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23 June 2007

**Borsa Italiana and London Stock Exchange Group to merge**  
*Creates Europe's leading diversified exchange group*

The Boards of Borsa Italiana S.p.A. ("Borsa Italiana") and London Stock Exchange Group plc ("London Stock Exchange") today announce that they have entered into an agreement on the terms of a recommended offer to be made by the London Stock Exchange to the shareholders of Borsa Italiana. The merger of Borsa Italiana and the London Stock Exchange (the "Merger") creates the leading diversified exchange group in Europe and the platform for additional strong growth on a European and global scale. As the European exchange leader in the listing and trading of equities and the leader in electronic trading of ETFs, securitised derivatives and fixed income products, the combined group will provide significant benefits for customers and shareholders.

The combined 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 capture the attractive macro-economic and market growth dynamics of Italian equities and bring together the best of the Italian and UK marketplaces. The combined group will be:

- Europe's leading **equities business**, with 48 per cent. of the FTSEurofirst 100 by market capitalisation and the most liquid order book by value and volume traded;
- Europe's leading market for electronic trading of **ETFs** and **securitised derivatives**; and
- Europe's leading **fixed income market**, through its interest in MTS.

Moreover, the combined group will operate:

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

The merger of Borsa Italiana and the London Stock Exchange will diversify the product and customer bases of the two exchanges. It will create cross-access opportunities and enlarge the liquidity pool available to listed companies thereby reducing their cost of capital. Together, they will leverage their highly compatible and broad range of skills to contribute to the growth of their marketplaces. This merger is the most important step yet for Borsa Italiana and the London Stock Exchange in realising their shared vision to be the world's capital market.

Under the terms of the offer, Borsa Italiana shareholders will be offered 4.90 London Stock Exchange Group plc ordinary shares (“New Shares”) for each existing Borsa Italiana ordinary share (the “Offer”). Based on the London Stock Exchange Group’s closing share price of 1,387p and using the exchange rate of £1=€1.4815 as of 19 June 2007 (the day prior to the statement issued by the London Stock Exchange that it was in discussions with Borsa Italiana), the Offer values Borsa Italiana at £1,103 million (€1,634 million) and represents a value of €100.7 per Borsa Italiana share. Based on the same closing price and exchange rate, the combined group would be worth £3,900 million (€5,777 million).

The merger is subject to the conditions described in paragraph 13 below.

It is the intention of the parties to change the name of the combined group to reflect its international profile. Borsa Italiana and London Stock Exchange plc will remain separate legal and regulatory entities and will maintain their existing brands. The parties have held preliminary discussions with Consob and the FSA.

The structure will allow the exchanges’ distinct market identities and strong customer relationships to flourish while enabling customers to take advantage of the benefits arising from cross-market linkage and the greater scale, diversity and broader expertise of the combined group.

Notwithstanding the high levels of efficiency already achieved by the two companies, pre-tax cost synergies and other transaction-related cost savings comprising an equal split of IT and non-IT related savings are estimated to be £20 million (€29 million) annually, with the full run-rate being achieved in FY 2010.

Furthermore, given the highly complementary nature of the two businesses and the prospects for growth that underpin the transaction, approximately £20 million (€29 million) of annual revenue synergies are expected to be achieved in FY 2011. The combined group expects to derive revenue synergies from the following areas:

- Creating attractive cross-market access opportunities via the operation of both markets on TradElect, the London Stock Exchange’s world-leading trading platform, and enlarging the liquidity pool available to listed companies;
- Accelerating the development of the SME marketplace 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.

In addition, a number of other growth opportunities will be available to the combined group, arising from a wide offering of ETFs, securitised derivatives and data products, from the launch of UK and pan-European derivatives and from the extension of post-trade services.

The transaction is expected to be earnings neutral to positive in FY 2008 and earnings accretive by at least 10 per cent. in FY 2009.

The Board of London Stock Exchange Group plc believes it will have more than sufficient support from its shareholders for the merger.

London Stock Exchange Group plc will be the holding company of the combined group and, in addition to its listing in London, intends to seek a listing on Borsa Italiana. The combined group will operate under a UK corporate governance structure with a unitary board comprising twelve directors. Seven of these will be nominated by the existing London Stock Exchange Group plc Board (including the Chairman and two executive directors of the London Stock Exchange Group). The Chairman and Chief Executive of Borsa Italiana and three directors who are prominent members of the Italian financial community will be proposed by the existing Borsa Italiana Board, and will sit on the Board of the combined group.

Angelo Tantazzi, currently Chairman of Borsa Italiana, will become Deputy Chairman of the combined group. Massimo Capuano will become Deputy Chief Executive of the combined group while remaining Chief Executive Officer of Borsa Italiana. Chris Gibson-Smith, currently Chairman of the London Stock Exchange Group, will be Chairman of the Board of the combined group, and Clara Furse, currently Chief Executive of the London Stock Exchange Group, will be Chief Executive of the combined group. Massimo Capuano will be responsible for the integration of the combined businesses.

The Board of Directors of Borsa Italiana will comprise approximately twelve directors. London Stock Exchange will designate two of the five executive directors and one of the seven non executive directors.

### **Current Trading**

Borsa Italiana markets have experienced a strong start in 2007, reaching all-time highs for cash and derivatives turnover, with an increasing number of IPOs.

- In the first five months the Italian primary market was highly active, with 16 new listed companies, of which twelve were IPOs.
- Trading in shares reached an average of 307,300 trades per day and €6.5 billion (up 24 per cent. and 37 per cent. on the corresponding period for the previous year).
- New records were also set by ETFs (daily average of 5,000 and €109 million) and securitised derivatives (daily average of 22,000 and €375 million).
- Equity derivatives reached all-time highs, with a daily average of 158,400 standard contracts (up 19 per cent. on the corresponding period for 2006).

The London Stock Exchange has made a very good start to the new financial year with strong trading in all main business divisions in April and May.

- Primary markets remain very active with 26 Main Market new issues, including eight by international companies. New admissions on the Main Market in May raised £5.7 billion, the highest month since July 2006. This activity has continued into June with Q1 on track to be the best first quarter for Main Market new issues since 2001.

- The start of the year in the secondary markets has been very strong with average trades per day on SETS at 499,358 in May, already above the forecast for FY 2008 made in January 2007 and up 33 per cent. on the same period last year. The launch of the London Stock Exchange's new trading platform TradElect this week, together with the continuation of the structural shift in trading, should ensure further significant trading growth during the year.
- Demand for real time and trading data remains strong.

Commenting on the agreement, Angelo Tantazzi, Chairman of Borsa Italiana, said:

*“Borsa Italiana and London Stock Exchange are contributing to the creation of the European financial marketplace, open to new participants and aimed at reaching a global dimension. We believe this combination is a real growth opportunity for offering new services to issuers, intermediaries and investors, benefiting from the sharing of competencies upon which both the exchanges have built their own success.”*

Chris Gibson-Smith, Chairman of the London Stock Exchange Group, said:

*“We share with Borsa Italiana a vision for how exchanges can support the creation of a more efficient European marketplace and a more diversified business: allowing distinct market centres to flourish within a corporate structure, using common technology and sharing market expertise. As a result, this is our most important step yet in creating the world's capital market.”*

Massimo Capuano, Chief Executive of Borsa Italiana, said:

*“Borsa Italiana and London Stock Exchange are merging to create the leading market in Europe for listed securities and trading, with an innovative business model that leverages the strengths of the financial marketplaces in Italy and the UK. The London Stock Exchange's new trading platform, coupled with Borsa Italiana's efficiency in post trading, will foster growth opportunities for all stakeholders from the pooling of liquidity and product innovation.”*

Clara Furse, Chief Executive of the London Stock Exchange Group, added:

*“This merger is all about accelerating our growth through the provision of more and better products and services to our increasingly international customer base. Borsa Italiana's highly efficient businesses and expertise complement those of the London Stock Exchange extremely well. The combined group will have within it the capabilities and the additional scale, efficiency and diversity to provide what our markets want, thereby creating significant value for shareholders.”*

The Board of Directors of Borsa Italiana met on 21 and 22 June 2007 to consider the Offer received from the London Stock Exchange as well as other strategic alternatives and indicative proposals. Having carefully considered all relevant aspects of any potential transaction, including, but not restricted to, value, user and stakeholder interests, business and operating model, market pricing, strategic considerations, governance and regulatory matters, the Board of Directors unanimously recommends that shareholders accept the Offer and vote in favour of the proposed amendments to

the bylaws of Borsa Italiana at the Extraordinary General Meeting to be convened to implement the merger. All the major shareholders of Borsa Italiana are represented on the Board of Borsa Italiana.

The Board of Directors of London Stock Exchange Group plc, which has received financial advice from Merrill Lynch International and Lehman Brothers, considers the terms of the Merger to be fair and reasonable. In giving their advice to the Board of Directors, both Merrill Lynch International and Lehman Brothers have relied upon the Board of Directors' commercial assessments of the Merger. In addition, the Directors believe the merger to be in the best interests of the London Stock Exchange Group Shareholders as a whole, and accordingly, intend unanimously to recommend that the London Stock Exchange Group Shareholders vote in favour of the resolutions to be proposed at the London Stock Exchange Group's Extraordinary General Meeting as they have each undertaken to do in respect of their own beneficial holdings amounting to 536,590 London Stock Exchange Group Shares representing 0.27 per cent. of the London Stock Exchange Group's existing issued share capital.

Merrill Lynch International and Lehman Brothers Europe Limited are acting as financial advisors for London Stock Exchange Group plc. Mediobanca Banca di Credito Finanziario S.p.A. and Morgan Stanley & Co. Limited are acting as financial advisors for Borsa Italiana S.p.A.

McKinsey & Co is acting as advisor on strategy for Borsa Italiana.

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*This summary should be read in conjunction with the text of the attached full announcement.*

A conference call for sell side analysts and investors is scheduled for 9:00am London time and 10:00am Milan time on Monday 25 June 2007.

You will be able to dial-in to listen to the presentation live (Access Code 755 835) on:

Italy +39 023 0350 9003  
UK +44 20 7162 0025  
US +1 334 323 6201

The replay of this call will be available to 16 July 2007 (Access Code 755 835) on:

Italy Dial In: +39 023 0350 9364  
UK Dial In: +44 207 031 4064  
UK Toll Free: 0800 358 1860  
US Dial In: +1 954 334 0342  
US Toll Free: +1 888 365 0240

A press conference call will be held at Borsa Italiana's headquarters in Milan at 12 noon (11:00am London time) on Monday 25 June 2007. Further information, including dial-in details for those who cannot attend, will be available on Monday morning on <http://www.borsaitaliana.it/homepage/homepage.en.htm>

The announcement and the presentation will be available on:

London Stock Exchange Group:  
<http://www.londonstockexchange-ir.com>

and

Borsa Italiana :

Italian website

<http://www.borsaitaliana.it/chisiamo/ufficiostampa/comunicatistampa/2007/comunicato.htm>

English website

<http://www.borsaitaliana.it/chisiamo/ufficiostampa/comunicatistampa/2007/comunicato.en.htm>

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A copy of this announcement in Italian is available on Borsa Italiana's website.

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**1. Introduction**

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Under the terms of the agreement, Borsa Italiana shareholders will be offered 4.90 London Stock Exchange Group plc ordinary shares ("New Shares") for each existing Borsa Italiana ordinary share (the "Offer"). Based on the London Stock Exchange Group's closing share price of 1,387p and using the exchange rate of £1=€1.4815 as of 19 June 2007 (the day prior to the statement issued by the London Stock Exchange that it was in discussions with Borsa Italiana), the Offer values Borsa Italiana at £1,103 million (€1,634 million) and represents a value of €100.7 per Borsa Italiana share. Based on the same closing price and exchange rate, the combined group would be worth £3,900 million (€5,777 million).

Following completion of the Offer, the London Stock Exchange Group ordinary shareholders will own approximately 72 per cent. and Borsa Italiana ordinary shareholders will own approximately 28 per cent. of the combined group.

The Board of Directors of Borsa Italiana met on 21 and 22 June 2007 to consider the Offer received from the London Stock Exchange as well as other strategic alternatives and indicative proposals. Having carefully considered all relevant aspects of any potential transaction, including, but not restricted to, value, user and stakeholder interests, business and operating model, market pricing, strategic considerations, governance and regulatory matters, the Board of Directors unanimously recommends that shareholders accept the Offer and vote in favour of the proposed amendments to the bylaws of Borsa Italiana at the Extraordinary General Meeting to be convened to implement the merger. All the major shareholders of Borsa Italiana are represented on the Board of Borsa Italiana.

The Board of London Stock Exchange Group plc believes it will have more than sufficient support from its shareholders for the merger.

## **2. Background to and Reasons for the Merger**

The industry in which Borsa Italiana and 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 Borsa Italiana and the London Stock Exchange intend 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 environment. Through the merger, Borsa Italiana and the London Stock Exchange are creating the leading and diversified exchange group in Europe which will serve as the platform for additional strong growth on a European and global scale.

The proposed merger is the most important step yet in the development of the shared vision to be the world's capital market and brings together two highly efficient and complementary businesses and expertise within the global exchange sector: Borsa Italiana's strengths in Italian cash and derivatives instruments, together with its efficient post-trade processing services and leading European fixed income trading platform will be combined with the largest and deepest equity market in Europe. It will capture the attractive macro-economic and market growth dynamics of Italian equities and bring together the best of the Italian and UK marketplaces.

The proposed merger will create a leading force in a broad range of businesses and provides strong foundations for the combined group's strategic positioning and future development in a number of areas.

- **Unique global strategic position**

- The merger further strengthens the strategic position of the combined 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.
- The combined group will occupy a unique position in Europe as the leading market liquidity pool and internationally as the premier international listings venue located at the centre of global capital flows.

- **Largest European equities liquidity pool**

- Together, Borsa Italiana and the London Stock Exchange's markets will offer extensive coverage of the European markets with 48 per cent. of the FTSEurofirst 100 by market capitalisation and leadership in terms of average daily value traded and number of order book trades representing for the period from January to May 2007 €18 billion and 764,000 per day respectively.
- The combined group will also offer Europe's leading ETF and securitised derivatives trading platform. As a result, it is well positioned to build upon Borsa Italiana's lead in this area and service the growth in these cost efficient products



across an ever increasing range of markets and asset classes and their use by professional and retail investors.

- The operation of the two markets on the same platform will create the largest liquidity pool in Europe for order book trading and facilitate greater cross-border access. This key market development will provide new trading opportunities for investors thereby increasing the attractiveness of the markets for the deployment of global risk capital.

- **Primary European and global listings venue**

- The merger will consolidate the London Stock Exchange's lead as the primary centre for international companies by number of listed companies and increase the visibility and access to European and global capital for issuers.
- The combined group will be the international and European market of choice for listings with over 3,500 listed companies from 69 countries. In 2006 over 620 listings were attracted to the combined group's markets.
- The 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. Integration of AIM's UK and international investor bases with the growing Italian domestic investor base will maximise the pool of available capital to companies, and allow for seamless trading thus further lowering the cost of capital.
- By growing the network of customers and creating the largest order book liquidity pool in Europe, issuers will also benefit from further reductions in the cost of capital as a result of the additional trading liquidity generated.

- **Leading European fixed income trading platform**

- Following Borsa Italiana's recent announcement that it has exercised its call option right to acquire full control of MBE Holdings, the combined group would control MTS, the leading market in Europe for the electronic trading of fixed income securities, offering a unified pan-European trading platform with unparalleled liquidity, transparency and efficiency. Coverage is across a broad range of money market and fixed income securities to the inter-dealer and rapidly evolving institutional investor customer segments.
- The merger will combine Borsa Italiana and MTS with the London Stock Exchange's existing bond listing business to create a leading force in the fixed income markets, thereby facilitating broad coverage of European primary and secondary markets and servicing the needs of issuers and investors.
- The merger will offer potential to capitalise on MTS' capabilities and the London Stock Exchange's position in the UK to extend its offering into new markets and products such as the rapidly expanding European corporate bond markets, other new international markets, and in 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, setting new standards for speed and certainty of execution following its successful launch of TradElect in Johannesburg on 2 April 2007 and the London markets on 18 June 2007.
- 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 to the rapidly expanding high velocity electronic trading community in particular. These developments will drive further cost reductions and, in turn, stimulate additional business by extending the virtuous circle.
- Adoption of a single market platform with a common market structure and underpinned by a single technology platform, while recognising local regulations and market practices, will enable customers to derive further cost efficiencies within their own organisations.

- **Most efficient provider of post-trade services in Europe**

- Borsa Italiana is acknowledged as the lowest cost provider of central counterparty (CCP) clearing and central securities depository (CSD) services in Europe. As a result, the combined group will be uniquely positioned to take advantage of market opportunities presented by the future implementation of the Code of Conduct which enables greater customer choice in the area of clearing and settlement.
- Italian members will be able to access UK markets via a single point of entry at Borsa Italiana thereby reducing costs and providing risk diversification benefits. The additional choice of CCP in UK markets will also further drive down the costs of trading to users and increase trading volumes.

- **A leading innovator in global information services**

- The combined group's information services offering will include a wide range of data and information services products supplying high-quality, real-time prices, news and other information to the global financial community via a network of 770,000 Borsa Italiana and 116,000 London Stock Exchange 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. Partnerships with world leaders in their field will assist the development of new products underpinning growth in the combined group's trading and information services.

- **Diverse derivatives market**

- IDEM and EDX traded a total of 57 million contracts in 2006 averaging 235,000 per day and offer coverage of a broad range of equity and fixed income products and markets in Italy, Russia and Scandinavia.
- The merger offers potential opportunities to cross-sell Italian and international equity derivatives to EDX London and IDEM members, leveraging the combined 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. Synergies and Growth Opportunities**

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 merger creates the opportunity for cost synergies, notwithstanding the high levels of efficiency already achieved by both companies.

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 combined group expects to derive revenue synergies from focusing on the following developments, which will benefit customers:

- Creating attractive cross-market access opportunities via the operation of both markets on TradElect, the London Stock Exchange's world-leading trading platform, enabling a further diffusion of algorithmic and institutional trading in Italian equities and combining a diversified investor base;
- Building on the successes of AIM to accelerate the development of the SME marketplace in Italy, and other European countries;
- Linking the IDEM and EDX London equity derivatives product offering, 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.

Both parties expect cost savings to be realised by providing the London Stock Exchange's world-leading trading platform TradElect to Borsa Italiana's cash equities market (expected in mid-2008), consolidating overlapping operations in a number of areas and by reducing overall combined corporate expenses. Cost savings will comprise an equal split of IT and non-IT related savings and will be realised by building on the respective strengths of each organisation.

Borsa Italiana and the London Stock Exchange believe that the full annual run-rate of pre-tax cost synergies and other transaction-related cost savings for the combined group will be achieved in FY 2010, and that the full run-rate of revenue synergies will be achieved in the following financial year.

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 FY 2010.

In addition, a number of other growth projects will be available to the combined group, arising from a unified offer of ETFs, securitised derivatives and data products, from the launch of UK and pan-European derivatives and from the extension of settlement and custody services.

In addition to the synergies referred to above, Borsa Italiana is currently undertaking an IT in-sourcing programme. This is expected to lead to IT pre-tax cost savings of £5 million p.a. (€7 million p.a.) in 2008, as compared to Borsa Italiana's 2006 total IT costs.

#### **4. Financial Effects / Leverage**

The transaction is expected to be earnings neutral to positive in FY 2008 and earnings accretive by at least 10 per cent. in FY 2009.

Shareholders who do not vote in favour of the resolutions to be put forward to implement the merger, or who abstain from voting or who do not attend the EGM have withdrawal rights whereby they can receive cash for their shares in Borsa Italiana of an amount to be determined in accordance with Italian law. This amount will be communicated to Borsa Italiana shareholders 15 days before the Borsa Italiana EGM. The maximum possible amount that the London Stock Exchange would have to pay in cash is currently estimated at less than £350 million (€519 million). The London Stock Exchange has sufficient borrowing facilities in place with Barclays Bank PLC and The Royal Bank of Scotland plc to meet the estimated maximum potential cash funding requirement arising from the exercise of such withdrawal rights.

London Stock Exchange Group has a pro-active capital management programme in place, which has enhanced balance sheet efficiency while ensuring appropriate financial flexibility. The group continues with its £250 million buy-back programme announced on 18 January 2007 and will keep its capital structure under review.

#### **5. Group and Divisional Organisation**

The group's holding company will remain incorporated in the UK and, in addition to its listing in London, intends to seek a listing on Borsa Italiana. It will continue to operate from offices in London, Hong Kong, Milan and Rome and will maintain the existing Borsa Italiana and London Stock Exchange brands.

The combined group will operate with an integrated organisation structure, while maintaining all local customer-facing and regulatory functions in both jurisdictions.

#### **6. Corporate Governance and Regulation**

London Stock Exchange Group plc will be the holding company of the combined group and will retain a UK corporate governance structure with a unitary Board, initially

comprising 12 members. Angelo Tantazzi will become the Deputy Chairman of the combined group and Chris Gibson-Smith will be the combined group's Chairman. In addition, there will be three Executive Directors: Clara Furse will be the combined group's Chief Executive; Massimo Capuano will be its Deputy Chief Executive and will be responsible for the integration of the combined businesses after the merger, while remaining Chief Executive Officer of Borsa Italiana; and Jonathan Howell will be the Finance Director of the combined group.

In addition to the Chairman and Deputy Chairman, there will be seven other non-executive directors of the combined group, with four initially nominated by the London Stock Exchange Group and three directors who are prominent members of the Italian financial community and will be proposed by the existing Borsa Italiana Board.

The Board of Directors of Borsa Italiana will comprise approximately twelve directors. London Stock Exchange will designate two of the five executive directors and one of the seven non executive directors.

Borsa Italiana and London Stock Exchange plc will remain separate legal and regulatory entities and will maintain their existing brands. The parties have held preliminary discussions with Consob and the FSA.

The regulators for the various entities of the combined group will be:

<i>Subsidiary / Affiliates</i>	<i>Regulator</i>
London Stock Exchange plc	FSA
EDX London Limited	FSA
Borsa Italiana S.p.A.	Consob
Monte Titoli S.p.A.	Consob and Bank of Italy
CC&G S.p.A.	Consob and Bank of Italy
MTS S.p.A.	Consob, Bank of Italy, Ministry of Economy & Finance

## **7. Benefits for Customers and other Stakeholders**

The merger is expected to deliver substantial benefits to the combined group's issuer, intermediary and investor customers, strengthening the Italian financial marketplace and the City of London.

### Benefits for issuers

The integration of Borsa Italiana with the London Stock Exchange's equities markets will offer issuers access to the widest European network of brokers and investors, which is expected to increase investment and trading activity in issuers' securities, thereby reducing the cost of capital to the combined group's listed companies.

As well as operating Europe's largest equities market, the combined group will jointly operate Europe's largest bond trading platform. This will allow the company to offer a full range of capital raising services to UK, Italian and international companies.

The combined group will offer issuers the opportunity to have their shares traded on both the UK and Italian markets, providing issuers with a "single point of entry" to the

international network of Borsa Italiana and the London Stock Exchange brokers and investors.

Borsa Italiana and the London Stock Exchange will extend the AIM market model to Italy, bringing new investors and capital to Italian growth companies.

### Benefits for intermediaries

The combined group will offer intermediary customers the opportunity to access all of the markets operated by the combined group more cost effectively. Subject to meeting the needs of customers and the requirements of local regulators, they will be able to trade all the securities listed on both markets subject to a common set of membership requirements.

The integration of Borsa Italiana's and the London Stock Exchange's equities markets on the TradElect platform will allow intermediaries to access and trade in both the UK and Italian equities markets on next generation technology. TradElect will be fully integrated with the systems of Italian customers and the country's post-trade systems, in order to provide a seamless migration for the Italian market. The larger customer network and wider deployment of the most advanced cash trading platform (from equities to securitised derivatives) will lead to more trading opportunities for intermediaries and greater liquidity, reducing the cost of trading.

The integration of the combined group's derivatives markets will create a derivatives exchange with a much larger customer network and product range, and provide a platform for the launch of new derivatives products.

The combined group will benefit from Borsa Italiana's highly efficient post-trade infrastructure to further reduce post-trade costs, by providing access to CC&G in an increasingly competitive clearing market.

As the leading pool of equities liquidity in Europe, the combined group expects to be increasingly attractive to UK, Italian and international issuers raising capital. This will provide significant opportunities to investment banks and corporate advisers to support these companies in coming to market.

### Benefits for investors

Investors in Borsa Italiana's and the London Stock Exchange's markets will benefit from access to the increased pool of issuers that will be available on the combined group's markets and from the lower cost of trading arising from the expansion of the liquidity pool.

The combined group will benefit from Borsa Italiana's expertise in operating Europe's most liquid retail market to provide new products and markets for UK retail investors, and new UK products to Italian retail investors.

## **8. Employees**

The Boards of Borsa Italiana and the London Stock Exchange attach great importance to retaining the skills and experience of their respective management and employees. They believe that employees will generally have greater opportunities arising out of the Merger due to the enhanced growth prospects of the combined 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 combined group and reward the creation of shareholder value.

## **9. Information on Borsa Italiana**

Borsa Italiana S.p.A. is responsible for the organisation and management of the Italian stock exchange. The Company was established in 1997. Following the privatisation of the exchange, it became operational on 2 January 1998. Borsa Italiana's primary objective is to ensure the development of the managed markets, maximising their liquidity, transparency and competitiveness and at the same time pursuing high levels of efficiency and profitability.

The Borsa Italiana Group, currently including Borsa Italiana S.p.A., Monte Titoli S.p.A., Cassa di Compensazione e Garanzia S.p.A., Bit Systems S.p.A., PAGS S.p.A., Servizio Titoli S.p.A. and MBE Holding S.p.A., reached total revenue of €278.5 million, with an EBIT of €106.6 million and a net income of €59.3 million in 2006.

Borsa Italiana key statistics as at end of May 2007:

- 318 Listed Companies
- Domestic market capitalization: €836.8 billion
- Average daily trades of shares: 307,300 and €6.5 billion
- Average daily number of equity derivatives standard contracts: 158,400
- 150,600 information terminals for professionals at year end 2006
- 620,000 information terminals for non-professionals at year end 2006

## **10. Information on the London Stock Exchange**

The London Stock Exchange is the world's premier international equity exchange and a leading provider of services that facilitate the raising of capital and the trading of shares.

The London Stock Exchange is the most international equities exchange in the world and Europe's largest pool of liquidity. By the end of March 2007, the market capitalisation of UK and international companies on the Exchange's markets amounted to £4.6 trillion, with £7.1 trillion of equity business transacted over the year.

In the year ended 31 March 2007, the London Stock Exchange Group plc generated revenues of £349.6m, with an operating profit before exceptional items of £185.6m and profit for the financial year of £110.6m.

The London Stock Exchange is a Recognised Investment Exchange (RIE) under the Financial Services and Markets Act 2000 and is supervised by the Financial Services Authority.

## **11. Current Trading and Prospects**

Borsa Italiana markets have experienced a strong start in 2007, reaching all-time highs for cash and derivatives turnover, with an increasing number of IPOs.

- In the first five months the Italian primary market was highly active, with 16 new listed companies, of which twelve were IPOs.
- Trading in shares reached an average of 307,300 trades per day and €6.5 billion (up 24 per cent. and 37 per cent. on the corresponding period for the previous year).
- New records were also set by ETFs (daily average of 5,000 and €109 million) and securitised derivatives (daily average of 22,000 and €375 million).
- Equity derivatives reached all-time highs, with a daily average of 158,400 standard contracts (up 19 per cent. on the corresponding period for 2006).

The London Stock Exchange has made a very good start to the new financial year with strong trading in all main business divisions in April and May.

- Primary markets remain very active with 26 Main Market new issues, including 8 by international companies. New admissions on the Main Market in May raised £5.7 billion, the highest month since July 2006. This activity has continued into June with Q1 on track to be the best first quarter for Main Market new issues since 2001.
- The start of the year in the secondary markets has been very strong with average trades per day on SETS at 499,358 in May, already above the forecast for FY 2008 made in January 2007 and up 33 per cent. on the same period last year. The launch of the London Stock Exchange's new trading platform TradElect this week, together with the continuation of the structural shift in trading, should ensure further trading growth during the year.
- Demand for real time and trading data remains strong.

## **12. Dividend Payment and Future Dividend Policy**

The Board of the combined group intends to continue the London Stock Exchange Group's existing progressive dividend policy.

The New Shares will, when issued and fully paid, rank pari passu in all respects with the existing London Stock Exchange Group plc ordinary shares, including the rights to receive all dividends and other distributions (if any) declared, made or paid by London Stock Exchange Group plc after the date of issue of the New Shares.



Furthermore, the envisaged transaction will not impact the completion of the London Stock Exchange Group's £250 million share buyback programme announced at the time of the defence against Nasdaq, of which £120 million was outstanding as at 22 June 2007.

### 13. Implementation of the Merger

Due to its size, the Merger will require the approval of the London Stock Exchange Group's shareholders at an extraordinary general meeting. It is expected that the extraordinary general meeting to approve the transaction will be convened on or about 13 August 2007.

The agreement relating to the Offer contains certain assurances in relation to the Offer, the implementation of the Merger and the conduct of business prior to the effective date or lapse of the offer. The agreement also contains the following provisions:

#### Conditions

The Offer will specify that its acceptance by any shareholder of Borsa Italiana (**Borsa Italiana Shareholder**) shall constitute an agreement between that Borsa Italiana Shareholder and London Stock Exchange Group plc (**LSE**) for the sale and purchase of ordinary shares in Borsa Italiana (**Borsa Italiana Shares**), the completion of which will be subject to the following conditions, each of which (other than condition (j), which shall not be capable of waiver) may be wholly or partly waived by LSE (in its absolute discretion):

- (a) all clearances required from the Italian Autorità Garante della Concorrenza e del Mercato (**AGCM**) pursuant to Italian Law no. 287/90 in relation to the Merger having been obtained either unconditionally or on terms satisfactory to LSE (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 LSE, that the Office of Fair Trading does not intend to refer the proposed acquisition of Borsa Italiana by LSE, or any matters arising from that proposed acquisition, 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 Merger having been obtained either unconditionally or on terms satisfactory to LSE (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 (**Regulatory Approvals**) which:
- (i) are necessary in any jurisdiction; or
  - (ii) LSE, 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 Merger having been obtained either unconditionally or on terms satisfactory to LSE (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 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 paragraphs 5 through 9 of Article 9 of the By-laws which shall take automatic effect from completion of the Merger (the **Voting Restriction Resolution**) having been duly passed at an extraordinary shareholders' meeting of Borsa Italiana in connection with the Merger, and the By-laws remaining in all other respects unchanged from the text in the By-laws initialled by the Parties for identification purposes;
- (f) valid unconditional acceptances of the Offer by Borsa Italiana Shareholders having been received by LSE, 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 LSE may by giving notice in writing to Borsa Italiana determine, provided that such percentage shall not be less than 66.67%) by nominal value of the issued share capital of Borsa Italiana;
- (g) a resolution of the shareholders of LSE approving the Merger for the purposes of Rule 10.5 of the Listing Rules of the UK Listing Authority (the **Class 1 Resolution**) having been duly passed at an extraordinary general meeting of LSE (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 the Borsa Italiana Group which is material in the context of the Borsa Italiana Group taken as a whole having occurred;
- (i) neither Borsa Italiana nor any other company within the 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 Code in connection with the Borsa Italiana EGM Resolutions;
  - (iii) declared or paid any dividend or other distribution;

- (iv) incurred or increased any financial indebtedness to an extent that is material in the context of the Borsa Italiana Group taken as a whole (other than in connection with the exercise of the MBE Call Option); or
  - (v) merged with, demerged or acquired any shares, partnership or business which is material in the context of the Borsa Italiana Group taken as a whole (other than by the exercise of the MBE Call Option);
- (j) admission of the LSE shares to be issued to Borsa Italiana Shareholders pursuant to the Offer (i) to listing on the Official List of the UK Listing Authority having become effective in accordance with the Listing Rules of the UK Listing Authority 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 made by the London Stock Exchange from time to time, or (if LSE so determines) the UK Listing Authority and the London Stock Exchange having agreed to admit such shares to listing and trading respectively subject to allotment of such shares and/or the Offer having become or having been declared unconditional in all respects; and
- (k) the Withdrawing Shares not representing more than twenty five (25) per cent. by nominal value of the issued share capital of Borsa Italiana.

### **Non-Solicitation arrangements**

Borsa Italiana has undertaken not:

- (a) to solicit, initiate or otherwise seek to procure any 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 portion (being 15% or more) of the issued share capital of Borsa Italiana, or all or a significant proportion (being 15% or more) of its undertaking, assets or business, or any other arrangement or transaction or series of the same which would breach the terms and conditions of the agreement or be consistent with the implementation of the Merger (**Competing Proposal**); or
- (b) to enter into or participate in any discussions, negotiations, correspondence or arrangement relating to any actual or potential Competing Proposal.

Borsa Italiana has also agreed to promptly notify London Stock Exchange Group in writing if it or any of its representatives become 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 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 will keep London Stock Exchange Group informed as to the progress of any such approach.

### **14. Expected timetable**

It is expected that the London Stock Exchange Group's extraordinary general meeting to approve the Merger will be convened on or about 13 August 2007 and a circular

containing details of the Merger and notice of the extraordinary general meeting will be posted to the London Stock Exchange Group's shareholders by the end of July.

It is expected that Borsa Italiana's extraordinary General Meeting to pass the resolution necessary to implement the Merger will also be held on or about 13 August 2007.

It is expected that all conditions to the Offer will be satisfied by the end of September 2007 and must be satisfied by 31 October 2007 (or such later date as the parties may agree).

Application will be made to the UKLA and the London Stock Exchange for the ordinary shares in the London Stock Exchange Group issued pursuant to the transaction to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that listing will become effective and dealings, for normal settlement, will begin shortly following the date on which the London Stock Exchange Group announces that all conditions to the Offer have been fulfilled. In addition, the London Stock Exchange 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 ordinary shares in the London Stock Exchange Group issued pursuant to the transaction to be admitted to, or to trade on, any other stock exchange.

## **15. Board Recommendations**

The Board of Directors of London Stock Exchange Group, which has received financial advice from Merrill Lynch International and Lehman Brothers, considers the terms of the Merger to be fair and reasonable. In giving their advice to the Board of Directors, both Merrill Lynch International and Lehman Brothers have relied upon the Board of Directors' commercial assessments of the Merger. In addition, the Directors believe the Merger to be in the best interests of the London Stock Exchange Group Shareholders as a whole, and accordingly, intend unanimously to recommend that the London Stock Exchange Group Shareholders vote in favour of the resolutions to be proposed at the London Stock Exchange Group's Extraordinary General Meeting as they have each undertaken to do in respect of their own beneficial holdings amounting to 536,590 London Stock Exchange Group Shares representing 0.27 per cent. of the London Stock Exchange Group's existing issued share capital.

The Board of Directors of Borsa Italiana met on 21 and 22 June 2007 to consider the Offer received from the London Stock Exchange as well as other strategic alternatives and indicative proposals. Having carefully considered all relevant aspects of any potential transaction, including, but not restricted to, value, user and stakeholder interests, business and operating model, market pricing, strategic considerations, governance and regulatory matters, the Board of Directors unanimously recommends that shareholders accept the Offer and vote in favour of the proposed amendments to the bylaws of Borsa Italiana at the Extraordinary General Meeting to be convened to implement the merger. All the major shareholders of Borsa Italiana are represented on the Board of Borsa Italiana.

Merrill Lynch International and Lehman Brothers Europe Limited are acting as financial advisors for London Stock Exchange Group plc. Mediobanca Banca di Credito Finanziario S.p.A. and Morgan Stanley & Co. Limited are acting as financial advisors for Borsa Italiana S.p.A.

McKinsey & Co is acting as advisor on strategy for Borsa Italiana.

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A copy of this announcement in Italian is available on Borsa Italiana's website.

Merrill Lynch International and Lehman Brothers Europe Limited, which are regulated in the United Kingdom by the Financial Services Authority, are acting exclusively for London Stock Exchange Group plc and no-one else in relation to the Merger and will not be responsible to anyone other than London Stock Exchange Group plc for providing the protections afforded to their clients nor for providing advice in relation to the Merger.

Mediobanca S.p.A. and Morgan Stanley & Co. Limited are acting exclusively as financial advisors for Borsa Italiana S.p.A. and no one else in relation to the merger and will not be responsible to anyone other than Borsa Italiana S.p.A. for providing the protections afforded to clients of each of Mediobanca S.p.A. and Morgan Stanley & Co. Limited nor for providing advice in relation to the merger, the contents of this document or any transaction or arrangement referred to in this document.

## APPENDIX 1

### Sources and bases of information

#### General

Save as otherwise stated, the following constitute the sources and bases of certain information referred to in this announcement:

1. Closing prices and exchange rates are as at the close of market on 19 June 2007 (the day prior to the statement issued by the London Stock Exchange that it was in discussions with Borsa Italiana).
2. Share price data is sourced from Bloomberg.
3. Exchange rate data is sourced from Bloomberg (£1=€1.4815).
4. Calculations are prepared on the basis of there being 201,650,149 London Stock Exchange Group ordinary shares in issue as at 19 June 2007.
5. Calculations are prepared on the basis of there being 16,227,268 Borsa Italiana ordinary shares in issue as at 15 March 2007.
6. The financial information concerning London Stock Exchange Group has been extracted from the published interim and annual reports and accounts of London Stock Exchange Group for the relevant periods all of which are prepared in accordance with IFRS.
7. The financial information concerning Borsa Italiana has been extracted from the consolidated audited annual accounts of Borsa Italiana for the relevant periods all of which are prepared in accordance with IFRS.
8. Unless otherwise stated, information contained in this document regarding market position, sector, division and product analysis, stock exchange trading, listings, IPOs and the international financial market in relation to London Stock Exchange Group and Borsa Italiana is based on London Stock Exchange Group's and Borsa Italiana's management estimates and calculations sourced from publicly available information including, inter alia:
  - (a) London Stock Exchange Group's Main Market and Secondary Market facts sheets and Professional Securities Market fact sheets, AIM Market Statistics, Monthly Market reports;
  - (b) Borsa Italiana's Monthly Key Figures reports and Monthly Statistics reports;
  - (c) the Federation of European Securities Exchanges website and the World Federation of Exchanges website and FTSEurofirst website;and, where applicable is presented by calendar years rather than financial years.

#### Page References

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- (a) Offer value is based on number of Borsa Italiana ordinary shares, the 4.90 London Stock Exchange Group shares being offered to Borsa Italiana shareholders and a London Stock Exchange share price of 1,387p.
- (b) Value of the combined group is based on the Offer value, an all-share Offer, the current number of London Stock Exchange Group ordinary shares and a London Stock Exchange Group share price of 1,387p.
- (c) References to earnings accretion and neutrality refer to earnings per share excluding purchased intangibles amortisation and integration costs. EPS impact in FY 2008 and FY 2009 assumes an all-share Offer, with full run rate of cost and revenue synergies achieved in FY 2010 and FY 2011 respectively.

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- (a) The reference to the forecast made in January is based on a forecast of an average 480,000 trades per day on SETS in financial year 2008 as disclosed in the shareholder circular posted by the London Stock Exchange on 18 January 2007.

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- (a) The reference to ordinary shareholders of the London Stock Exchange Group and Borsa Italiana owning 72% and 28% respectively is based on the combined group comprising of 4.90 London Stock Exchange Group ordinary shares for each existing Borsa Italiana ordinary share and the current number of London Stock Exchange Group ordinary shares.

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- (a) Reference to the cash component of less than £350m is based on the estimate of the maximum level of withdrawal rights being exercised.
- (b) Buyback programme announced by the London Stock Exchange on 18 January 2007 of £250m.

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- (a) £120m outstanding share buyback commitment is calculated as the difference between the £250m commitment as disclosed on 18 January 2007 and the value of executed share buybacks up to and including 22 June 2007.

## APPENDIX 2

### Definitions

The following definitions apply throughout this announcement unless the context otherwise requires:

AIM	the Alternative Investment Market for smaller and growing companies
algorithmic trading	a method of trading that uses very advanced mathematical models for making transaction decisions in the financial markets
Borsa Italiana	Borsa Italiana S.p.A. and/or, as the context requires elsewhere in this document, the Borsa Italiana Group of companies
Borsa Italiana ordinary share	the 16,227,268 ordinary shares, having a par value of Euro 0.52 each in the capital of Borsa Italiana
CC&G	Cassa di Compensazione E Garanzia S.p.A.
Consob	the authority responsible for controlling Italy's market for financial products
derivative	a financial instrument whose characteristics and value depend typically upon the characteristics and value of an underlying commodity, bond, equity, index or currency
EDX	EDX London Limited, a subsidiary of London Stock Exchange plc whose registered number is 04567917
EGM	Extraordinary general shareholder meeting
ETFs	a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange, thus experiencing price changes throughout the day as it is bought and sold
financial year or FY	the financial year of London Stock Exchange ending 31 March in the relevant year
FSA	the UK Financial Services Authority
FTSEurofirst 100	an index comprising of 60 largest securities from eligible markets (Eurozone + UK) plus 40 securities chosen from the most underweight economic groups relative to the index universe
IDEM	Borsa Italiana's derivatives trading platform where options and futures on the S&P/MIB index and on single shares are traded
IFRS	International Financial Reporting Standards



IPO	an initial public offering, a flotation where a company raises capital by issuing equity for the first time on that exchange
issuer	any company or other legal person or undertaking (including a public sector issuer) any class of whose securities has been admitted or is, or is proposed to be, the subject of an application for admission to trading on a stock exchange
Lehman Brothers	Lehman Brothers Europe Limited
liquidity	the ease with which a security can be traded on a market
London Stock Exchange	refers to London Stock Exchange plc, a public limited company incorporated in England and Wales with registered number 02075721, a wholly owned subsidiary of London Stock Exchange Group plc, and/or, as the context requires elsewhere in this document, London Stock Exchange Group
London Stock Exchange Group	refers to London Stock Exchange Group plc, a public limited company incorporated in England and Wales with registered number 5369106, and/or, as the context requires elsewhere in this document, London Stock Exchange
London Stock Exchange Group ordinary share	the ordinary shares of 6 <sup>79</sup> / <sub>86</sub> pence each in the capital of London Stock Exchange Group plc existing from time to time
Main Market	the market for companies who have been admitted to the UK Listing Authority's Official List and admitted to trading on London Stock Exchange principal market
MBE Holdings	MBE Holding S.p.A., a company in which Borsa Italiana owns 49% of the share capital of and which itself owns 60.37% of MTS
Merger	the combination of Borsa Italiana and London Stock Exchange Group
Merrill Lynch	Merrill Lynch International
MTS	Societa per il Mercato del Titoli di Stato S.p.A., an electronic trading platform for European wholesale fixed income securities
Nasdaq	The Nasdaq Stock Market, Inc.
New Shares	the issue of 4.90 London Stock Exchange Group shares for each existing Borsa Italiana ordinary share in respect of the Offer
Offer	offer by London Stock Exchange Group of 4.90 London Stock Exchange Group ordinary shares for each existing Borsa Italiana ordinary share
SETS	the electronic order book operated by London Stock Exchange for the most liquid securities

SME	small and midsize enterprises
TradElect	new trading system implemented by London Stock Exchange, launched on 18 June 2007
trading platform	the technology infrastructure in a stock exchange that is used to support its trading services
UKLA	UK Listing Authority