38.0	34.0
Current tax		—	5.6	3.6
Borrowings	19	9.6	9.3	11.2
Financial liabilities of the CCP clearing business	17	20,770.9	15,748.0	10,078.6
		20,851.9	15,800.9	10,127.4
Non current liabilities				
Borrowings	19	90.7	93.6	76.8
Retirement benefit obligations	20	10.5	8.7	7.3
Other non current liabilities	21	7.9	2.5	2.0
		109.1	104.8	86.1
Total liabilities		20,961.0	15,905.7	10,213.5
Net assets		290.4	263.2	238.9
Equity				
Capital and reserves attributable to equity holders				
Share capital	22	8.4	8.4	8.4
Share premium	23	142.4	142.4	142.4
Other reserves	23	1.7	1.7	1.7
Retained earnings	23	126.9	100.1	76.6
		279.4	252.6	229.1
Minority interest in equity	23	11.0	10.6	9.8
Total equity		290.4	263.2	238.9

Cash flow statements
Year ended 31 December

	Notes	2006 €m	2005 €m	2004 €m
Cash flow from operating activities				
Cash generated from operations	24	118.1	106.5	55.9
Interest received		2.9	2.6	2.4
Interest paid		(3.5)	(2.3)	(2.9)
Corporate taxes paid		(49.2)	(33.0)	(16.8)
Net cash inflow from operating activities		68.3	73.8	38.6
Cash flow from investing activities				
Purchase of property, plant and equipment		(1.7)	(0.6)	(1.9)
Purchase of intangible assets		(6.3)	(3.0)	(3.8)
Purchase of shares in joint venture		(10.3)	(56.1)	—
Purchase of shares in subsidiaries		—	—	(8.5)
Proceeds from sale on investment securities		—	16.5	—
Net cash outflow from investing activities		(18.3)	(43.2)	(14.2)
Cash flow from financing activities				
Dividends paid to shareholders		(34.3)	(28.0)	(20.6)
(Repayment)/proceeds from borrowings		(3.0)	14.7	(14.6)
Net cash inflow/(outflow) from financing activities		(37.3)	(13.3)	(35.2)
Increase/(decrease) in cash and cash equivalents		12.7	17.3	(10.8)
Cash and cash equivalents at beginning of year		89.1	71.8	82.6
Cash and cash equivalents at end of year	14	101.8	89.1	71.8

Cash and cash equivalents include amounts related to the operation of Borsa Italiana Group's clearing and guarantee system of €57.4 million (2005: €62.4 million; 2004: €47.5 million) which are not available for use by the rest of Borsa Italiana Group.

Notes to the Financial Information

1. Basis of preparation and accounting policies

The consolidated financial information of Borsa Italiana S.p.A. and its current subsidiaries ("Borsa Italiana Group") included in this Circular for the three years ended 31 December 2006 has been prepared in accordance with the requirements of the Listing Rules and in accordance with the basis of preparation described below. This consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Borsa Italiana Group adopted IFRS for the first time in 2005, with a transition date of 1 January 2004. Borsa Italiana Group applied the accounting standards in force at 31 December 2004 to the opening balance sheet, making use of the exemption available with regards to IFRS 3 "Business combinations" for transactions entered into before the transition date referred to below and the option in IFRS 1 "First time adoption of International Financial Reporting Standards" to deem the fair value of its land and buildings to be the cost as at 1 January 2004.

Borsa Italiana Group did not adopt the transition exemptions available in respect of IAS 32 "Financial Instruments: Disclosure and Presentation" or IAS 39 "Financial Instruments: Recognition and Measurement" and accordingly applied these standards in full to the comparatives presented for the year ended 31 December 2004, resulting in the three years to 31 December 2006 being presented on a comparable basis.

The consolidated financial information of Borsa Italiana Group has been prepared from annual consolidated financial statements and the internal financial accounting records of Borsa Italiana Group on the basis of the accounting polices used by the London Stock Exchange Group plc (the "Company") in preparing the consolidated financial statements of the Company for the year ended 31 March 2007. The principal changes made to Borsa Italiana Group's accounting policies to achieve consistency with the accounting policies used by the Company are as follows:

a. Joint ventures: Borsa Italiana Group accounted for its share of joint ventures using the proportional consolidation method in its consolidated financial statements. In this historical financial information Borsa Italiana Group has used the equity method to account for its share of the joint venture in line with the accounting policies used by the Company; and

b. Retirement benefit obligations – TFR: Borsa Italiana Group accounted for the actuarial gains and losses on this defined benefit scheme through the income statement in its consolidated financial statements. In this historical financial information Borsa Italiana Group has recognised the actuarial gains and losses in the statement of recognised income and expenses in line with the accounting policies applied by the Company.

Borsa Italiana Group's financial information has been prepared under the historical cost convention as modified by the revaluation of assets held at fair value, including assets and liabilities of the Central Counterparty (CCP) clearing business, and on the basis of the principal accounting policies set out below, and are expressed in millions of Euros.

The main activities of Borsa Italiana Group are the establishment, organisation, management and running of the financial markets, with the principal objective of developing and optimising liquidity, transparency, competition and efficiency. The services offered to intermediaries and issuers include the admission to listing of financial instruments, the trading of these instruments, clearing, settlement and custody activities, the sale of information products and services, IT services and the management of the Congress and Training Centre (C&TC) of Palazzo Mezzanotte in Milan.

Cassa di Compensazione e Garanzia S.p.A. (CC&G), a subsidiary of Borsa Italiana S.p.A., operates the Italian CCP clearing business which guarantees the clearing of sales and purchases of equities, bonds and derivatives between authorised clearing members and in doing so, CC&G assumes the counterparty risk on such transactions. Accordingly, CC&G and Borsa Italiana Group recognise, on their balance sheet, the fair value of members' open derivatives positions and their unsettled equity and bond sales and purchases positions in accordance with IFRS.

The following table shows the key information in respect of the subsidiaries and joint ventures included in the consolidated financial information of Borsa Italiana Group.

Company	% ownership	Share capital in Euros	Head Office	Principal activities
BIt Systems S.p.A.	100.00%	600,000	Milan	IT systems and services
Cassa di Compensazione e Garanzia S.p.A. (CC&G)	86.36%	33,000,000	Rome	CCP clearing
MBE Holding S.p.A. (joint venture)	49.00%	124,954,676	Rome	Bond market
Monte Titoli S.p.A.	98.77%	16,000,000	Milan	Custody & Settlement
Piazza Affari Gestione & Servizi S.p.A.	100.00%	2,000,000	Milan	C&TC – facilities management

There are no direct investments in any other companies not included in the consolidated financial information.

Recent accounting developments

a) The following amendment to IAS 19 became effective in the year ended 31 December 2006:

IAS 19 (Amendment) "Employee Benefits": This amendment introduces the option of an alternative recognition approach for actuarial gains and losses and adds new disclosure requirements. Borsa Italiana Group has fully recognised all actuarial gains and losses in each of the years ended 31 December 2006, 31 December 2005 and 31 December 2004 in this historical financial information.

In order to restate Borsa Italiana Group's financial statements using the accounting policies of the Company, the actuarial gains and losses for each of the three years ended 31 December 2006 were reclassified from the consolidated income statement to the Statement of Recognised Income and Expenses, and additional disclosures have been provided.

The implementation of IAS 19 (Amendment) has had no further impact on Borsa Italiana Group's consolidated financial information during the three years ended 31 December 2006.

No other IFRS and IFRIC interpretations which became effective in the year ended 31 December 2006 were relevant to Borsa Italiana Group.

b) The following IFRS and IFRIC interpretations have been issued but are not yet mandatory, and have not been adopted by Borsa Italiana Group:

IFRS 7 "Financial Instruments: Disclosures" and the amendment to IAS 1 "Presentation of financial statements - Capital disclosures" (effective for annual periods beginning on or after 1 January 2007) introduce new disclosures for financial instruments. Borsa Italiana Group will apply IFRS 7 from 1 January 2007, but apart from certain enhanced disclosures this is not expected to have a material impact on Borsa Italiana Group's consolidated financial statements.

IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. Borsa Italiana Group will apply IFRIC 10 from 1 January 2007, but this is not expected to have a material impact on Borsa Italiana Group's consolidated financial statements.

IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) specifies how an entity should report information about its operating segments in its annual financial statements and requires an entity to report selected information about its operating segments in its interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. When applied, this is not expected to have a material impact on Borsa Italiana Group's consolidated financial statements.

No other IFRS and IFRIC interpretations which have been issued in the year ended 31 December 2006 were relevant to Borsa Italiana Group.

Accounting policies

Consolidation

The financial statements of the subsidiaries and joint venture are included in the consolidated financial information from the date of acquisition and are prepared adopting the same accounting principles as those used by the parent company, Borsa Italiana S.p.A., adjusted where appropriate to be consistent with those of the Company. All intragroup transactions and balances have been eliminated on consolidation.

Revenue

Revenue represents the total amount receivable for the provision of goods and services, excluding value added tax.

Revenue is recognised in the period when the service or supply is provided:

a) annual listing fees are recognised over the 12 month period to which the fee relates;

b) admission to listing fees are recognised at the time of admission to trading;

c) trading fees are recognised when the transaction is effected; for cash trading and S&P Futures trading and clearing, since pricing levels reduce during the year as additional volume targets are achieved (regressive pricing), for its interim reports Borsa Italiana Group defers some of the income received recognising revenues at the average price through estimation of transactions expected for the full year;

d) information services and other services revenues are recognised in the month in which the service is provided;

e) market data vending fees are recognised over the 12 month period to which the fee relates;

f) custody fees are recognised in the month in which the service is provided;

g) settlement fees are recognised in the month in which the transaction is effected (similar adjustments as for cash trading are performed for the purposes of interim reports for the regressive pricing impact related to pre-settlement (RRG) and net settlement (Express II) fees); and

h) clearing fees and other clearing related revenues are recognised in the month in which the transaction is effected.

Foreign currencies

The consolidated financial information is presented in Euros, which is Borsa Italiana Group's presentation and functional currency.

Transactions in foreign currencies and currency balances at the year end are converted at the rate ruling at the transaction date or year end date respectively, with any gains or losses recognised in the income statement.

Intangible assets

a) Goodwill arising on the acquisition of subsidiaries represents the excess of consideration paid over the identifiable fair value of net assets acquired. On adoption of IFRS, Borsa Italiana Group opted not to apply IFRS 3 "Business combinations" retrospectively to acquisitions of businesses that took place prior to 1 January 2004. Thus goodwill generated on acquisitions made prior to that date was maintained at the value determined by Italian accounting principles, net of any amortisation accrued up to 31 December 2003, and subject to impairment testing. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses; and

b) Third party software costs for the development and implementation of systems which enhance the services provided by Borsa Italiana Group are capitalised and amortised over their estimated useful lives, which are an average of three years. The estimated useful lives are reviewed at each balance sheet date to ensure they remain appropriate to Borsa Italiana Group's circumstances.

Property, plant and equipment

a) Freehold properties are included in the financial information at fair value recognised on 1 January 2004 following the IFRS transition, being the deemed cost at 1 January 2004, less accumulated depreciation and any provision for impairment. Freehold buildings are depreciated on a straight line basis to residual value over their estimated economic lives. The estimated useful lives of properties are approximately 33 years;

b) Land is included in the financial information at fair value recognised on 1 January 2004 following the IFRS transition, being the deemed cost at 1 January 2004, less any provision for impairment. Land is not depreciated;

c) Improvements to leasehold properties are included at cost and depreciated on a straight line basis to residual value over the period of the lease;

d) Furniture and fittings are included in the financial information at cost less accumulated depreciation and any provision for impairment. They are depreciated on a straight line basis to residual value over their estimated economic lives, which range from three to five years; and

e) Plant and equipment is stated at cost less accumulated depreciation, and is depreciated on a straight line basis to residual value over the estimated useful lives of the assets, which mainly range from three to five years.

Borsa Italiana Group selects its depreciation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to Borsa Italiana Group's circumstances. Residual values and economic lives are reviewed at each balance sheet date.

Joint ventures

Investments in joint ventures are accounted for under the equity method and are initially recognised at the cost of acquisition. Borsa Italiana Group's share of profits or losses after tax from joint ventures is included in the consolidated income statement. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment in Borsa Italiana Group's balance sheet.

Impairment of non-financial assets

Borsa Italiana Group assesses at each reporting date whether an asset may be impaired. If any such indicator exists Borsa Italiana Group tests for impairment by estimating the recoverable amount. No such impairment indicators have been noted during the period covered by the consolidated financial information.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and term deposits that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Financial assets and liabilities of the CCP clearing service

Assets and liabilities held for the CCP clearing service are recognised and measured in the financial information in accordance with IFRS and all relate to CC&G, the subsidiary that performs the CCP clearing business. Due to the nature of the CCP business the majority of the amounts receivable from clearing members have equal amounts payable to different clearing members. The market price applied is the same for both the assets and liabilities, with no net gain or loss earned by CC&G. As the amounts receivable and payable are with different counterparties they are not able to be netted and accordingly are shown gross on the balance sheet.

a) Derivatives, trading assets and liabilities:

   These are recognised at their fair value. The fair value of these transactions is determined on the basis of the market price of each individual financial instrument at the close of the year. Since the asset and liability positions for the CCP business are matched, the same amount is recorded for both the assets and the liabilities and no fair value gains or losses are recognised in the consolidated income statement.

b) Repurchase agreements ("**Repos**"):

These are measured at amortised cost and are valued by allocating the yield on the repurchase agreements pro-rated throughout the duration of the contract (the coupon that matured in the period and the difference between the spot price and the forward price). Since the asset and liability positions for Repos are matched, the same amount is recorded for both assets and liabilities and no gains or losses are recognised in the consolidated income statement.

c) Receivables from and payables to participants:

These are recognised at fair value and are settled the day after the receivable is calculated.

d) Assets and liabilities held at fair value:

The fair value is calculated as the difference between the price at which each individual security is traded and the market price for that security. Fair value gains and losses are recognised in the consolidated income statement.

e) Cash and cash equivalents:

Cash and cash equivalents include margin and default fund balances received from clearing members which are held for the CCP clearing business as collateral against default or insolvency and are recognised at face value.

Assets held at fair value

Assets held at fair value are mainly financial securities held for up to several days by Borsa Italiana Group in order to fulfil its CCP clearing obligations when a clearing counterparty defaults and CC&G assumes ownership of the related bonds or equities during clearing. The fair value of the assets is calculated using the market price of each individual financial instrument on the closing balance sheet date. Fair value gains and losses are recognised in the consolidated income statement.

Derivative financial instruments and hedging activities

Apart from open counterparty related derivative positions in the CCP clearing business referred to above, Borsa Italiana Group does not enter into derivative positions either for trading or hedging purposes. Borsa Italiana Group does not have any hedging related activities and does not apply hedge accounting.

Trade receivables

Trade receivables are recognised initially at face value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Borsa Italiana Group will not be able to collect all amounts due according to the original terms of the receivable.

Operating leases

Rental costs for operating leases are charged to the income statement on a straight-line basis. The operating leases held by Borsa Italiana Group do not have any associated lease incentives. Provision is made in the consolidated financial statements for lease commitments to be accrued and such provisions are discounted where the time value of money is considered material.

Borrowings

Bank borrowings are recorded initially as proceeds received, net of direct issue costs and transaction costs (including upfront facility fees). Subsequently, these liabilities are carried at amortised cost and interest is charged to the consolidated income statement over the period of the borrowings using the effective interest rate method. Similarly direct issue costs and transaction costs (including upfront facility fees) are also charged to the consolidated income statement over the period of the borrowings using the effective interest rate method.

Retirement benefit obligations – TFR

Borsa Italiana Group operates a severance and leaving indemnity scheme (TFR), which is standard and mandatory by law for Italian companies. This TFR is classified as a defined benefit scheme and therefore the same measurement principles are applied as for any other pension funds. The service cost, representing deferred salaries accruing to employees, is included as an operating expense and is determined by law as 6.91 per cent. of salary payments subject to certain adjustments. This service cost is accounted for monthly. The liability recognised in the balance sheet comprises accumulated service costs, and is also revalued by law at a rate equal to 75 per cent. of the increase in the national life price index every month plus 1.5 per cent. The indemnity is paid to the employee on leaving. An actuarial valuation under IAS 19 is performed at each period end. The actuarial gains and losses arising from the actuarial assumptions such as interest rate and inflation movements are recognised for each period net of tax in the Statement of Recognised Income and Expense.

Borsa Italiana long term incentive plan

Borsa Italiana Group has established a long term incentive plan scheme (Borsa Italiana LTIP). Only the management of Borsa Italiana Group are eligible to enter into the scheme, which provides deferred cash bonuses and non-share based compensation.

Borsa Italiana LTIP scheme covers the period 2006 to 2009 and has a bonus pool of €25 million (including tax and social security costs) accumulated over this period. In each year the scheme has one thousand units available for allocation and these are allocated to the members of the scheme on a discretionary basis. Borsa Italiana LTIP scheme will pay out to the eligible employees in 2010, provided the eligibility criterion of being employed at January 2010 is met. Payments under the scheme are also linked to performance criteria, being the achievement of Borsa Italiana Group's budgeted profit before tax and achievement of individual members' target performance evaluation rating in each year. The annual service cost is determined by a board of directors resolution and is recognised as an operating expense in the consolidated income statement and a liability on the balance sheet.

Prior to the establishment of Borsa Italiana LTIP scheme, Borsa Italiana Group operated a series of annual deferred bonus schemes. The annual service cost of these deferred bonus schemes was determined by the board and payable after three years, given achievement of certain eligibility criteria. This service cost was recognised as an operating expense in the consolidated income statement on a straight line three years basis, and the liability recognised on the balance sheet.

Deferred taxation

Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred taxation is determined using tax rates that are substantially enacted at the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent it is probable that they will be recoverable against future taxable profits.

2. Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

The critical judgements and estimates made in the preparation of the financial information set out below are made in accordance with IFRS and Borsa Italiana Group's accounting policies. The resulting accounting estimates may not equal the related actual results:

a) the determination of the retirement benefit obligations (TFR) and of Borsa Italiana LTIP liability is based on the present value of future obligations using assumptions determined by Borsa Italiana Group with advice from an independent qualified actuary;

b) goodwill is tested for impairment annually. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimates of future business performance; and

c) estimates are required in determining the provision for income taxes. Borsa Italiana Group recognises liabilities for the estimated tax charge at the period end and where the final tax liability is different from that estimate, such differences are reflected in the period in which such determination is made. Historically, the differences between the final tax liability and the estimate have not been significant.

3. Segment information

The principal operations and customers of Borsa Italiana Group are based in Italy, therefore no geographical segment analysis is required.

Segmental disclosures for the year ended 31 December 2006 are as follows:

	Borsa Italiana S.p.A.				CC&G	Monte Titoli					
	Issuer Services €m	Cash Broker Services €m	Information Services €m	Derivatives Services €m	Clearing €m	Settlement €m	Custody €m	Other Services €m	Corporate €m	Consolidation adjustments €m	Group €m
Revenue											
Ongoing revenue	29.8	52.4	40.1	20.7	35.2	32.1	40.6	22.2	2.1	(25.7)	**249.5**
Total revenue	29.8	52.4	40.1	20.7	35.2	32.1	40.6	22.2	2.1	(25.7)	**249.5**
Expenses											
Depreciation and amortisation	(0.1)	(0.2)	(0.6)	(0.2)	(0.9)	(1.2)	(1.2)	(1.2)	(0.7)	—	**(6.3)**
Other expenses	(10.2)	(28.1)	(15.7)	(17.6)	(12.6)	(19.5)	(15.4)	(20.0)	(29.6)	25.7	**(143.0)**
Total expenses	(10.3)	(28.3)	(16.3)	(17.8)	(13.5)	(20.7)	(16.6)	(21.2)	(30.3)	25.7	**(149.3)**
Operating profit	19.5	24.1	23.8	2.9	21.7	11.4	24.0	1.0	(28.2)	—	**100.2**
Share of profit after tax of joint venture	—	—	—	—	—	—	—	—	—	—	**2.9**
Assets	1.9	8.4	12.5	4.8	20,883.3	94.3	172.0	13.4	127.3	(135.8)	**21,182.1**
Investment in joint venture	—	—	—	—	—	—	—	—	—	—	**69.3**
Total assets	1.9	8.4	12.5	4.8	20,883.3	94.3	172.0	13.4	127.3	(135.8)	**21,251.4**
Liabilities	(4.8)	(6.2)	(6.2)	(6.6)	(20,807.5)	(5.4)	(6.3)	(10.7)	(144.3)	36.9	**(20,961.0)**
Capital expenditure	0.1	0.1	2.4	0.6	1.1	1.9	0.4	0.6	2.0	—	**9.2**

Results for segments are separately identified down to operating profit. Other income statement items are not allocated to the separate segments.

The Other Services segment represents IT Services and Congress and Training Centre Services (venue Piazza Affari) and activities not directly related to the main business segments which do not individually constitute separately reportable segments. Corporate expenses are for corporate services which cannot reasonably be allocated to business segments. Indirect costs are allocated to the segments on the basis of the average headcount of each segment.

Elimination adjustments are performed on consolidation in respect of intragroup services.

Segmental disclosures for the year ended 31 December 2005 are as follows:

	Borsa Italiana S.p.A.				CC&G	Monte Titoli					
	Issuer Services €m	**Cash Broker Services €m**	**Information Services €m**	**Derivatives Services €m**	**Clearing €m**	**Settlement €m**	**Custody €m**	**Other Services €m**	**Corporate €m**	**Consolidation adjustments €m**	**Group €m**
Revenue											
Ongoing revenue	27.8	47.3	36.1	19.5	31.9	31.4	35.7	17.8	1.6	(22.7)	**226.4**
Total revenue	27.8	47.3	36.1	19.5	31.9	31.4	35.7	17.8	1.6	(22.7)	**226.4**
Expenses											
Depreciation and amortisation	(0.1)	(1.1)	(1.1)	(0.6)	(0.9)	(2.7)	(1.4)	(1.2)	(0.4)	—	**(9.5)**
Other expenses	(7.2)	(31.0)	(11.8)	(15.6)	(11.7)	(20.7)	(14.1)	(16.4)	(23.5)	22.7	**(129.3)**
Total expenses	(7.3)	(32.1)	(12.9)	(16.2)	(12.6)	(23.4)	(15.5)	(17.6)	(23.9)	22.7	**(138.8)**
Operating profit	20.5	15.2	23.2	3.3	19.3	8.0	20.2	0.2	(22.3)	—	**87.6**
Share of profit after tax of joint venture	—	—	—	—	—	—	—	—	—	—	**—**
Assets	4.4	4.7	9.4	3.3	15,835.6	92.0	166.5	11.1	115.2	(129.4)	**16,112.8**
Investment in joint venture	—	—	—	—	—	—	—	—	—	—	**56.1**
Total assets	4.4	4.7	9.4	3.3	15,835.6	92.0	166.5	11.1	115.2	(129.4)	**16,168.9**
Liabilities	(3.4)	(4.6)	(3.7)	(4.4)	(15,762.0)	(3.9)	(4.7)	(8.6)	(137.9)	27.5	**(15,905.7)**
Capital expenditure	—	0.5	0.7	0.1	0.1	0.4	1.0	0.5	0.9	—	**4.2**

Results for segments are separately identified down to operating profit. Other income statement items are not allocated to the separate segments.

The Other Services segment represents IT Services and Congress and Training Centre Services (venue Piazza Affari) and activities not directly related to the main business segments which do not individually constitute separately reportable segments. Corporate expenses are for corporate services which cannot reasonably be allocated to business segments. Indirect costs are allocated to the segments on the basis of the average headcount of each segment.

Elimination adjustments are performed on consolidation in respect of intragroup services.

Segmental disclosures for the year ended 31 December 2004 are as follows:

	Borsa Italiana S.p.A.				CC&G	Monte Titoli					
	Issuer Services €m	**Cash Broker Services €m**	**Information Services €m**	**Derivatives Services €m**	**Clearing €m**	**Settlement €m**	**Custody €m**	**Other Services €m**	**Corporate €m**	**Consolidation adjustments €m**	**Group €m**
Revenue											
Ongoing revenue	22.9	40.1	35.4	17.4	21.5	30.3	31.6	15.8	0.9	(20.7)	**195.2**
Total revenue	22.9	40.1	35.4	17.4	21.5	30.3	31.6	15.8	0.9	(20.7)	**195.2**
Expenses											
Depreciation and amortisation	(0.1)	(1.1)	(1.1)	(2.5)	(0.8)	(2.6)	(1.4)	(1.1)	(0.5)	—	**(11.2)**
Other expenses	(6.5)	(31.7)	(11.0)	(16.8)	(9.8)	(19.3)	(13.9)	(14.6)	(19.0)	20.7	**(121.9)**
Total expenses	(6.6)	(32.8)	(12.1)	(19.3)	(10.6)	(21.9)	(15.3)	(15.7)	(19.5)	20.7	**(133.1)**
Operating profit	16.3	7.3	23.3	(1.9)	10.9	8.4	16.3	0.1	(18.6)	—	**62.1**
Assets	3.4	4.0	9.5	3.9	10,156.3	93.7	167.3	11.2	118.0	(114.9)	**10,452.4**
Liabilities	(3.8)	(4.9)	(3.0)	(3.1)	(10,088.4)	(6.0)	(7.5)	(8.7)	(101.3)	13.2	**(10,213.5)**
Capital expenditure	0.2	0.2	0.4	0.1	1.6	1.0	1.1	0.7	0.5	—	**5.8**

Results for segments are separately identified down to operating profit. Other income statement items are not allocated to the separate segments.

The Other Services segment represents IT Services and Congress and Training Centre Services (venue Piazza Affari) and activities not directly related to the main business segments which do not individually constitute separately reportable segments. Corporate expenses are for corporate services which cannot reasonably be allocated to business segments. Indirect costs are allocated to the segments on the basis of the average headcount of each segment.

Elimination adjustments are performed on consolidation in respect of intragroup services.

4. Expenses by nature

Expenses comprise the following:

	2006 €m	2005 €m	2004 €m
Employee costs (see note 5)	47.6	37.6	33.7
Depreciation and amortisation	6.3	9.5	11.2
IT costs	51.6	53.0	53.8
Properties related costs	6.8	6.6	6.6
Other costs	37.0	32.1	27.8
Total	149.3	138.8	133.1

5. Employee costs

Employee costs comprise the following:

	2006 €m	2005 €m	2004 €m
Salaries and other short term benefits	32.2	27.8	24.9
Borsa Italiana LTIP cost	5.2	0.7	0.7
Social Security cost	8.5	7.7	6.9
Retirement benefit obligation costs	1.7	1.4	1.2
Total	47.6	37.6	33.7

Retirement benefit obligations costs include current service and interest costs of the TFR scheme (see note 20).

The number of employees in Borsa Italiana Group were as follows:

	2006	2005	2004
At the year end	424	392	388
Average for the year	408	390	380

6. Net finance costs

	2006 €m	2005 €m	2004 €m
Finance income			
Bank deposit and other interest	2.9	2.4	2.4
Finance costs			
Interest payable on bank and other borrowings	(3.9)	(2.5)	(3.0)
Net finance costs	(1.0)	(0.1)	(0.6)

7. Taxation

Taxation charged to the income statement

	2006 €m	2005 €m	2004 €m
Current tax:			
State and Regional corporate tax for the year at 37.25 per cent.	41.9	35.0	25.3
	41.9	35.0	25.3
Deferred tax (see note 13):			
Deferred tax for the current year	(1.9)	(0.1)	(0.1)
Taxation charge	40.0	34.9	25.2

Deferred tax for the current year is mainly in respect of deferred salaries that will be tax relieved when paid to employees.

Taxation on items credited to equity

	2006 €m	2005 €m	2004 €m
Deferred tax credit:			
Retirement benefit obligation actuarial losses	(0.3)	(0.2)	(0.1)

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in Italy of 37.25 per cent. and the consolidated income statement tax charge for the year are explained below:

	2006 €m	2005 €m	2004 €m
Profit before taxation	102.1	87.5	61.5
Profits multiplied by standard rate of tax in Italy of 37.25 per cent.	38.0	32.6	22.9
Adjustment for share of joint venture consolidated at profit after tax	(1.7)	—	—
Expenses not deductible	3.7	2.3	2.3
Taxation charge	40.0	34.9	25.2

8. Earnings per share

Earnings per share is presented on a basic and diluted basis. Both basic and diluted earnings per share are in respect of all activities.

	2006	2005	2004
Basic and diluted earnings per share	€ 3.66	€ 3.11	€ 2.15
Profit for the financial year attributable to equity holders	€59.3m	€50.4m	€34.9m
Weighted average number of shares – millions	16.2	16.2	16.2

9. Dividends

	2006 €m	2005 €m	2004 €m
Dividends paid for the year	32.5	26.9	19.5

Dividends paid for the year are final dividends relating to the previous year. The board has declared a final dividend in respect of the year ended 31 December 2006 of €2.70 per share, which amounts to a total of €43.8 million.

Dividends per share in respect of the financial year

	2006 €	2005 €	2004 €
Dividends per share paid during the year	2.00	1.65	1.20
Dividends per share declared for the year	2.70	2.00	1.65

10. Intangible assets

	Goodwill €m	Software €m	Total €m
Cost:			
1 January 2004	198.9	33.6	232.5
Additions	—	3.8	3.8
31 December 2004	198.9	37.4	236.3
Additions	—	3.0	3.0
31 December 2005	198.9	40.4	239.3
Additions	—	6.3	6.3
31 December 2006	**198.9**	**46.7**	**245.6**
Amortisation and accumulated impairment:			
1 January 2004	—	20.5	20.5
Charge for the year	—	9.2	9.2
31 December 2004	—	29.7	29.7
Charge for the year	—	6.8	6.8
31 December 2005	—	36.5	36.5
Charge for the year	—	3.6	3.6
31 December 2006	**—**	**40.1**	**40.1**
Net book values:			
31 December 2006	**198.9**	**6.6**	**205.5**
31 December 2005	**198.9**	**3.9**	**202.8**
31 December 2004	**198.9**	**7.7**	**206.6**

The carrying value of goodwill is in respect of the acquisitions of Cassa di Compensazione e Garanzia S.p.A. and Monte Titoli S.p.A. prior to 2004. An impairment review of goodwill and other assets has been carried out in accordance with IAS 36 "Impairment of assets". This was supported by the estimated net present value of future cash flows in the business plan over the next three years, with a nil growth rate beyond that, and cash flows discounted using a weighted average cost of capital of 8.6 per cent. for the year ended 31 December 2006 (2005: 7.0 per cent.; 2004: 6.7 per cent.).

11. Property, plant & equipment

	Land and buildings Freehold €m	Plant and equipment €m	Total €m
Cost:			
1 January 2004	15.0	15.3	30.3
Additions	—	1.9	1.9
Disposals	—	(0.8)	(0.8)
31 December 2004	15.0	16.4	31.4
Additions	—	0.6	0.6
31 December 2005	15.0	17.0	32.0
Additions	—	1.7	1.7
31 December 2006	**15.0**	**18.7**	**33.7**
Depreciation:			
1 January 2004	—	7.8	7.8
Charge for the year	0.6	1.4	2.0
31 December 2004	0.6	9.2	9.8
Charge for the year	0.6	2.1	2.7
31 December 2005	1.2	11.3	12.5
Charge for the year	0.6	2.1	2.7
31 December 2006	**1.8**	**13.4**	**15.2**
Net book values:			
31 December 2006	**13.2**	**5.3**	**18.5**
31 December 2005	**13.8**	**5.7**	**19.5**
31 December 2004	**14.4**	**7.2**	**21.6**

Borsa Italiana Group's land and buildings were revalued on 19 May 2003 by independent valuers. Valuations were made as the average of net present value of future estimated rental income and replacement cost. Following the transition to IFRS on 1 January 2004 the fair value of the land and buildings at that date, which was based on these revalued amounts, was adopted as the deemed cost.

12. Investments in joint ventures

In November 2005, Borsa Italiana purchased 49 per cent. of the issued equity share capital of MBE Holding S.p.A. (MBE), a company incorporated in Italy, for an initial cost of €56.1 million. MBE is a joint venture owned together with Euronext N.V.. MBE took control of the MTS S.p.A. Group (MTS Group), the leading market in Europe for the electronic trading of fixed income securities, by purchasing 51 per cent. of its shares in December 2005 and an additional 9.37 per cent. of its shares in February 2006, giving it a total controlling share in MTS Group of 60.37 per cent. as at 31 December 2006. Borsa Italiana invested a further €10.3 million in MBE in February 2006.

On 20 June 2007, Borsa Italiana exercised a call option to acquire full control of MBE, triggered by a change in control of Euronext N.V.. Borsa Italiana and Euronext N.V. have yet to agree the fair strike price. After completion of this purchase, Borsa Italiana Group will have full control of MBE and a controlling interest in MTS Group and, accordingly, will consolidate MTS Group in the future.

The following amounts represent Borsa Italiana Group's 49 per cent. of the revenues, expenses, assets and liabilities of MBE, which includes the consolidated revenues, expenses, assets and liabilities of MTS Group:

	2006 €m	2005 €m	2004 €m
Revenues	29.7	2.0	—
Expenses	(26.8)	(2.0)	—
Share of profit after tax of joint venture	2.9	—	—
Non current assets	101.0	64.6	—
Current assets	23.5	18.6	—
Total assets	124.5	83.2	—
Current liabilities	(8.8)	(21.5)	—
Non current liabilities	(24.2)	(0.8)	—
Total liabilities	(33.0)	(22.3)	—
Net assets	91.5	60.9	—
Minority interests in net assets	(22.2)	(4.8)	—
Investment in joint venture	69.3	56.1	—

The value of the investment in the joint venture reflects the price paid by Borsa Italiana Group, adjusted by the post acquisition share of the joint venture's profit after tax.

13. Deferred tax assets

	Tax losses €m	Other timing differences €m	Total €m
1 January 2004	**1.2**	**1.2**	**2.4**
Transfer to the income statement during the year (see note 7)	—	0.1	0.1
Tax credited to equity (see note 7)	—	0.1	0.1
31 December 2004	**1.2**	**1.4**	**2.6**
Transfer to the income statement during the year (see note 7)	—	0.1	0.1
Tax credited to equity (see note 7)	—	0.2	0.2
31 December 2005	**1.2**	**1.7**	**2.9**
Transfer to the income statement during the year (see note 7)	—	1.9	1.9
Tax credited to equity (see note 7)	—	0.3	0.3
31 December 2006	**1.2**	**3.9**	**5.1**

The deferred tax assets are recoverable against future taxable profits and are due after more than one year. The tax losses are brought forward by the subsidiary, Piazza Affari Gestione e Servizi S.p.A.. Other timing differences refer to employee related costs charged in the current period but to be paid in future periods with tax relief to be received in the period of payment.

14. Cash and cash equivalents

	2006 €m	2005 €m	2004 €m
Cash at bank	101.8	89.1	71.8

Cash at bank includes cash and cash equivalents restricted in use for the operations of CC&G as manager of the clearing and guarantee system, amounting to €57.4 million in 2006 (2005: €62.4 million; 2004: €47.5 million). Accordingly, these restricted cash resources are not available for use by the rest of Borsa Italiana Group.

15. Trade and other receivables

	2006 €m	2005 €m	2004 €m
Trade receivables	35.7	30.1	27.9
Less: provision for impairment of receivables	(0.7)	(0.5)	(0.5)
Trade receivables – net	35.0	29.6	27.4
Prepayments	2.3	2.0	2.5
	37.3	31.6	29.9

16. Assets held at fair value

	2006 €m	2005 €m	2004 €m
Italian Government bonds	4.4	5.7	—
Italian equities traded on Borsa Italiana's markets	8.9	4.2	1.9
European Investment Bank government bonds	1.0	1.0	17.7
	14.3	10.9	19.6

Italian government bonds and Italian equities traded on Borsa Italiana's markets are assets which are entirely restricted in use for the operations of CC&G as manager of the clearing and guarantee system. Accordingly, these assets are not available for use by the rest of Borsa Italiana Group.

17. Financial assets and liabilities of the CCP clearing business

	2006 €m	2005 €m	2004 €m
Financial assets of the CCP clearing business:			
Derivatives trading assets	3,827.3	5,202.7	3,931.5
Repurchase agreements (Repos)	14,658.0	8,438.7	4,774.8
Receivables from participants	712.4	591.7	448.2
Financial assets held at fair value	22.6	14.6	2.0
Cash and cash equivalents	1,577.2	1,507.9	943.2
	20,797.5	15,755.6	10,099.7

	2006 €m	2005 €m	2004 €m
Financial liabilities of the CCP clearing business:			
Derivatives trading liabilities	3,827.3	5,202.7	3,931.5
Repurchase agreements (Repos)	14,658.0	8,438.7	4,774.8
Payables to participants	2,261.8	2,092.1	1,370.3
Financial liabilities held at fair value	23.8	14.5	2.0
	20,770.9	15,748.0	10,078.6

The CCP clearing business assets and liabilities comprise the following:

a) Derivatives trading assets and liabilities:

These items comprise the fair value of the following transactions on the derivatives market where CC&G operates as the Central Counterparty:

- contracts relating to derivatives instruments on the S&P MIB index (index futures, mini index futures, index options); and
- contracts in respect of individual stocks (equity futures, equity options);

b) Repurchase agreements (Repos):

These items comprise the value of repurchase agreements entered into by participants in the MTS market who use the Central Counterparty service provided by CC&G, and refer to the value of transactions the spot part of which has already been settled while the forward part has still to be settled;

c) Receivables from participants:

These include sums receivable as initial margin, variation margin, option premiums and securities as collateral resulting from the activity of participants in the IDEM, MTA and MTS markets;

d) Payables to participants:

These include sums payable arising from amounts to be delivered as initial margin, variation margin, option premiums and securities as collateral, resulting from the activity of participants in the IDEM, MTA and MTS markets;

e) Assets and liabilities held at fair value:

These include the following financial securities:

- equities and bonds, listed on regulated markets, which CC&G has already withdrawn from the settlement system but has not yet delivered to the intermediaries who have bought them; and
- securities traded but not yet settled as part of the CCP function; and

f) Cash and cash equivalents:

These items comprise cash and cash equivalents at bank, representing margins and default fund amounts received, temporarily held in connection with the CCP clearing service.

18. Trade and other payables

	2006 €m	2005 €m	2004 €m
Trade payables	20.6	14.4	16.0
Social security and other taxes	5.9	5.0	4.4
Accruals and deferred income	2.2	1.2	1.1
Payables to clearing participants	19.8	9.8	5.6
Other payables	22.9	7.6	6.9
	71.4	38.0	34.0

Payables to clearing participants include interest received on third party funds. Other payables in 2006 include margins payable to LCH.Clearnet which were paid on the first trading day of 2007.

19. Borrowings

	2006 €m	2005 €m	2004 €m
Current:			
Bank borrowings	9.6	9.3	11.2
Non current:			
Bank borrowings	90.7	93.6	76.8
	100.3	102.9	88.0

Non current borrowings

Borsa Italiana Group currently has in place two loans:

a) a loan provided by a major Italian bank (a related party), set up in December 2002 for an initial principal amount of €110 million. Borrowings under this loan are unsecured and bear interest at a floating rate of EURIBOR 6 months plus 55 basis points. The outstanding amount of the loan (including accrued interest) as at 31 December 2006 was €54.5 million (2005: €63.5 million; 2004: €88.0 million), of which €9.6 million (2005: €9.3 million; 2004: €11.2 million) was due within 12 months (included in current borrowings). The loan matures in December 2007, but Borsa Italiana Group has an option to extend it for a further five years to December 2012; the fair value of this embedded derivative is negligible; and

b) a loan provided by major Italian banks (related parties), set up in September 2005, for an initial principal amount of €40 million and a subsequent amount of €6 million. Borrowings under this loan are unsecured and bear interest at a floating rate of EURIBOR 6 months plus 45 basis points. The outstanding amount of the loan (including accrued interest) as at 31 December 2006 was €45.8 million (2005: €39.7 million; 2004 nil) all due after 12 months. The loan matures in December 2015, but the banks can require any outstanding balances to be repaid in full in the event of a change of ownership of Borsa Italiana S.p.A..

Current borrowings

The current borrowings refer to the short term portion (payable in less than 12 months) of the same borrowing facilities described in the non-current borrowings section.

a) Fair values

The fair and carrying values of Borsa Italiana's borrowings are as follows:

	Carrying value 31 December 2006 €m	Fair value 31 December 2006 €m	Carrying value 31 December 2005 €m	Fair value 31 December 2005 €m	Carrying value 31 December 2004 €m	Fair value 31 December 2004 €m
Loan from commercial banks:						
- within one year	9.6	9.6	9.3	9.3	11.2	11.2
- after more than one year	90.7	90.7	93.6	93.6	76.8	76.8
	100.3	100.3	102.9	102.9	88.0	88.0

b) Interest rate risk on borrowings

The exposure of Borsa Italiana's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	31 December 2006 €m	31 December 2005 €m	31 December 2004 €m
Within six months	100.3	102.9	88.0
	100.3	102.9	88.0

Floating rate borrowings bear interest at agreed margin over EURIBOR.

c) Borrowing facilities

The undrawn committed facilities were:

	31 December 2006 €m	31 December 2005 €m	31 December 2004 €m
Expiring within one year	150.0	150.0	150.0

The undrawn committed facilities comprise an annual renewable committed cash line of credit from five major Italian banks used to meet any temporary liquidity requirements that could occur during the security settlement process.

The undrawn uncommitted facilities were as follows:

	2006 €m	2005 €m	2004 €m
Expiring within one year	1,000	1,000	1,000

The undrawn uncommitted facilities comprise a cash line of credit from five major Italian banks held for the operation of the CCP activities in relation to the MTS markets. The facilities are required by the Bank of Italy and if and when drawn are guaranteed by Italian Government bonds. The facilities can be terminated on request by the banks.

20. Retirement benefit obligations

These disclosures relate to the severance and leaving indemnity scheme (TFR) operated by Borsa Italiana Group in accordance with Italian law. Until 30 June 2007 the amounts deducted from employees' pay have been held by Borsa Italiana Group until the employee leaves. From 1 July 2007 any new deductions will be paid out into Italian state managed funds.

Movement in defined benefit obligations during the year

	For the year ended 31 December		
	2006 €m	2005 €m	2004 €m
Liability at start of year	8.7	7.3	6.2
Current service cost	1.3	1.1	0.9
Interest cost	0.4	0.3	0.3
Benefits paid	(0.8)	(0.5)	(0.4)
Actuarial loss	0.9	0.5	0.3
Liability at end of year	10.5	8.7	7.3

The related amounts are held by Borsa Italiana Group and are available for use within the business.

The main actuarial assumptions are set out below:

	For the year ended 31 December		
	2006	2005	2004
Inflation rate	2.00%	2.00%	2.00%
Rate of increase in salaries	3.25%	3.25%	3.25%
Rate of increase in retirement benefit obligations	3.00%	3.00%	3.00%
Discount rate	4.60%	4.25%	4.75%

There are no mortality assumptions applied, but the actuarial calculations include assumptions on the timing of expected leavers. In view of the relatively small amounts involved no sensitivity analysis has been performed.

Defined benefit actuarial gain and losses recognised

The following items reflect experience adjustments and the effects of changes in actuarial assumptions of the retirement benefit obligation during the year and are recognised in the Statement of Recognised Income and Expense.

	For the year ended 31 December		
	2006 €m	2005 €m	2004 €m
Initial amount recognised (net of tax)	(0.5)	(0.2)	—
Net actuarial loss recognised in the year (net of tax)	(0.6)	(0.3)	(0.2)
Cumulative amount recognised in the Statement of Recognised Income and Expense at the end of the year	(1.1)	(0.5)	(0.2)

21. Other non current liabilities

	2006 €m	2005 €m	2004 €m
Borsa Italiana LTIP liabilities	6.2	1.9	1.5
Social Security relating to Borsa Italiana LTIP liabilities	1.7	0.6	0.5
	7.9	2.5	2.0

22. Ordinary share capital

	2006 €m	2005 €m	2004 €m
Authorised:			
Ordinary shares of €0.52	8.4	8.4	8.4
Issued, called up and fully paid:			
Ordinary shares of €0.52	8.4	8.4	8.4

No person holding shares carrying voting rights, attending or represented by proxy at a meeting, may exercise the right to vote to an extent greater than 10% of the total share capital carrying voting rights. Other than this, there are no restrictions on voting rights applicable to the shares. All shares are eligible for dividends.

23. Reconciliation of movements in equity

	Notes	Ordinary share capital €m	Share premium €m	Other non-distributable reserves €m	Retained earnings €m	Minority interest €m	Total equity €m
1 January 2004		8.4	142.4	1.7	60.3	19.7	232.5
Total recognised income and expense for the financial year		—	—	—	34.9	1.2	36.1
Final dividend relating to the year ended 31 December 2003	9	—	—	—	(19.5)	(1.2)	(20.7)
Additional investment in subsidiaries		—	—	—	0.9	(9.9)	(9.0)
31 December 2004		8.4	142.4	1.7	76.6	9.8	238.9
Total recognised income and expense for the financial year		—	—	—	50.4	1.9	52.3
Final dividend relating to the year ended 31 December 2004	9	—	—	—	(26.9)	(1.1)	(28.0)
31 December 2005		8.4	142.4	1.7	100.1	10.6	263.2
Total recognised income and expense for the financial year		—	—	—	59.3	2.2	61.5
Final dividend relating to the year ended 31 December 2005	9	—	—	—	(32.5)	(1.8)	(34.3)
31 December 2006		**8.4**	**142.4**	**1.7**	**126.9**	**11.0**	**290.4**

Other non-distributable reserves comprise a legal reserve. This amount has been capped at 20% of the share capital, and therefore no additional profit has been taken to this reserve during the three years ended 31 December 2006.

24. Net cash flow generated from operations

	2006 €m	2005 €m	2004 €m
Profit before taxation	102.1	87.5	61.5
Depreciation and amortisation	6.3	9.5	11.2
Net finance costs	1.0	0.1	0.6
Increase in trade and other receivables	(5.7)	(1.7)	5.0
Share of profit after tax of joint venture	(2.9)	—	—
Increase in trade and other payables	33.4	4.0	2.2
Increase in liabilities for employee benefits, excluding actuarial losses	6.3	1.4	1.5
Decrease/(increase) in assets held at fair value from operating activities	(3.4)	(7.8)	(3.3)
Clearing service:			
- Increase in current assets for the CCP clearing business	(5,041.9)	(5,655.9)	(255.4)
- Increase in current liabilities for the CCP clearing business	5,022.9	5,669.4	232.6
Cash generated from operations	118.1	106.5	55.9

25. Commitments and contingencies

Contracted cost commitments not provided for in the financial information of Borsa Italiana Group comprised €61.8 million for the supply of IT services (2005: €87.4 million; 2004: €132.3 million) and €17.9 million for leasehold properties (2005: €19.9 million; 2004: €4.2 million).

Borsa Italiana Group does not have any legal cases against it in respect of which it expects to incur any material loss.

26. Financial risk management

The majority of Borsa Italiana Group's financial assets and liabilities are denominated in Euros, therefore Borsa Italiana Group is not exposed to significant foreign exchange risk. The main risks arising from Borsa Italiana Group's financial instruments are in respect of interest rate risk, credit risk and operational risk. In addition, CC&G is exposed to short-term market risk for up to only a few days in the event of clearing member defaults.

Cash flow and interest rate risk

Borsa Italiana Group has no floating rate financial assets. Borsa Italiana Group's interest rate risk on financial liabilities arises from long term borrowings, as interest on these loans is determined with reference to EURIBOR. Borrowings issued at variable rates expose Borsa Italiana Group to cash flow interest rate risk.

Borsa Italiana Group monitors the composition of borrowings and compliance with financial covenants included in its bank facilities.

No hedging of interest rates on financial assets or liabilities took place during the three years ended 31 December 2006.

Liquidity and credit risk

Liquidity risk management procedures include maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of credit facilities. Management monitors rolling forecasts of Borsa Italiana Group's liquidity on the basis of expected cash flow. Borsa Italiana Group maintains cash and cash equivalents to meet regulatory requirements and, within its CC&G clearing business, has strict policies in place restricting the maturity of financial assets to very short term assets as well as having access, through the Bank of Italy, to emergency intra-day refinancing of up to €1 billion and a number of committed lines of finance with major Italian commercial banks amounting to €150 million which are drawn down periodically on an overnight basis.

Credit risk

The principal operations and customers of Borsa Italiana Group are based in Italy.

There is no concentration of credit risk with respect to trade receivables, as Borsa Italiana Group has a large number of customers. However, as part of the CCP business, CC&G faces credit risk in that a counterparty may not be able to meet the commitments it has entered into with CC&G as a member of the guarantee system or as a receiver of deposits.

CC&G manages the credit risk through strict policies on the selection and screening of the clearing members and of the banks with which CC&G deposits its financial assets, together with collection of initial and intraday variation margins as well as default funds, calculated using parameters, including stress testing, evaluated on a monthly basis by the Risk Committee, as guarantees used to meet the members' obligation in the event of default insolvency.

Operational risk

The nature of Borsa Italiana Group's business also exposes it to financial risk through its day to day operations associated with employees, processes, IT systems, external providers and unexpected events. Borsa Italiana Group manages these operational risks as follows:

- mapping of its processes and inherent risks;
- establishment of detailed policies and procedures, which are reviewed on a periodic basis;
- maintenance of business continuity processes for its IT systems in accordance with guidelines issued by the Bank of Italy;
- selection of external providers according to the rules issued by the Bank of Italy; and
- periodic review and reporting of the operational processes by the Internal Auditor, with reporting to the Board, senior management, Bank of Italy and Consob.

Financial risk

The fair and carrying values of financial assets are as follows:

	Carrying value 31 December 2006 €m	Fair value 31 December 2006 €m	Carrying value 31 December 2005 €m	Fair value 31 December 2005 €m	Carrying value 31 December 2004 €m	Fair value 31 December 2004 €m
Assets held at fair value	14.3	14.3	10.9	10.9	19.6	19.6

The carrying amount of trade receivables and payables are reasonable approximations of fair value.

The financial assets and liabilities of the CCP clearing business are carried on the balance sheet at either their fair value or at face value, as appropriate. Due to the short term nature of the relevant assets and liabilities, face value is a close approximation to the fair value.

The fair value and book values of the borrowings are set out in note 19.

27. Leases

Borsa Italiana Group leases various properties under non-cancellable operating leases.

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2006 €m	2005 €m	2004 €m
Less than one year	3.7	3.5	3.5
More than one year and less than five years	13.9	13.2	0.7
More than five years	0.3	3.2	—
	17.9	19.9	4.2

Operating lease payments representing minimum lease payments of €3.5 million in 2006 (2005: €3.5 million; 2004: €3.4 million) were charged to the income statement.

28. Transactions with related parties

Directors

During the financial years 2006, 2005 and 2004, no contracts of significance were entered into by Borsa Italiana Group or any of its subsidiaries in which the directors had a material interest.

Key management compensation

Compensation for directors and key personnel of Borsa Italiana Group who have authority for planning, directing and controlling Borsa Italiana Group comprised the following:

	2006 €m	2005 €m	2004 €m
Salaries and other benefits	16.2	8.4	4.1

The increase from 2005 to 2006 is due to the launch of the new Borsa Italiana LTIP scheme, for which the cost (which is approved by the board) is accrued each year (rather than being spread on a straight line basis over three years, as in the deferred bonus programme in place in 2004 and 2005).

The remuneration of the key managers is the total cost to Borsa Italiana Group.

Key managers comprise:

- Chief Executive, Chief Financial Officer, Executive Director Legal & Institutional Affairs, Executive Director Italian Exchange Market, Executive Director New Business of Borsa Italiana; and
- Chief Executives, General Managers and Directors with strategic function in the subsidiaries.

There were no related party transactions, other than in the ordinary course of business on arms' length terms, with the shareholders of Borsa Italiana or with MBE Holding or its subsidiaries.

29. Other statutory information

Auditors' remuneration for the audit of the parent company and consolidated accounts was €0.1 million in 2006 (2005: €0.1 million; 2004: €0.1 million). No other fees were paid to the Auditors.

Directors' emoluments of Borsa Italiana comprised the following:

	2006 €m	2005 €m	2004 €m
Salaries and fees	1.8	1.5	1.5
Performance bonus and Borsa Italiana LTIP	2.3	1.5	0.7
	4.1	3.0	2.2

30. Post balance sheet events

In addition to the exercise of the call option over MBE shares in June 2007 referred to in note 12, on 3 April 2007 Borsa Italiana S.p.A. signed a sale and purchase agreement for the acquisition of 90 per cent. of the share capital of Servizio Titoli for a consideration of €29,335,000 and entered into a put option over the remaining 10 per cent. to be exercised by the seller no earlier than 1 February 2010 and no later than 3 February 2011, which has therefore become a subsidiary company. This company provides software, outsourcing and consulting services to listed companies.

PART 5: UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

PART 5A: ACCOUNTANTS' REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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London WC2N 6RH

The Directors
London Stock Exchange Group plc
10 Paternoster Square
London EC4M 7LS

Lehman Brothers Europe Limited
(together with Merrill Lynch International the "Joint Sponsors")
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Merrill Lynch Financial Centre
2 King Edward Street
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23 July 2007

Dear Sirs

London Stock Exchange Group plc (the "Company")

We report on the pro forma statement of net assets (the "**Pro Forma Financial Information**") set out on pages 52 and 53 of the Company's circular dated 23 July 2007 (the "**Circular**") which has been prepared on the basis described in the notes to the pro forma net asset statement, for illustrative purposes only, to provide information about how the proposed business combination of the Company with Borsa Italiana might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2007. This report is required by item 20.2 of Annex I to the PD Regulation and is given for the purpose of complying with that PD Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I to the PD Regulation and item 13.5.31R of the Listing Rules of the UK Listing Authority (the "**Listing Rules**").

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation and the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Shareholders of the Company as a result of the inclusion of this report in the document, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART 5B: UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Set out below is an unaudited pro forma statement of net assets of the Enlarged Group illustrating the effect of the Proposed Merger with Borsa Italiana. The unaudited pro forma statement of net assets is based on the audited consolidated balance sheet of the Company as at 31 March 2007 adjusted as described in the notes set out below. The unaudited pro forma statement has been prepared to illustrate how the merger might have affected the net assets of the Enlarged Group had it been effected as at 31 March 2007. The unaudited pro forma statement is for illustrative purposes only and, because of its nature, the unaudited pro forma statement addresses a hypothetical situation and does not, therefore represent the Enlarged Group's actual financial position or results. The unaudited pro forma statement has been prepared on the basis set out in the notes below and in accordance with the requirements of item 13.5.31R of the Listing Rules of the UKLA.

		Adjustments		
	London Stock Exchange Group plc as at 31 Mar 2007 (Note 1) £m	Borsa Italiana as at 31 Dec 2006 (Note 2) £m	Effect of acquisition (Note 4) £m	Pro forma net assets £m
Assets				
Non current assets				
Intangible assets	55.8	138.5	942.4	1,136.7
Property plant and equipment	58.8	12.5	—	71.3
Available for sale investments	0.4	—	—	0.4
Investments in joint venture	1.9	46.7	—	48.6
Deferred tax assets	15.9	3.4	—	19.3
Other non current assets	—	0.2	—	0.2
	132.8	201.3	942.4	1,276.5
Current assets				
Cash and cash equivalents	72.9	68.6	—	141.5
Trade and other receivables	61.4	25.1	—	86.5
Assets held at fair value	—	9.6	—	9.6
Current tax	—	1.2	—	1.2
Financial assets of the CCP clearing business	—	14,016.4	—	14,016.4
Total current assets	134.3	14,120.9	—	14,255.2
Total assets	267.1	14,322.2	942.4	15,531.7
Liabilities				
Current liabilities				
Trade and other payables	(129.4)	(48.1)	—	(177.5)
Current tax	(20.6)	—	—	(20.6)
Borrowings	(171.4)	(6.5)	—	(177.9)
Provisions	(8.0)	—	—	(8.0)
Financial liabilities of the CCP clearing business	—	(13,998.5)	—	(13,998.5)
	(329.4)	(14,053.1)	—	(14,382.5)
Non current liabilities				
Borrowings	(248.7)	(61.1)	—	(309.8)
Retirement benefit obligations	(15.0)	(7.1)	—	(22.1)
Provisions	(23.9)	—	—	(23.9)
Other non current liabilities	—	(5.3)	—	(5.3)
	(287.6)	(73.5)	—	(361.1)
Total liabilities	(617.0)	(14,126.6)	—	(14,743.6)
Net (liabilities)/assets	(349.9)	195.6	942.4	788.1

Notes:

1. *The IFRS financial information for the Company as at 31 March 2007 has been extracted, without material adjustment, from the audited financial statements for the year then ended.*
2. *The IFRS financial information for Borsa Italiana has been extracted without material adjustment from the financial information table on Borsa Italiana set out in Part 4 of this Circular. A rate of exchange of €1.4838 = £1 prevailing at 31 December 2006 has been used to convert the financial information into sterling.*
3. *The basis of applying the accounting policies in the pro forma statement of net assets is in accordance with the accounting policies of the Company as adopted in the financial statements for the year ended 31 March 2007.*
4. *Acquisition adjustment:*

   The acquisition adjustment is set out in the following table:

Shares in issue of Borsa Italiana	*16,227,268*
Number of London Stock Exchange Group plc shares offered for each Borsa Italiana share	*4.9*
Number of London Stock Exchange Group plc shares offered as consideration	*79,513,625*
London Stock Exchange Group plc closing share price at 19 July 2007	*£ 14.10*
Value of London Stock Exchange Group plc shares	*£1,121.1m*
Transaction costs	*£ 16.9m*
Total consideration	*£1,138.0m*
Fair value of net assets acquired	*£(195.6)m*
Total adjustment	*£ 942.4m*
Comprising:	
Goodwill and intangibles arising on acquisition	*£1,118.6m*
Adjustment for goodwill and intangibles (see below)	*£(176.2)m*
Total	*£ 942.4m*

   No account has been taken of any possible cash element of the acquisition cost that might arise as a result of withdrawal rights on acquisition.

   The number of shares takes into account fractions which under the terms of the offer document are rounded up.

   The goodwill adjustment of £176.2 million removes the goodwill and intangibles of Borsa Italiana Group as at 31 December 2006, including £62.6 million representing Borsa Italiana Group's share of the goodwill and intangibles in the MBE joint venture.

   The actual consideration for this acquisition will be calculated by reference to the company share price on the acquisition date.

   No account has been taken of fair value adjustments which may arise on the acquisition of Borsa Italiana Group.

5. *No adjustment has been made to reflect the trading of the Company and Borsa Italiana since 31 March 2007 and 31 December 2006 respectively.*

PART 6: PRINCIPAL TERMS OF THE PROPOSED MERGER

Under the terms of the Combination Agreement, the Company has agreed to make the Offer to Borsa Italiana Shareholders.

Below is a summary of the material terms and conditions of the Offer and the Combination Agreement and of the "withdrawal rights" available under Italian law to certain Borsa Italiana Shareholders.

1. Consideration

Under the terms of the Offer, Borsa Italiana Shareholders will be entitled to receive 4.90 New LSEG Shares for every Borsa Italiana Share in respect of which the Offer is accepted.

Fractional entitlements will be addressed by rounding up to the nearest number of New LSEG Shares that any Borsa Italiana Shareholder is entitled to receive.

Borsa Italiana has represented and warranted to the Company that the issued share capital of Borsa Italiana consists of 16,227,268 Borsa Italiana Shares, and that there are no obligations on Borsa Italiana to issue or allot any additional shares or other securities.

2. Period for acceptance

The Offer was made on 2 July 2007 and remains open for acceptance (unless extended by the Company) until 5.00 p.m. Italian time on the later of:

(a) 27 July 2007; and

(b) the 5th (fifth) business day after the date on which the Company announces by means of a notice published in one or more Italian newspapers with national circulation that it has sent this Circular to the Company's shareholders.

The Company is entitled to extend the period during which the Offer remains open for acceptance on one or more occasions, provided that any such extended period does not end later than the Longstop Date.

3. Conditions precedent to closing

The Offer is subject to the following conditions, each of which may be waived, in whole or in part, by the Company in its absolute discretion (except for conditions (f) and (j), which shall not be capable of waiver):

(a) all clearances required from the Italian AGCM pursuant to Italian Law no. 287/90 in relation to the Proposed Merger having been obtained either unconditionally or on terms satisfactory to the Company (including the expiry of any period following a notification to AGCM such that AGCM is deemed to have given any such clearance, the AGCM has declined jurisdiction or any such clearance is not required);

(b) (i) the Office of Fair Trading having indicated, in terms satisfactory to the Company, that the Office of Fair Trading does not intend to refer the Proposed Merger, or any matters arising from the Proposed Merger, to the Competition Commission; and (ii) all appropriate time periods (including any extensions of such time periods) for any person to apply for a review of any decision taken by the Office of Fair Trading under paragraph (i) having expired or lapsed (as appropriate) without any such application for review having been made;

(c) all other clearances required from any other Antitrust Authority to implement the Proposed Merger having been obtained/given either unconditionally or on terms satisfactory to the Company (including the expiry of any period following a notification to any Antitrust Authority such that the relevant Antitrust Authority is deemed to have given any such clearance, the relevant Antitrust Authority has declined jurisdiction or any such clearance is not required;

(d) all approvals, authorisations, consents, clearances, confirmations, orders, determinations, licences or permissions from any Governmental Authority (the "**Regulatory Approvals**") which:

   (i) are necessary in any jurisdiction; or

(ii) the Company, with the consent of Borsa Italiana (such consent not to be unreasonably withheld or delayed), considers are necessary or appropriate in any jurisdiction,

in order to implement the Proposed Merger having been obtained either unconditionally or on terms satisfactory to the Company (including the expiry of any period following a notification to any Governmental Authority such that the relevant Governmental Authority is deemed to have given any such Regulatory Approval, the relevant Governmental Authority has declined jurisdiction or any such Regulatory Approval is not required);

(e) a resolution of the Borsa Italiana Shareholders approving the removal of the voting restrictions contained in Article 9 and consequential amendments to Article 11 of the Borsa Italiana By-Laws, which resolution shall take automatic effect from the date of Completion (the **"Voting Restriction Resolution"**), having been duly passed at an extraordinary shareholders' meeting of Borsa Italiana to be convened in connection with the Offer (the **"Borsa Italiana EGM"**), and the Borsa Italiana By-Laws remaining in all other respects unchanged, except for any further amendment thereto resulting from the adoption of any of the other Borsa Italiana EGM Resolutions;

(f) valid unconditional acceptances of the Offer by Borsa Italiana Shareholders having been received by the Company (and not withdrawn as permitted under the terms of the Offer) in respect of Borsa Italiana Shares which (together with any other shares that the Company owns or has an unconditional right to acquire) represent not less than 85 per cent. (or such lower percentage as the Company may determine in its absolute discretion, provided that such percentage shall not be less than 66.67 per cent.) of the issued share capital of Borsa Italiana;

(g) a resolution of the Shareholders approving the Proposed Merger for the purposes of Rule 10.5 of the Listing Rules having been duly passed at the EGM (or at any adjournment of that meeting);

(h) no adverse change (other than any event, occurrence or condition that is a result of general economic conditions) in the business or assets of any member of Borsa Italiana Group which is material in the context of Borsa Italiana Group taken as a whole having occurred;

(i) neither Borsa Italiana nor any other company within Borsa Italiana Group having:

(i) issued or agreed to issue any shares or other securities;

(ii) purchased, redeemed or repaid any of its shares, or otherwise reduced or made any other change to any part of its share capital, other than pursuant to article 2437-quater of the Italian Civil Code in connection with the approval of the Voting Restriction Resolution and/or any of the resolutions mentioned in paragraph (e) above;

(iii) declared or paid any dividend or made any distribution of reserves;

(iv) incurred or increased any financial indebtedness to an extent that is material in the context of Borsa Italiana Group taken as a whole (other than in connection with the exercise by Borsa Italiana of the MBE Option); or

(v) merged or demerged with any company or other entity or acquired any share or other equity interest, partnership or business which is material in the context of Borsa Italiana Group taken as a whole (other than by the exercise of the MBE Option);

(j) admission of the New LSEG Shares (i) to listing on the Official List having become effective in accordance with the Listing Rules and (ii) to trading on the London Stock Exchange's market for listed securities having become effective in accordance with paragraph 2.1 of the Admission and Disclosure Standards or (if the Company so determines) the UKLA and the London Stock Exchange having agreed to admit such shares to listing and trading respectively; and

(k) Borsa Italiana Shares in respect of which the Borsa Italiana Shareholders have exercised their withdrawal rights pursuant to articles 2437 and following of the Italian Civil Code following the approval of the Voting Restriction Resolution and/or any of the other Borsa Italiana EGM Resolutions not representing more than 25 per cent. of the issued share capital of Borsa Italiana.

If any of the Conditions have not been satisfied (or waived in accordance with the terms of the Offer) on or before the Longstop Date, the Offer (and any agreements resulting from its acceptance) shall automatically lapse or terminate.

The Offer (and any agreements resulting from its acceptance) shall also automatically lapse or terminate if the United Kingdom Office of Fair Trading refers the Proposed Merger, or any matters arising from it, to the Competition Commission.

4. Borsa Italiana undertakings to convene EGM and recommend Offer to Borsa Italiana Shareholders

Borsa Italiana has undertaken to convene the Borsa Italiana EGM (expected to be held on 8 August 2007), at which Borsa Italiana Shareholders will be requested to approve the following resolutions which take effect at Completion (the **"Borsa Italiana EGM Resolutions"**):

(a) the Voting Restriction Resolution: this resolution would remove existing provisions of the Borsa Italiana By-Laws that, in broad terms, restrict the voting rights of any individual Borsa Italiana shareholder to 10 per cent. of the overall voting rights in Borsa Italiana, irrespective of the number of Borsa Italiana Shares that they hold. As noted in paragraph 3(e) above, it is a condition of the Offer that the Voting Restriction Resolution is approved;

(b) a resolution to replace the existing voting list mechanism for the appointment of directors of Borsa Italiana with provisions for appointment by way of a simple majority vote;

(c) a resolution to introduce a pre-emption clause in relation to transfers of Borsa Italiana Shares;

(d) a resolution to remove certain restrictions on the holding of offices in other companies by certain Borsa Italiana officeholders; and

(e) a resolution to provide for the constitution of a Borsa Italiana Nominations Committee (refer to paragraph 11 below).

The board of directors of Borsa Italiana has undertaken to recommend to Borsa Italiana Shareholders (in the same terms as set out in the joint press announcement in relation to the Proposed Merger made by the Company and Borsa Italiana on 23 June 2007) that they accept the Offer and vote in favour of the Borsa Italiana EGM Resolutions, unless an adverse change (other than an event, occurrence or condition that is a result of general economic conditions) in the business or assets of any member of LSE Group which is material in the context of LSE Group taken as a whole occurs.

5. Pre-completion undertakings of Borsa Italiana

Borsa Italiana has undertaken that it will not, prior to Completion:

(a) solicit, initiate or otherwise seek to procure any Competing Proposal, unless the Offer is withdrawn or lapses; or

(b) enter into or continue any discussions, negotiations, correspondence or arrangement (including, without limitation, by disclosing due diligence information to any person) relating to any actual or potential Competing Proposal until the Borsa Italiana EGM has been held. This obligation does not prevent Borsa Italiana from disclosing to the Borsa Italiana Shareholders, without comment or recommendation, details of any unsolicited Competing Proposal submitted to Borsa Italiana.

Subject to any confidentiality obligation to which Borsa Italiana is subject, Borsa Italiana must promptly notify the Company in writing if it or any of its representatives becomes aware of a proposal or any approach from a bona fide third party (notwithstanding that it has been party to a proposal or made an approach or been approached prior to the date of the Combination Agreement) that is made to it in relation to any Competing Proposal or any serious indications of the basis on which any such Competing Proposal might be made and must keep the Company informed as to the progress of any such approach.

6. MBE Option

Borsa Italiana has represented and warranted to the Company that it exercised the MBE Option on 20 June 2007. The exercise price for the MBE Option has not yet been determined and in the event of disagreement, the price will be determined through the independent expert procedure contemplated by the shareholders' agreement between Euronext and Borsa Italiana.

7. Pre-completion undertakings of the Company

The Company has undertaken that it will not, prior to Completion:

(a) issue or agree to issue any shares or other securities, other than in connection with the Offer or pursuant to employee share or option plans disclosed in the last annual report and accounts of the Company;

(b) purchase, redeem or repay any of its shares, or otherwise reduce or make any other change to any part of its share capital, other than in accordance with its previously announced share buyback programme; or

(c) declare or pay any dividend or other distribution outside the ordinary course.

8. Withdrawal of acceptances

Acceptances of the Offer are not capable of being withdrawn except if:

(a) an adverse change (other than any event, occurrence or condition that is a result of general economic conditions) in the business or assets of any member of LSE Group which is material in the context of LSE Group taken as a whole occurs; and

(b) within 20 business days after a public announcement has been made by the Company in respect of the occurrence of such adverse change, Borsa Italiana Shareholders who have accepted the Offer in relation to Borsa Italiana Shares constituting in total more than 25 per cent. of all Borsa Italiana Shares give notice to the Company that they wish to withdraw their acceptances as a result of such adverse change.

9. Withdrawal of the Offer

The Company is entitled to withdraw the Offer (and to withdraw from any agreements resulting from its acceptance) only if:

(a) the Borsa Italiana Board withdraws or adversely modifies its recommendation to Borsa Italiana Shareholders that they accept the Offer and vote in favour of the Borsa Italiana EGM Resolutions;

(b) Borsa Italiana consents in writing to the withdrawal of the Offer by the Company; or

(c) acceptances of the Offer in respect of Borsa Italiana Shares which in aggregate constitute more than 25 per cent. of all Borsa Italiana Shares are invalid or unenforceable or any Borsa Italiana Shareholders holding in total more than 25 per cent. of all Borsa Italiana Shares do not duly perform their obligations under the agreements arising from acceptance of the Offer (including their obligation to transfer their Borsa Italiana Shares to the Company at Completion).

10. Pricing principle

The Company represents and warrants to each Borsa Italiana Shareholder accepting the Offer that the principle, shared by the Company and Borsa Italiana, that fees for Borsa Italiana's core services (trading and post-trading) shall not increase (beyond the rate of inflation) if the quality of the service remains the same, will be applied throughout Borsa Italiana Group.

11. Corporate governance of the Enlarged Group

The Company recognises the need of the Company, Borsa Italiana and their respective stakeholders for a governance system which reflects their respective needs and recognises the benefit to their stakeholders of maintaining appropriate representation from the principal markets in which the Enlarged Group will operate whilst complying with governance principles and rules applicable to the Enlarged Group (including the Combined Code and the *Codice di Autodisciplina delle Società Quotate*, as applicable).

Following the implementation of the Offer, it is important to maintain an appropriate degree of control by Borsa Italiana of the Enlarged Group's Italian businesses and that this system endures.

Accordingly, the Company and Borsa Italiana have agreed as a principle that the corporate governance and organisation of LSE Group and Borsa Italiana Group be structured in accordance with the terms and understandings set out below. This principle is referred to as the **"Balanced Governance Principle"**. The Company and Borsa Italiana recognise the need to retain flexibility with regard to the application of the Balanced Governance Principle to deal with future changes occurring after Completion (for example, major corporate transactions). The Company confirms the firm intention of the Board to comply with those elements of the Balanced Governance Principle which cannot be legally binding having regard to the fiduciary duties of the Directors and other legal and regulatory constraints (including the Combined Code).

With effect from the date of Completion, the Board shall be reconstituted to comprise 12 members, seven directors to be nominated from the existing Directors (who shall include the Chairman and two Executive Directors of the Company) and five directors to include the present Chairman and the present Chief Executive of Borsa Italiana and three non-executive directors proposed for appointment by the Borsa Italiana Board, one of whom is to be independent within the criteria specified in the Combined Code. The present Chairman of Borsa Italiana shall become the Deputy Chairman of the Company and the present Chief Executive of Borsa Italiana shall become the Deputy Chief Executive of the Company, in charge of the integration process of Borsa Italiana and the Company.

In addition, the Company's Nominations, Remuneration and Audit Committees will be reconstituted to comprise three directors to be nominated by the existing Directors and two directors to be nominated by the Borsa Italiana Board. The existing Chairman of the Company shall be one of the directors nominated to the Nominations Committee by the existing Directors. The existing Chairman of Borsa Italiana shall be one of the directors nominated to the Nominations Committee by the Borsa Italiana Board.

The board of directors of London Stock Exchange will comprise approximately 12 directors, including five executive directors, of whom two shall be executives of Borsa Italiana, and seven non-executive directors one of whom may be "non local" and the board of directors of Borsa Italiana will comprise approximately 12 directors, including five executive directors, of whom two shall be executives of London Stock Exchange, and seven non-executive directors of whom six shall be Italian resident directors and of whom one may be a non Italian resident director.

A Nominations Committee of the Borsa Italiana Board will be established (the **"Borsa Italiana Nominations Committee"**) comprising non-executive directors of Borsa Italiana with terms of reference to propose the appointment of non-executive directors of Borsa Italiana and to propose to the Nominations Committee of the Board the five directors proposed by Borsa Italiana and their successors for the Board, in each case in consultation with the Italian financial community. The Company and Borsa Italiana have agreed that the Borsa Italiana By-Laws will be amended to constitute the Borsa Italiana Nominations Committee.

The Deputy Chairman of the Board from time to time will be the Chairman of Borsa Italiana and the Chief Executive of Borsa Italiana from time to time will be the Deputy Chief Executive of the Company. However, if the Chief Executive of Borsa Italiana may be regarded as representing the same local market interests as the Chief Executive of the Company, the Company and Borsa Italiana envisage that the Chief Executive of London Stock Exchange will be the Deputy Chief Executive of the Company.

12. Withdrawal rights under Italian law

Pursuant to articles 2437 and in accordance with the Italian Civil Code, Borsa Italiana Shareholders who do not concur to the approval of the Voting Restriction Resolution (and certain of the other Borsa Italiana EGM Resolutions) will be entitled to exercise "withdrawal rights" during the 15 day period following the registration of those resolutions. If withdrawal rights are exercised, then the Borsa Italiana Board must offer the Borsa Italiana Shares of the relevant Borsa Italiana Shareholders (the **"Withdrawal Shares"**) for purchase (for cash consideration) to the remaining Borsa Italiana Shareholders. Any Withdrawal Shares that are not acquired by the remaining Borsa Italiana Shareholders may be offered by the Borsa Italiana Board to third parties. Under the terms of the Combination Agreement, Borsa Italiana has undertaken that any Withdrawal Shares that are not acquired by other Borsa Italiana Shareholders will be offered exclusively to the Company (and the Company has undertaken to acquire those Withdrawal Shares for cash consideration).

The Italian Civil Code contains provisions regulating how the value of the Withdrawal Shares is to be determined. In the first instance, the Borsa Italiana Board, having heard the opinion of the board of statutory auditors and of the external auditor of Borsa Italiana, must establish the value of Borsa Italiana Shares taking into account Borsa Italiana's assets, its prospects of income and any market value of the

Borsa Italiana Shares (and the Borsa Italiana Shareholders must be informed of that value at least 15 days prior to the Borsa Italiana EGM). Under the Combination Agreement, the Borsa Italiana Board must obtain and consider in good faith a written valuation of the Withdrawal Shares from an independent expert prior to communicating any valuation to Borsa Italiana Shareholders. The valuation of the Borsa Italiana Board may be challenged by Borsa Italiana Shareholders simultaneously with the exercise of the withdrawal rights, in which case a court appointed expert must provide a valuation of the Borsa Italiana Shares within a 90 day period.

The Voting Restriction Resolution needs to be passed by Borsa Italiana Shareholders representing at least two thirds of the total number of Borsa Italiana Shares. Therefore, the maximum number of Borsa Italiana Shares in respect of which withdrawal rights may be exercised is one third of the total number of Borsa Italiana Shares.

13. Governing law

The Combination Agreement, the Offer and any agreements resulting from acceptance of the Offer are governed by and to be construed in accordance with Italian law.

PART 7: ADDITIONAL INFORMATION

1. Responsibility statement

The Company and its Directors accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect its import.

2. Information about the New LSEG Shares

The New LSEG Shares will be issued credited as fully paid and will rank pari passu in all respects with the existing Ordinary Shares in issue at the time the New LSEG Shares are delivered pursuant to the Proposed Merger and the Offer, including the right to receive and retain dividends and other distributions declared, made or paid by reference to a record date falling after the effective date of the Proposed Merger.

The New LSEG Shares will be Ordinary Shares in registered form represented by a share certificate and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where New LSEG Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where New LSEG Shares are held in paperless form, the relevant CREST stock account of the registered members will be credited.

Application will be made to the FSA for the New LSEG Shares to be issued pursuant to the Proposals to be admitted to the Official List of the UKLA 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 Admission will become effective, and that dealings in those shares will commence shortly after publication of the Prospectus. In addition, the Company intends to seek a listing of its Ordinary Shares on Borsa Italiana's Mercato Telematico Azionario on or as soon as practicable following Completion.

This Circular does not constitute an offer or invitation to any person to subscribe for or purchase any securities in the Company. The Prospectus relating to the Ordinary Shares required in connection with the application for Admission is expected to be published in or around September 2007. The Prospectus will not be sent to Shareholders when published, but it will be possible to obtain a copy of the Prospectus from the Company's website (www.londonstockexchange.com) or 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. (UK time) on any business day or, on request, free of charge from the registered office of the Company (being, 10 Paternoster Square, London EC4M 7LS). A copy of the Prospectus will also be available for inspection at the Document Viewing Facility of the FSA, 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 business day.

3. Resolution authorising market purchase by the Company of its Ordinary Shares

As described in paragraph 11 of Part 1 (Chairman's Letter), a resolution to confer authority on the Company to make market purchases of, or tender offers for its Ordinary Shares will be proposed at the Extraordinary General Meeting. The authority conferred by the resolution proposed at the Extraordinary General Meeting would, conditional on Shareholder approval of the Proposed Merger, supersede the authority conferred on the Company by the resolution passed at the Company's Annual General Meeting held on 11 July 2007. Approval of the resolution would, conditional on Shareholder approval of the Proposed Merger, enable the Company to purchase up to a maximum of 41 million Ordinary Shares representing 14.7 per cent. of the expected enlarged issued ordinary share capital of the Company following the Proposed Merger). The price per Ordinary Share that the Company may pay is set at a minimum amount of the nominal value of each Ordinary Share and a maximum amount on a tender offer of 10 per cent. over the previous day's closing price and a maximum amount for market purchases of the higher of: (i) 5 per cent. over the average of the previous five days' middle market prices and (ii) the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share as derived from the London Stock Exchange Trading System (SETS). Ordinary Shares purchased under the authority may be cancelled or held by the Company as treasury shares, within the limits allowed by law.

The table set out below shows: (i) the total number of outstanding options to subscribe for Ordinary Shares as at 19 July 2007, being the latest practicable date prior to the publication of this Circular; (ii) the proportion such outstanding options would represent of the expected enlarged issued Ordinary Share capital of the Company following Completion of the Proposed Merger; and (iii) the proportion such outstanding options would represent of the expected enlarged issued Ordinary Share capital of the Company following Completion of the Proposed Merger if the maximum permitted number of Ordinary Shares are purchased by the Company under authority conferred on the Company by the resolution to be proposed at the Extraordinary General Meeting.

Number of options	Percentage of issued Ordinary Shares	Percentage of issued Ordinary Shares if the maximum permitted number of Ordinary Shares are purchased by the Company
5,442,924	**1.948**	**2.283**

As at 19 July 2007, being the latest practicable date prior to the publication of this Circular, there are no outstanding warrants to subscribe for Ordinary Shares.

4. Directors' and Senior Managers' interests

4.1 The interests of the Directors, the Senior Managers 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 Company as at 19 July 2007, being the latest practicable date prior to publication of this Circular are as follows:

	Number of B Shares	Number of Ordinary Shares	Per cent. Holding of Ordinary Shares
Directors			
CS Gibson-Smith	10,213	50,768	0.026
CHF Furse	355,086	385,165	0.193
JAG Howell	—	111,018	0.056
GA Allen	—	1,572	0.001
J Cohen	—	1,216	0.001
O Fanjul	—	21,901	0.011
P Meinertzhagen	—	—	—
NJ Stapleton	—	1,386	0.001
RS Webb	—	1,200	0.001
Senior Managers			
MP Graham	—	73,266	0.037
DA Lester	—	50,955	0.025
D Pitman	—	3,806	0.002
NJ Stuchfield	—	44,110	0.022
J Wallace	—	22,902	0.011

Share awards and share options granted under the current and closed share schemes for the Directors and Senior Managers are summarised in paragraphs 4.4 and 4.5.

4.2 Save as disclosed in paragraphs 4.1, 4.4 and 4.5, none of the Directors or Senior Managers or their immediate families, nor any person connected with any Director or Senior Manager (within the meaning of section 346 of the Companies Act) will at Admission have any interest, whether beneficial or non beneficial, in any share or loan capital of the Company or any of its subsidiaries.

4.3 As at the date of this Circular no outstanding loans or guarantees have been granted or provided to or for the benefit of any Director and/or Senior Manager or their connected persons by the Company or any of its subsidiaries.

4.4 Current Share Schemes

(a) *The London Stock Exchange LTIP*

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

	Performance Shares			
	Number of shares awarded	**Price at award date (£)**	**Date of award**	**Final vesting date**
Directors				
CHF Furse	44,620	8.55	28/02/2006	28/02/2009
	32,299	10.79	25/05/2006	25/05/2009
	30,175	13.57	22/05/2007	22/05/2010
	107,094			
JAG Howell	28,772	8.55	28/02/2006	28/02/2009
	24,421	10.79	25/05/2006	25/05/2009
	20,582	13.57	22/05/2007	22/05/2010
	73,775			
Senior Managers				
MP Graham	25,906	8.55	28/02/2006	28/02/2009
	18,907	10.79	25/05/2006	25/05/2009
	16,511	13.57	22/05/2007	22/05/2010
	61,324			
DA Lester	25,497	8.55	28/02/2006	28/02/2009
	22,243	10.79	25/05/2006	25/05/2009
	16,511	13.57	22/05/2007	22/05/2010
	64,251			
D Pitman	28,120	11.40	07/07/2006	07/07/2009
	9,521	13.57	22/05/2007	22/05/2010
	37,641			
NJ Stuchfield	19,298	8.55	28/02/2006	28/02/2009
	11,029	10.79	25/05/2006	25/05/2009
	10,305	13.57	22/05/2007	22/05/2010
	40,632			
J Wallace	10,526	8.55	28/02/2006	28/02/2009
	9,083	10.79	25/05/2006	25/05/2009
	9,395	13.57	22/05/2007	22/05/2010
	29,004			

The following participants elected to invest a portion of their annual bonus in invested shares and were awarded matching shares, the vesting of which is dependent on the achievement of performance targets:

	Matching Shares			
	Number of shares awarded	Price at award date (£)	Date of award	Final vesting date
Directors				
CHF Furse	44,444	8.60	03/03/2006	03/03/2009
	35,965	11.40	26/05/2006	26/05/2009
	36,772	13.10	24/05/2007	24/05/2010
	117,181			
JAG Howell	23,170	8.64	06/03/2006	06/03/2009
	21,225	11.18	30/05/2006	30/05/2009
	44,395			
Senior Managers				
MP Graham	87,376	3.43	20/08/2004	20/08/2007
	25,640	8.64	06/03/2006	06/03/2009
	21,053	11.40	26/05/2006	26/05/2009
	134,069			
DA Lester	25,246	8.64	06/03/2006	06/03/2009
	21,467	11.18	30/05/2006	30/05/2009
	20,121	13.10	24/05/2007	24/05/2010
	66,834			
D Pitman	12,975	13.10	24/05/2007	24/05/2010
	12,975			
NJ Stuchfield	77,666	3.43	20/08/2004	20/08/2007
	19,109	8.64	09/03/2006	09/03/2009
	15,371	11.06	31/05/2006	31/05/2009
	112,146			
J Wallace	19,416	3.43	20/08/2004	20/08/2007
	5,889	8.64	09/03/2006	09/03/2009
	7,204	14.15	01/06/2007	01/06/2010
	32,509			

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

The following options are held under the SAYE Option Scheme:

	SAYE Scheme				
	Number of shares under option	Option price (£)	Date of grant	First vesting date	Expiry date
Directors					
CHF Furse	—	—	—	—	—
JAG Howell	—	—	—	—	—
Senior Managers					
MP Graham	5,833	2.73	01/08/2003	01/09/2008	01/03/2009
DA Lester	—	—	—	—	—
D Pitman	—	—	—	—	—
NJ Stuchfield	5,580	2.93	30/07/2004	01/09/2009	01/03/2010
J Wallace	—	—	—	—	—

4.5 Share Schemes Closed to New Awards

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

	Executive Share Options				
	Number of Shares Under Option	Option Price (£)	Date of Grant	First vesting date	Expiry Date
Directors					
CHF Furse	76,924	3.90	15/07/2002	15/07/2005	15/07/2012
	102,168	3.23	16/05/2003	16/05/2006	16/05/2013
	87,072	3.79	20/05/2004	20/05/2007	20/05/2014
	266,164				
JAG Howell	47,436	3.90	15/07/2002	15/07/2005	15/07/2012
	61,920	3.23	16/05/2003	16/05/2006	16/05/2013
	52,771	3.79	20/05/2004	20/05/2007	20/05/2014
	162,127				
Senior Managers					
MP Graham	178,019	3.23	16/05/2003	16/05/2006	16/05/2013
	47,494	3.79	20/05/2004	20/05/2007	20/05/2014
	225,513				
DA Lester	47,436	3.90	15/07/2002	15/07/2005	15/07/2012
	60,682	3.23	16/05/2003	16/05/2006	16/05/2013
	51,678	3.79	20/05/2004	20/05/2007	20/05/2014
	159,796				
D Pitman	—	—	—	—	—
NJ Stuchfield	158,312	3.79	20/05/2004	20/05/2007	20/05/2014
J Wallace	6,797	3.90	15/07/2002	15/07/2005	15/07/2012
	20,124	3.23	16/05/2003	16/05/2006	16/05/2013
	26,921				

No share awards remain unvested under the Executive Share Option Scheme.

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

	Initial Share Options				
	Number of Shares Under Option	Option Price (£)	Date of Grant	First vesting date	Expiry Date
Directors					
CHF Furse	211,450	3.15	25/01/2001	25/01/2002	25/01/2011
	273,600	2.52	25/01/2001	25/01/2002	25/01/2011
	485,050				
JAG Howell	242,600	2.37	16/11/2000	16/11/2001	16/11/2010
	179,700	2.97	16/11/2000	16/11/2001	16/11/2010
	422,300				
Senior Managers					
MP Graham	—	—	—	—	—
DA Lester	—	—	—	—	—
D Pitman	—	—	—	—	—
NJ Stuchfield	—	—	—	—	—
J Wallace	—	—	—	—	—

No share awards 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 Option Plan:

	Annual Share Options				
	Number of Shares Under Option	Option Price (£)	Date of Grant	First vesting date	Expiry Date
Directors					
CHF Furse	3,430	3.65	25/06/2001	25/06/2002	25/06/2011
JAG Howell	12,350	3.65	25/06/2001	25/06/2002	25/06/2011
Senior Managers					
MP Graham	—	—	—	—	—
DA Lester	87,800	3.65	25/06/2001	25/06/2002	25/06/2011
	63,410	4.56	25/06/2001	25/06/2002	25/06/2011
	151,210				
D Pitman	—	—	—	—	—
NJ Stuchfield	—	—	—	—	—
J Wallace	—	—	—	—	—

No share awards remain unvested under the Annual Share Option Plan.

5. Directors' service agreements and letters of appointment and details of service arrangements of proposed directors

5.1 The Directors were appointed as directors of the London Stock Exchange, and are treated as appointed as Directors of the Company, on the following dates:

Directors	Position	Date
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
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 London Stock Exchange. On 4 May 2006, each of the Executive Directors entered into a letter of appointment with the Company (to which the London Stock Exchange is also a party) pursuant to which the Executive Directors were appointed to the Board and owe duties to the Company. The terms of each Executive Director's service agreement are set out below:

(a) Clara Furse entered into a service agreement with the London Stock Exchange on 24 January 2001 to act as Chief Executive. The service agreement may be terminated by Mrs Furse or the London Stock Exchange on not less than 12 months' notice. In addition, on a change of control of the London Stock 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 London Stock Exchange; or (iii) the London Stock 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 12 month period prior to termination.

(b) Jonathan Howell entered into a service agreement with the London Stock Exchange dated 25 January 2000. His service agreement may be terminated by Mr Howell or the London Stock Exchange on not less than 12 months' written notice by the London Stock Exchange or Mr Howell. Mr Howell's service agreement does not provide for any severance payment;

(c) The Executive Directors each receive benefits in kind, principally private health care and life assurance arrangements. In addition, each of the Executive Directors:

   (i) is entitled to participate in the London Stock Exchange annual bonus plan. Bonus awards are approved by the London Stock Exchange's Remuneration Committee and are based on annual financial targets and individual performance;

   (ii) is entitled to 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; and

   (iii) is eligible to receive awards of shares under the Share Bonus Plan to the extent that specified revenue targets are satisfied over two six month performance periods (1 April 2007 to 30 September 2007 and 1 October 2007 to 31 March 2008) having a maximum value for each six month period of 150 per cent. of salary as at 1 April 2007. The release date for the share awards will be 1 December 2007 for the first performance period and 1 June 2008 for the second performance period, subject to continued employment.

(d) London Stock 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; and

(e) Save as mentioned in this Part 7, there is no entitlement to commissions, profit sharing arrangements or any other specific compensation payments under the Executive Directors' service agreements.

5.3 Each of the Non-Executive Directors of the Company except the Chairman has a letter of appointment, with no notice period, dated 1 February 2007 which sets out their responsibilities and commitments. Each of the appointments is for a period of three years expiring on 31 January 2010, 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.

5.4 The Chairman has a letter of appointment dated 24 May 2006. His appointment is for a period of three years until the end of the annual general meeting in 2009, is terminable on six months' notice and is renewable for a further period of three years.

5.5 The Non-Executive Directors including the Chairman are not eligible to participate in any incentive or pension arrangements.

5.6 Save as specified in paragraphs 5.2, 5.3 and 5.4, there are no existing or proposed service agreements between any of the Directors and the Company, the London Stock Exchange or any of its subsidiaries.

5.7 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 2007.

5.8 The Chairman of Borsa Italiana, Angelo Tantazzi, and the Chief Executive Officer of Borsa Italiana, Massimo Capuano, have agreed to become directors of the Company at closing.

(a) Angelo Tantazzi is currently a director and Chairman of Borsa Italiana which position he holds for a period of 3 years until the end of the annual general meeting of Borsa Italiana in 2009. He does not have a letter of appointment but he is appointed as a director by resolution of the shareholders of Borsa Italiana and as Chairman by resolution of the management board of Borsa Italiana. He is also Chairman of Monte Titoli, which position he holds until the end of the annual general meeting of Monte Titoli in 2010. He is also Chairman of CC&G, which position he holds until the end of the annual general meeting of CC&G in 2009. Each of Angelo Tantazzi's appointments is renewable, unless he is not re-elected at the next annual general meeting at which he is required to stand for re-election. Each appointment may be terminated by resolution of the relevant shareholders without notice, but if any appointment is terminated without just cause, Angelo Tantazzi may be entitled to damages for loss of fees payable during the remainder of the term of appointment. Angelo Tantazzi is not eligible to participate in any incentive or pension arrangement. He has the use of a flat in Milan.

(b) Massimo Capuano entered into a service agreement with Borsa Italiana on 12 October 2006. Under this agreement he is appointed as Chief Executive (*Direttore Generale*) of Borsa Italiana. He is also Managing Director (*Amministratore Delegato*) of Borsa Italiana. The service agreement is for an indefinite period and may be terminated by Borsa Italiana on not less than six months' notice, increasing to 12 months after 12 years' service and by Mr Capuano on not less than four months' notice. In the event of: (i) the termination without just cause of his contract by Borsa Italiana, Mr Capuano is entitled to a payment equal to 30 months' salary plus any payment to which he may be entitled on such termination under the applicable collective labour agreement (being not less than six months' salary up to a maximum of 27 months' salary depending on his length of service and age) and to the continuation of certain benefits in kind for a period of three years following termination of employment; or (ii) his resignation following a significant reduction in his powers or duties, Mr Capuano is entitled to a payment equal to 30 months' salary. On a change of control of Borsa Italiana, Mr Capuano is entitled to a payment equal to 36 months' salary.

Mr Capuano receives benefits in kind, principally permanent invalidity insurance, life insurance, reimbursement of medical costs and the use of a company car. In addition, he is entitled to an annual bonus subject to the achievement of performance objectives approved by the board of directors of Borsa Italiana on the recommendation of the remuneration committee. He is also entitled to participate in a cash based long term incentive plan which rewards the achievement of personal and corporate performance targets over a four year period commencing January 2006.

The current directorships of Angelo Tantazzi and Massimo Capuano in the Borsa Italiana Group are as follows:

Directors	Position	Most recent appointment date
Angelo Tantazzi	Chairman of Borsa Italiana	20 April 2006
	Chairman of Monte Titoli	19 April 2007
	Chairman of CC&G	11 April 2006
Massimo Capuano	Chief Executive Officer of Borsa Italiana	20 April 2006
	General Manager of Borsa Italiana	12 October 2006
	Chairman BIt Systems	19 April 2007
	Chairman Servizio Titoli	5 April 2007
	Chairman MBE	28 June 2007
	Vice Chairman Monte Titoli	19 April 2007
	Vice Chairman CC&G	11 April 2006

6. Significant Shareholders

6.1 As at 19 July 2007 (the latest practicable date prior to the publication of this Circular), the Company had been notified of the following holdings of voting rights (as defined in the Disclosure and Transparency Rules) directly or indirectly in respect of three per cent. or more of the Company's issued share capital:

Name	Per cent. of the Company's issued ordinary share capital
Nightingale Acquisition Limited(1)	30.00
Kinetics Asset Management Inc. / Horizon Asset Management Inc.	12.28
Bear Stearns International Trading Limited	7.83
Credit Suisse Securities (Europe) Limited / Credit Suisse International	3.81
ABN Amro Bank NV London Branch	6.09

(1) Nightingale Acquisition Limited is a wholly owned subsidiary of The Nasdaq Stock Market, Inc.

6.2 The Company's significant Shareholders have identical voting rights to all other Shareholders.

7. Significant changes

There has been no significant change in the financial or trading position of LSE Group since 31 March 2007, the end of the last financial period for which audited financial information has been published, other than the facility agreement for a bridge facility amounting to £460 million with The Royal Bank of Scotland plc and Barclays Capital, entered into on 22 June 2007 which is described in paragraph 8(e) of this Part 7 and the utilisation of which is conditional on the completion of the Proposed Merger.

There has been no significant change in the financial or trading position of Borsa Italiana Group since 31 December 2006, the date to which the special purpose historical financial information set out in Part 4B has been prepared, other than the exercise of the MBE Option which is described in Note 12 in Part 4B and the acquisition of Servizio Titoli which is described in Note 30 in Part 4B.

8. Material contracts of the Company

In addition to the summary of the Combination Agreement set out in Part 6 of this Circular, 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 LSE Group (a) within the two years immediately preceding the date of this Circular and which are or may be material to LSE Group; or (b) which contain any provision under which any member of LSE Group has any obligation or entitlement which is material to LSE Group as at the date of this Circular.

(a) The Service Management Agreement between the London Stock Exchange and Accenture dated 11 October 1996 as amended and extended by letters dated 28 February 2001, 2 July 2001, 31 July 2001 and 1 April 2003, whereby Accenture is the main facilities manager for the London Stock Exchange's trading and information systems (the "**Services**"). Key elements of London Stock Exchange's TRM project for the 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 2007 was £17 million. The term of this agreement has been extended until 31 March 2008. On 30 March 2007, London Stock Exchange served notice of termination upon Accenture, with such notice to expire no later than 1 January 2008. Responsibility for the Services until such expiry will stay with Accenture; thereafter the Services will be undertaken 'in-house' by the London Stock Exchange.

(b) A single Master Development Agreement between the London Stock Exchange and Accenture, was established on 23 February 2007 (thereby superseding the Master Software Development Agreement (dated 18 September 1997), the Exchange Solutions Centre Agreement dated 28 March 2002, and the Consultancy Services Agreement (dated 29 December 1995), each as subsequently amended), under which 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 of its new trading and information system are covered by these agreements. The net annual payment to Accenture under this set of agreements during the financial year ended 31 March 2007 was £11.7 million. The term of the Master Development Agreement has been extended until 31 March 2010.

(c) The agreement between MCI Worldcom (now Verizon Business) and the London Stock Exchange for the implementation and management of the London Stock Exchange's primary internet protocol network (IP Network) dated 22 June 2001 (as subsequently amended). The term of this agreement runs on automatic 12 month periods from 21 June 2007 (unless either party gives the requisite three months' notice to terminate). The London Stock Exchange may terminate at any time subject to payment of cancellation charges. The net annual payment to Verizon Business under the agreement during the financial year ended 31 March 2007 was £5.1 million.

(d) The agreement between the London Stock Exchange and The London Clearing House Limited (now known as LCH.Clearnet) dated 24 November 2003. Under the agreement, the London Stock Exchange has appointed LCH.Clearnet to act as the central counterparty for the clearing of securities on the London Stock 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 Company also has the following facility agreements:

   (i) on 9 February 2006, the Company signed a facility agreement with Barclays Capital, the investment banking division of Barclays Bank PLC ("**Barclays**") and The Royal Bank of Scotland plc ("**RBS**"), for a revolving facility amounting to £200 million, which was amended and restated on 1 March 2007 and was further amended on 18 July 2007 (the "**Revolving Facility**"). The Revolving Facility is available for general corporate purposes. The borrowings under the Revolving Facility are unsecured. The Revolving Facility matures on 9 February 2011;

   (ii) on 1 March 2007, the Company signed a facility agreement with Barclays and RBS, for a term loan facility amounting to £250 million, which was amended and restated on 22 June 2007 and was further amended on 18 July 2007, (the "**Term Facility**"). The Term Facility is available to fund returns of capital to Shareholders. The borrowings under the Term Facility are unsecured. The Term Facility may be drawndown by up to eight drawings, at any time prior to, or on, 31 December 2007. The Term Facility matures on 17 July 2009; and

(iii) on 22 June 2007, the Company signed a facility agreement with Barclays and RBS, for a bridge facility amounting to £460 million which was amended on 18 July 2007 (the "**Bridge Facility**"). Utilisation of the Bridge Facility is conditional on Completion and amounts under the Bridge Facility can be principally used for either (a) the purposes of acquiring shares in Borsa Italiana, if required, or to the extent this is not required, for any return of capital to the Company's shareholders or (b) for refinancing borrowings of Borsa Italiana. The borrowings under the Bridge Facility are unsecured. The Bridge Facility matures after 364 days from the date of signing the Bridge Facility. The Company has an option to extend the final maturity date of the Bridge Facility by a further 12 months upon the payment of an extension fee.

The facility agreements (the "**Facility Agreements**") which document the Revolving Facility, the Term Facility and the Bridge Facility (together the "**Facilities**") have the following terms:

(i) the borrowings under the Facilities each bear interest at a floating rate plus a margin and mandatory costs (if any). Repayment of each of the Facilities is by way of a single lump sum repayment on the final maturity date;

(ii) a commitment fee is payable on undrawn commitments under the Revolving Facility and the Bridge Facility. A commitment fee is also payable on undrawn commitments under the Term Facility until the final drawdown upon which any undrawn commitment will be mandatorily cancelled;

(iii) the Company must, if required by a two-thirds majority of lenders, prepay all indebtedness under each of the Facilities following the occurrence of a change of control of the Company. The Term Facility and the Bridge Facility must be repaid in full from the proceeds of any refinancing through the issue of publicly traded debt in the debt capital markets;

(iv) the Facility Agreements also contains certain customary covenants which restrict the Company and in certain cases its subsidiaries from time to time (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 LSE Group; and (v) incurring subsidiary borrowings. Each Facility Agreement also requires the Company to maintain certain specified financial covenants; and

(v) each Facility Agreement contains customary representations and warranties and events of default.

(f) On 4 July 2006 the Company issued £250 million in aggregate principal amount of 5.875 per cent. notes (the "**Notes**") due 2016. The Notes are constituted by a trust deed dated 7 July 2006 made between the Company and HSBC Trustee (C.I.) Limited and the couponholders. The Notes were issued on the following terms:

(i) interest on the Notes is payable semi-annually in arrears in equal amounts on 7 January and 7 July of each year, at the rate of 5.875 per cent. of the principal amount. Under the terms of the Notes, the interest payable on the Notes will be increased or decreased in the event of a change in the credit rating assigned to the Notes;

(ii) the Notes may be redeemed at the option of the Company in whole but not in part at any time at a price which is the higher of the principal amount of the Notes and an amount calculated by reference to the yield of the 4.75 per cent. U.K. Government Treasury Stock 2015;

(iii) if a change of control in the Company or the London Stock Exchange occurs and, within 120 days thereafter, the credit rating of the Notes is downgraded from an investment grade credit rating to a non investment grade credit rating or withdrawn, each Note may be redeemed at the option of each noteholder at a price which is the higher of the principal amount of the Note and an amount calculated by reference to the yield of the 4.75 per cent. U.K. Government Treasury Stock 2015, plus 1.18 per cent;

(iv) the Notes are unsecured and unsubordinated obligations of the Company and rank equally in right of payment with the Company existing and future unsecured and unsubordinated obligations;

(v) the net proceeds from the issue are to be used by the Company in order to refinance its indebtedness and for the Group's general corporate purposes; and

(vi) the terms and conditions applicable to the Notes also contain, *inter alia*, a negative pledge, redemption and purchase provisions and events of default. The Notes are governed by English law.

9. Material contracts of Borsa Italiana

In addition to the summary of the Combination Agreement set out in Part 6 of this Circular, set out below is a summary of each contract (not being contracts entered into in the ordinary course of business) as having been entered into by any member of Borsa Italiana Group: (a) within the two years immediately preceding the date of this Circular and which are or may be material to Borsa Italiana Group; or (b) which contain any provision under which any member of Borsa Italiana Group has any obligation or entitlement which is material to Borsa Italiana Group as at the date of this Circular.

(a) The MTS acquisition and related agreements:

On 18 November 2005, Borsa Italiana and Euronext acquired 51 per cent. of MTS through MBE. Euronext and Borsa Italiana's respective cash contributions amounted to €69 million and €56 million to capitalise MBE, which in turn subscribed for newly issued MTS shares. The subscription price paid by MBE was subsequently distributed as share premium reserve to compensate MTS's original shareholders. After such acquisition by MBE, MBE purchased, by virtue of a pre-emptive right, subscription and sale mechanism, an additional 9.37 per cent. of MTS shares, bringing its current shareholding to a 60.37 per cent. stake. Various international banks and financial institutions own the remaining 39.63 per cent. of the share capital of MTS. Under the acquisition agreement, Euronext and Borsa Italiana, jointly and severally, undertook, for a period of 10 years:

(i) to maintain and develop the role of MTS as a European hub for all sovereign and governmental bonds and develop the role of MTS as a European hub for fixed-income products;

(ii) to maintain the headquarters of MTS in Italy and to keep MTS subject to Italian corporate and regulatory laws and regulations;

(iii) to preserve the MTS market as a regulated investment exchange with the highest standards of transparency; and

(iv) not to amend certain provisions of the By-Laws of MTS without the consent of the Italian Ministry for the Economy and Finance.

Further, the By-Laws of MTS prohibit Borsa Italiana from undertaking, directly or indirectly, including through any company within the group of such controlling entity, any new activity in the European Union that competes with any screen-based wholesale bond markets which MTS operates, except for the wholesale market of derivative financial instruments.

(b) MTS and MBE governance arrangements:

On 21 October 2005, Euronext and Borsa Italiana entered into a shareholders' agreement with a five year term relating to MTS and MBE. The most important ownership arrangements contained in the shareholders' agreement and the related By-Laws of MTS and By-Laws of MBE include:

(i) each of Euronext and Borsa Italiana agrees to hold MTS shares only through MBE and to automatically terminate the shareholders' agreement in the event that either party ceases to hold its initial holding in MBE;

(ii) until 18 November 2010, Borsa Italiana has the right, at its sole discretion, to sell to Euronext (which will be obliged to purchase) all, but not less than all, of the shares then owned by Borsa Italiana in MBE at a price reflecting agreed pricing terms mainly related to MTS's performance;

(iii) in the event of a change of control of either Euronext or Borsa Italiana, the other party will have the right to exercise a call option on all of the other party's shares in MBE at fair market value within 90 days thereof; and

(iv) under the MBE and MTS By-Laws, in the event that either party intends to transfer MBE shares or MTS shares to a third party (other than an affiliate), the other party has a right to purchase the underlying shares on a preferential basis. As to MBE shares, in the event that the non-transferring party decides not to exercise such right and the transfer results in a change of control in MBE, the non-transferring party has the right to sell to the acquiring third party all or part (but not less than 15 per cent. of the share capital of MBE) of its MBE shares. As to MTS shares, a transferring shareholder must obtain prior approval from the Italian Ministry for the Economy and Finance before executing a transfer of MTS shares that would result in a change of control of MTS.

Following the acquisition of Euronext by the New York Stock Exchange, Borsa Italiana exercised its option to purchase Euronext's shareholding in MBE on 20 June 2007.

(c) The acquisition of Servizio Titoli and related agreements:

On 3 April 2007, Borsa Italiana signed a sale and purchase agreement for the acquisition of 90 per cent. of the share capital of Servizio Titoli for a final aggregate consideration of approximately €29,335,000. The sale and purchase agreement provides, *inter alia*, for customary representations and warranties by the sellers and indemnification undertakings by the sellers with a cap at €2,500,000. As part of the sale and purchase, Borsa Italiana signed an option agreement with Business Solutions, a company belonging to the FIAT Group, which was a selling shareholder of Servizio Titoli in the sale and purchase agreement above. According to the option agreement, Business Solutions has a put option to sell to Borsa Italiana its entire 10 per cent. shareholding in Servizio Titoli for a strike price amounting to €3,250,000, or 10 per cent. of the enterprise value of Servizio Titoli as determined in such sale and purchase agreement, subject to further adjustment in accordance with the provisions of the option agreement. The put option by Business Solutions must be exercised no earlier than 1 February 2010 and no later than 3 February 2011.

(d) The Facility Management Service Agreement between Borsa Italiana and SIA (now SIA-SSB S.p.A.) dated 31 December 2003 as subsequently amended and extended, whereby SIA is the sole technology services provider of Borsa Italiana's Services. The net annual payment to SIA under this agreement for the financial year ended on 31 December 2006 is €16,616,700. The information systems services will be provided by SIA until September 2007, pursuant to the relevant withdrawal notice served by Borsa Italiana. Borsa Italiana subsequently served a notice of termination of the entire agreement to SIA which will become effective as of 1 January 2008. Responsibilities for the Borsa Italiana Services until expiry will stay with SIA. Currently, negotiations are in place between Borsa Italiana and SIA in order to transfer shortly the application management of cash trading to Borsa Italiana together with the related responsibilities.

(e) The Facility Management Service Agreement between Borsa Italiana and OMX dated 31 July 2006, whereby OMX provides facility management services related to the IDEM market to Borsa Italiana. This agreement replaces, as from 2 April 2007, the Support and Maintenance Agreement entered into between Borsa Italiana and OMX on 30 April 2001. The term of the Facility Management Service Agreement is five years save for the right to withdraw by Borsa Italiana after three years, with 12 months prior written notice and subject to payment of cancellation charges. The total annual fee for the five year term for the Facility Management Service Agreement and for the delivery agreement between Borsa Italiana and OMX dated 31 July 2006 (regarding, *inter alia*, the acquisition and the installation and configuration of the necessary infrastructures and the performance of related activities) is equal to €2,950,000, inclusive of delivery fees, to be paid in 22 equal instalments.

(f) The Index Operation and Licence Agreement between Borsa Italiana and S&P dated 5 February 2002 whereby S&P calculates, operates, develops and maintains the S&P MIB Index. S&P has the sole and exclusive worldwide right to distribute, promote, sell, advertise and licence the S&P MIB Index and the other Borsa Italiana indices. This agreement shall be in force for a period of eight years starting from the effective date (2 June 2003). This agreement contains a change of control clause whereby each party may withdraw from this agreement with 30 days prior written notice. The fees comprise royalties with a minimum annual guaranteed amount equal to €250,000.

(g) On 4 December 2002, Borsa Italiana signed a loan agreement with Sanpaolo IMI S.p.A. amounting to €110 million. The borrowing is unsecured. The loan agreement matures in five years from signing date. Borsa Italiana has an option to extend the maturity date by a further five years.

(h) On 29 September 2005, Borsa Italiana signed a facility agreement with Mediobanca S.p.A., Banca Intesa S.p.A. and Sanpaolo IMI S.p.A., amounting to €100 million. The loan was negotiated in order to fund the acquisition of MTS through the vehicle MBE owned jointly with Euronext. Under the loan €46 million has been drawn down and based on the terms of the loan agreement no further funds can now be drawn down. The borrowing is unsecured. The loan matures in 10 years from the signing date. The loan was negotiated in order to fund the acquisition of a shareholding in MTS through the vehicle MBE, owned jointly with Euronext. The loan agreement provides that in the event that Borsa Italiana is not at least 51 per cent. owned by banks and/or insurance companies, Mediobanca S.p.A. can require the outstanding balance to be repaid in full.

10. Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which during the 12 month period prior to the publication of this Circular may have, or have had in the recent past, significant effects on either the Company's or LSE Group's financial position or profitability.

Save as described in the following paragraph, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which during the 12 month period prior to the publication of this Circular may have, or have had in the recent past, significant effects on either Borsa Italiana's or Borsa Italiana Group's financial position or profitability.

CC&G is a defendant in a law suit filed in October 2001 by a client of BIM against BIM for damages of not less than Italian Liras 12 billion (equal to approximately €6.2 million) and against CC&G for joint liability with BIM in an amount to be determined. The claim against CC&G was based on extra-contractual liability (ex article 2043 of the Italian Civil Code) for an alleged mistake by CC&G in calculating the margins on the closing of the trading day of 12 September 2001. The alleged mistake would have had an impact on the portfolio of the plaintiff. CC&G has defended the action and has sought damages against the plaintiff for vexatious litigation. The proceedings entered into evidentiary hearings in March 2004 and have continued since that date. On 10 March 2007, the proceedings were joined with a parallel proceeding originated in 2001 and re-filed in 2005 between the same parties on related matters and the date for the next hearing was set. The next hearing for the closing arguments by the parties is scheduled for 23 November 2007.

11. Related party transactions

Save as previously disclosed in paragraph 16 of Part 13 of the prospectus relating to the Company published on 5 May 2006, and note 30 to the financial statements of the Company for the year ended 31 March 2007, which are hereby incorporated by reference into this Circular, there are no related party transactions between the Company and members of LSE Group that were entered into during the financial years ended 31 March 2007, 2006 and 2005 and during the period 1 April 2007 to 19 July 2007 (the latest practicable date prior to the publication of this Circular).

12. Enlarged Group working capital statement

The Company is of the opinion that, taking into account the Enlarged Group's cash resources, available bank and other facilities, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least twelve months from the date of publication of this Circular.

13. Consents

Merrill Lynch International has given and not withdrawn its written consent to the issue of this Circular with the inclusion of the reference to its name in the form and context in which it appears.

Lehman Brothers Europe Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of the reference to its name in the form and context in which it appears.

PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants in England & Wales. PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion in this Circular of its Accountants' Reports in Parts 4 and 5 in the form and context in which they are included.

14. Documents on display

Copies of the following documents may be physically inspected at the offices of Freshfields Bruckhaus Deringer at 65 Fleet Street, London EC4Y 1HS during usual business hours on any business day for a period from and including the date of this Circular until and including the date of the Extraordinary General Meeting:

(i) the Memorandum of Association and the Articles of Association;

(ii) the Combination Agreement;

(iii) the letters of consent referred to in paragraph 13 of Part 7;

(iv) the Accountants' Reports from PricewaterhouseCoopers LLP set out in Parts 4 and 5;

(v) the pro forma statement of net assets;

(vi) the audited consolidated accounts of the Company for the financial period ended 31 March 2007 and the audited consolidated accounts of the London Stock Exchange for the financial period ended 31 March 2006;

(vii) this Circular.

PART 8: DEFINITIONS

The following definitions apply throughout this Circular unless the context requires otherwise.

Accenture	Accenture plc
Accountants' Reports	the reports prepared by PricewaterhouseCoopers LLP which are set out in Parts 4 and 5 of this Circular, each one an "Accountants' Report"
Admission	admission of the New LSEG Shares to the Official List of the UKLA and to trading on the Main Market of the London Stock Exchange
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, *inter alia*, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities
AGCM	Autorità Garante della Concorrenza e del Mercato, the Italian antitrust authority
AIM	the London Stock Exchange's market for smaller and growing companies
Antitrust Authority	any Governmental Authority having power or authority with respect to antitrust matters, excluding the AGCM, the Office of Fair Trading and the Competition Commission in the United Kingdom, but including the European Commission
Articles of Association	the articles of association of the Company
ASP services	Application Services Provider services intended for brokers, software vendors and service providers, offering solutions to gain access to national and international markets
BIM	Banca Intermobiliare di Investimenti e Gestioni S.p.A.
BIt Systems	BIt Systems S.p.A.
Blue Chip	the market segment of MTA dedicated to companies with a solid economic/financial structure and a capitalisation of over €1 billion
Board	the existing board of Directors of the Company, whose names are set out in paragraph 5.1 of Part 7 of this Circular and, after the Proposed Merger, the new board of Directors of the Company
Borsa Italiana	Borsa Italiana S.p.A.
Borsa Italiana Board	means the board of directors of Borsa Italiana
Borsa Italiana By-Laws	means the by-laws of Borsa Italiana
Borsa Italiana EGM	has the meaning given in paragraph 3(e) of Part 6 of this Circular
Borsa Italiana EGM Resolutions	has the meaning given in paragraph 4 of Part 6 of this Circular
Borsa Italiana Group	Borsa Italiana, the subsidiary companies of Borsa Italiana and where relevant, MBE, MTS and MTS Group

Borsa Italiana's Services	Borsa Italiana's cash trading systems (MTA, SEDEX, MOT, TAH, ETF Plus, Expandi, MTAX, etc.) and information systems
Borsa Italiana Shareholders	the holders of the Borsa Italiana Shares as at the date of the Offer
Borsa Italiana Shares	the ordinary shares in the capital of Borsa Italiana
BrokerTec	the electronic interdealer broker platform owned by ICAP plc
business day	a day (excluding Saturday or Sunday) on which banks generally are open for business in the City of London or Milan for the transaction of normal banking business
Business Solutions	Business Solutions S.p.A.
By-Laws of MBE	the by-laws of MBE as at the date of the Offer
By-Laws of MTS	the by-laws of MTS as at the date of the Offer
CCP	Central Counterparty
CC&G	Cassa di Compensazione e Garanzia S.p.A.
Circular	this document
Code of Conduct	the European Code of Conduct for Clearing and Settlement, signed by trading and post-trading infrastructure providers on 7 November 2007
Combination Agreement	the agreement entered into on 23 June 2007 by the Company and Borsa Italiana pursuant to which the parties agreed the terms of the Proposed Merger. The principal terms of the Proposed Merger are described in detail in Part 6 of this Circular
Combined Code	means the Combined Code on Corporate Governance published by the UK Financial Reporting Council
Companies Act	the Companies Act 1985, including any statutory modification or re-enactment thereof for the time being in force
Company	London Stock Exchange Group plc, a public limited company incorporated in England and Wales with registered number 5369106
Competing Proposal	an offer, proposal, amalgamation, scheme of arrangement, merger or business combination, or similar transaction the purpose of which is to enable one or more third parties to acquire all or a significant proportion (being 15 per cent. or more) of the issued share capital of Borsa Italiana, or all or a significant proportion (being 15 per cent. or more) of its undertaking, assets or business
Completion	completion of the Proposed Merger pursuant to the Offer
Conditions	the conditions set out in paragraph 3 of Part 6 of this Circular

Consob	Commissione Nazionale per le Società e la Borsa, Italy's official body for regulating and supervising companies and stock exchanges
CPA	communications about participants in general meetings related to the communication of the names of the shareholders who will attend a general meeting, so replacing paper-based notification
CREST	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear UK & Ireland Limited in accordance with the Regulations
Directors	the directors of the Company whose names are set out in paragraph 5.1 of Part 7 of this Circular and "Director" shall mean any one of them
Disclosure and Transparency Rules	the Disclosure Rules and Transparency Rules and regulations made by the FSA under Part VI of FSMA 2000 as amended from time to time
EGM or Extraordinary General Meeting	the extraordinary general meeting of the Company to be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU at 10.00 a.m. on 8 August 2007 (or any adjournment thereof), notice of which is set out at the end of this Circular
Enlarged Group	the Company and its subsidiaries following Completion (including the Borsa Italiana Group)
ETF	Exchange Traded Fund
ETF Plus	Borsa Italiana's funds market ETF Plus
EU	European Union
EURIBOR	Euro Interbank Offer Rate, the interest rate set by the European Central Bank and used when prime banks in the Eurozone lend to each other
Euro or €	the official currency of the Eurozone
Euronext	Euronext N.V.
Eurozone	the subset of European countries who have adopted the Euro
Executive Directors	the executive directors of the Company whose names are set out and are indicated as executive directors in paragraph 5.1 of Part 7 of this Circular and "Executive Director" shall mean any one of them
Expandi	Borsa Italiana's market for successful small and mid size companies operating in traditional sectors, who can demonstrate a consolidated economical-financial track record
Express	the delivery versus payment real-time gross settlement service
Express II	the net settlement service provided by Monte Titoli
Fiat Group	Fiat S.p.A. and its subsidiary companies
FIS	Management of Standardised Information Flows, related to the communication of the shareholders' names from intermediaries to issuers, once corporate actions are processed

Forms of Proxy — the forms of proxy accompanying this Circular relating to the Resolutions to be proposed at the EGM

FSA — the Financial Services Authority of the United Kingdom

FSMA 2000 — Financial Services and Markets Act 2000

FTSEurofirst 100 — an index comprising the 60 largest companies in Europe by market capitalisation and 40 additional companies selected for their size and sector representation

Governmental Authority — any domestic, foreign or European Union court or governmental, quasi-governmental or regulatory or administrative board, agency, commission, authority or instrumentality

holder — a registered holder, and includes any person(s) entitled by transmission

ICAP — ICAP plc

IDEM — Italian Derivatives Market

LCH.Clearnet — LCH.Clearnet Limited

Listing Rules — the Listing Rules and regulations of the FSA made under Part VI of FSMA 2000 as amended from time to time

London Stock Exchange — London Stock Exchange plc, a public limited company incorporated in England and Wales with registered number 2075721, a wholly owned subsidiary of the Company

Longstop Date — 31 October 2007 (or such later date as the Company and Borsa Italiana may agree, provided that such date shall not be later than 31 December 2007)

LSE Group — the Company and the current subsidiaries of the Company

LTIP — London Stock Exchange Long Term Incentive Plan 2004

Main Market — the market for companies who have been admitted to the Official List and admitted to trading on the London Stock Exchange's principal market

MBE — MBE Holding S.p.A.

MBE Option — the call option in favour of Borsa Italiana in respect of the shares in the capital of MBE held by Euronext under the MBE Shareholders Agreement

MBE Shareholders Agreement — the shareholders agreement between Borsa Italiana and Euronext, dated 21 October 2005, as described in paragraph 9.1(b) of Part 7 of this Circular

Memorandum of Association — the memorandum of association of the Company

MiFID or Markets in Financial Instruments Directive — the Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC

Monte Titoli	Monte Titoli S.p.A., the Italian Central Securities Depository and Settlement Company
Monti Titoli Internet Communication System	the web-based platform of knowledge and document management through which it is possible to transmit and receive a full range of custody messages
MOT	Mercato Obbligazionario Telematico
MTA International	the market segment of MTA dedicated to the trading of shares in non-Italian issues already issued in other EU regulated markets
MTA/MTAX	Borsa Italiana's electronic markets on which shares, convertible bonds, warrants and option rights are traded
MTF	the segment of Borsa Italiana's market for closed-end funds and investment companies
MTS	Società per il Mercato dei Titoli di Stato S.p.A., the owner and operator of an electronic trading platform for European fixed income securities
MTS Group	the group of companies held by MTS
MT-X	Monti Titoli Internet Communication System (a web based platform)
Multilateral Trading Facilities	electronic communications networks, and alternative trading systems as categorised under MiFID
New LSEG Shares	means the new Ordinary Shares to be issued pursuant to the Proposed Merger
Non-Executive Directors	the non-executive directors of the Company whose names are set out in paragraph 5.1 of Part 7 of this Circular and "Non-Executive Director" shall mean any of them
Offer	the offer to Borsa Italiana Shareholders of 4.90 Ordinary Shares for each Borsa Italiana Share
Official List	the list maintained by the UKLA pursuant to Part VI of FSMA 2000
OMX	OMX Technology AB
Ordinary Shares	the ordinary shares of $6\frac{79}{86}$ pence each in the capital of the Company
PAGS	Piazza Affari Gestione & Servizi S.p.A.
PD Regulation	Regulation stemming from Directive 2003/71/EC and supplemented by EC Prospective Directive No. 89/2004
pence, p, £ or sterling	the lawful currency of the United Kingdom
Proposals	the Offer, the Proposed Merger and Admission
Proposed Merger	the proposed merger between the Company and Borsa Italiana to be achieved by the issue of New LSEG Shares in consideration for the transfer to the Company of Borsa Italiana Shares

Prospectus	the prospectus relating to the Company and its Ordinary Shares (including the New LSEG Shares) and the Enlarged Group, to be prepared in connection with Admission in accordance with the Listing Rules and Prospectus Rules expected to be published in or around September 2007
Prospectus Rules	the Prospectus Rules and regulations made by the FSA under Part VI of FSMA 2000 as amended from time to time
Recognition Requirements	Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001, incorporated in the FSA's sourcebook for Recognised Investment Exchanges
Registrars	Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6DA
Regulations	Uncertified Securities Regulations 2001
Resolutions	the ordinary resolutions as set out in the Notice of EGM at the end of this Circular
RIE	Recognised Investment Exchange
RNI	the Italian domestic interbank network
SAYE Option Scheme	London Stock Exchange SAYE Option Scheme
SEDEX	the Securitised Derivatives Exchange, Borsa Italiana's electronic regulated market where, through authorised intermediaries, it is possible to trade securitised derivatives, i.e. so-called derivatives with leverage effect (covered warrants and leverage certificates) and derivatives without leverage effect which fit medium-long term investment logics (investment certificates)
Senior Managers	the senior management of the LSE Group assisting the Executive Directors in the management of LSE Group's business named in paragraph 4.1 of Part 7 of this Circular
Servizio Titoli	Servizio Titoli S.p.A.
SETS	the electronic order book operated by the London Stock Exchange for the most liquid securities
Share Bonus Plan	a one-off plan open to Executive Directors and senior executives of the Company to be implemented in the financial year 2008 to improve the Company's incentive and retention arrangements
Shareholder	a registered holder of Ordinary Shares and, after the Proposed Merger, the New LSEG Shares
SIA	SIA S.p.A.
SIS	SIS X-Clear AG
Standard	the standard segment of MTA which includes companies with a capitalisation from €40 million to €1 billion and which are not listed on Star

Star — the market segment of MTA dedicated to midsize companies with a capitalisation of less than €1 billion and who voluntarily adhere to set requirements

SWIFT — the Society for Worldwide Interbank Financial Telecommunication

S&P — Standard & Poor's

S&P Futures — Futures on the S&P MIB Index

S&P MIB Index — the index developed by S&P and Borsa Italiana for Italian equity markets

TAH — Borsa Italiana's Trading After Hours market

TRM — LSE Group's Technology Road Map, being the programme to deliver new trading systems technology to the LSE Group's markets

TUF — the Consolidated Law of Finance of Italy

UK or United Kingdom — the United Kingdom of Great Britain and Northern Ireland

UKLA — the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA 2000

Voting Restriction Resolution — has the meaning given in paragraph 3(e) of Part 6 of this Circular

X-TRM — the daily matching service and a securities lending service which manages the matching and routing of securities transactions traded on markets to be settled through Express II or through other securities settlement systems

NOTICE OF EXTRAORDINARY GENERAL MEETING

London Stock Exchange Group plc
(Registered in England No. 5369106)

Notice is hereby given that an extraordinary general meeting of London Stock Exchange Group plc (the "**Company"**) will be held at Plaisterers' Hall, One London Wall, London EC2Y 5JU on 8 August 2007 at 10.00 a.m. (the "**Extraordinary General Meeting**") for the purpose of considering, and if thought fit, passing the following resolutions which will be proposed as ordinary resolutions (the "**Resolutions**"):

1. THAT the proposed merger of the Company and Borsa Italiana S.p.A. by way of issue of new ordinary shares in the Company in consideration for the transfer to the Company of shares in the capital of Borsa Italiana S.p.A. (the "**Proposed Merger**") pursuant to the Combination Agreement (as defined in the circular of the Company dated 23 July 2007 accompanying this notice (the "**Circular**")) and the associated and ancillary arrangements contemplated by the Combination Agreement and/or described in the Circular be and are hereby approved and that the directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to take all such steps as may be necessary or desirable in relation thereto and to implement the same with such non-material modifications, variations, revisions, waivers or amendments as the directors of the Company or any such committee may deem necessary, expedient or appropriate and be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to a maximum aggregate nominal amount of £5,505,000 for the purposes of the Proposed Merger to the former shareholders of Borsa Italiana S.p.A.

2. THAT, subject to Resolution 1 being passed, for the purposes of Article 161 of the Articles of Association of the Company, the maximum amount of the aggregate remuneration of the directors who do not hold executive office for their services (excluding fees as Chairman or for other services or any amounts payable under any other provision of these Articles) shall be increased from £750,000 to £1.5 million.

3. THAT, subject to Resolution 1 being passed, then pursuant to Article 78 of the Articles of Association of the Company, the Company is generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the 1985 Act) of its own ordinary shares, provided that:

(a) the maximum number of ordinary shares to be purchased is 41 million ordinary shares in the capital of the Company;

(b) in the event that such purchases are made by way of tender offer, the maximum price which may be paid for an ordinary share in the tender offer is an amount (exclusive of expenses) equal to 110 per cent. of the closing middle market quotation of the ordinary shares in the Company as derived from the Daily Official List of the London Stock Exchange on the day immediately preceding the day on which the tender offer is announced;

(c) in the event that such purchases are made other than by way of tender offer, the maximum price which may be paid for an ordinary share is, in respect of an ordinary share contracted to be purchased on any day, the higher of:

> (i) an amount (exclusive of expenses) equal to 105 per cent. of the average of the mid-market quotations for an ordinary share of the Company and derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
>
> (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS);

(d) the minimum price which may be paid for any ordinary share shall not be less than the nominal value of the ordinary shares at the time of purchase which amount shall be exclusive of expenses;

(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, unless such authority is renewed prior to such time;

(f) the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after such expiry, and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired; and

(g) subject to this Resolution 3 becoming effective, then the authority granted by this Resolution shall be in substitution for the authority conferred on the Company pursuant to Resolution 13 passed at the annual general meeting of the Company held on 11 July 2007 and any prior authority.

By order of the board of directors of the Company

Lisa Condron
Company Secretary

23 July 2007

Registered office:

London Stock Exchange Group plc
10 Paternoster Square
London EC4M 7LS

Notes:

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.

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 at 6.00 pm on 6 August 2007 or, in the event that the Extraordinary General Meeting is adjourned, registered in the register of members 48 hours before the time of any adjourned meeting(s), shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the register of members after 6.00 pm on 6 August 2007 shall be disregarded in determining the rights of any person to attend or vote at the Extraordinary General Meeting.

A 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.

Where the appointer is a corporation, the enclosed 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.

Alternatively, a shareholder may appoint a proxy electronically either via the website run by Lloyds TSB Registrars at www.sharevote.co.uk using the number provided on the Form of Proxy or, if such shareholder is a CREST member, by using the procedure described below.

In addition, if the Ordinary Shares are held in uncertificated form, a proxy may also be appointed by implementation 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.

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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