

	Year to 31 December	
	2005	2004*
	£m	£m
STATUTORY RESULTS (UNAUDITED & PREPARED UNDER IFRS)		
Revenue	2,409	2,339
Operating profit	207	194
Finance costs	(12)	(12)
Profit on disposal of associates & available-for-sale financial assets	38	203
Share of post-taxation profits from associates and joint ventures	5	11
Profit before taxation	238	396
Profit for the year from continuing operations	229	356
Discontinued operations**		
Profit for the year from discontinued operations	253	19
Reuters Group profit	482	375
Basic earnings per share	32.6p	26.0p
Dividend per ordinary share	10.0p	10.0p
Business Performance Measures*** (unaudited)		
Reuters operating profit	207	194
<i>Excluding:</i>		
Restructuring charges from Fast Forward and acquisition of Moneyline Telerate	112	120
Impairments & amortisation of business combination intangibles	22	16
Income from fixed asset investments	(1)	-
Profit on disposal of subsidiaries	(4)	(4)
Fair value movements	(2)	-
Reuters trading profit****	334	326
Reuters trading margin****	14%	14%
Reuters adjusted EPS*****	13.8p	11.8p

Financial highlights

First full year of revenue growth since 2001

- Full year revenue up 3%
- H2 underlying recurring revenue up 1.7% (guidance: 1-2%) plus strong revenue retention at Telerate
- Usage revenue from Reuters transactions services up 10%
- Revenue from Reuters 3000 Xtra up 18% – over 100,000 positions installed.

Profits up

- Reuters Group profit of £482 million, up 28% compared to 2004
- Trading profit £334 million (2004: £326 million) after including £41 million of new investment in Core Plus growth and transformation and an additional £7 million charge in 2005 arising from accounting for the Reuters Pension Fund as a defined benefit plan
- Reuters adjusted EPS of 13.8p, up 17% compared to 2004.

* 2004 comparatives are presented under IFRS and now include Reuters Pension Fund (RPF) as a defined benefit plan, as set out on page 30.

** Discontinued Operations include Radianz Limited (Radianz) and Instinet Group Incorporated (Instinet Group), including Bridge Trading Company (BTC) (see pages 17 & 18).

*** This release includes certain non-GAAP figures which are business performance measures used to manage the business. See pages 34 to 46 for explanations and reconciliations to the most directly comparable IFRS figures. Reconciliations of business performance measures which are stated at constant exchange rates and exclude acquisitions and disposals are reconciled to the statutory results on pages 41 to 44 and at www.about.reuters.com in the Investors section under Financial Data.

**** Reuters trading profit and trading margin are defined as operating profit from continuing operations before restructuring charges associated with Fast Forward and acquisitions, impairments & amortisation of intangibles acquired via business combinations, investment income, profits from disposals of subsidiaries and fair value movements.

***** Reuters basic EPS from continuing operations before impairments & amortisation of business combination intangibles, investment income, profit on disposals, fair value movements and related taxation effects.

Cash returned to shareholders

- £363 million of cash returned to shareholders via dividend payments and share buyback in 2005. £1 billion share buyback programme due to complete by July 2007.

Outlook

- In 2006 Reuters expects to accelerate revenue growth through its Core Plus investment programme against a backdrop of favourable market conditions. Reuters is targeting total revenue growth of around 5%. This includes acquisitions and a percentage point of growth from Core Plus and excludes currency effects.

Business Highlights

Fast Forward completed

Reuters has achieved its Fast Forward objectives of becoming more competitive, simpler, more customer-service oriented and more efficient.

- Converted annual revenue decline of 11% in the first year of Fast Forward (2003) to growth of 3% in 2005
- On track for £440 million annualised cost savings by end 2006, contributing to total reduction of c. £900 million since 2001
- Strengthened and streamlined product line to appeal to multiple segments in the financial and media markets
- Improved customer satisfaction
- Simplified core business by divesting or closing portfolio holdings, including Instinet Group and Radianz in 2005, for total cash proceeds of £1.3 billion.

Early progress announced today on Core Plus growth strategy

- Ground-breaking contract with Citigroup validates new approach to enterprise-wide sales
- Exclusive content agreement with MasterCard to distribute earliest view of US retail data
- Good momentum on new electronic trading products – significant increases in active traders and trade volumes on Reuters Trading for Fixed Income and Reuters Trading for Foreign Exchange
- Good 2005 revenue growth in new markets: India (19%) and China (12%).

Tom Glocer, Reuters Chief Executive, said: "Fast Forward has delivered revenue growth at Reuters for the first time in four years. Customers are showing increasing confidence in our new products and the Core Plus strategy, highlighted by the landmark enterprise agreement we signed with Citigroup at year end. I am confident that in 2006 we will increase growth while reinforcing our hard-won cost discipline."

Ends

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REUTERS RESULTS – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

Revenue

Reuters full year revenue grew 3% to £2,409 million (2004: £2,339 million). This is Reuters first full year of revenue growth since 2001. On an underlying basis, adjusting for exchange rate movements and the impact of acquisitions and disposals, revenue was approximately the same as 2004. Acquisitions, particularly of Telerate (closed in June 2005), accounted for most of the difference between actual and underlying increases, with the remainder due to currency movements. In the newly integrated Telerate business, sales focus on revenue retention post acquisition drove better than expected revenue performance.

Recurring revenue, which represented 93% of Reuters revenue in 2005, was £2,242 million (2004: £2,164 million), up 1% on an underlying basis (4% on an actual basis). In the second half of the year underlying recurring revenue grew by 1.7% compared to Reuters guidance of a 1-2% increase.

Usage revenues, 4% of Reuters revenue in 2005, grew by 13% to £97 million (2004: £86 million). This was driven by strong performance from Reuters transaction services as well as higher advertising revenue from reuters.com.

Outright revenue, 3% of Reuters revenue in 2005, totalled £70 million (2004: £89 million), a decline of 22% compared to 2004. This decline is in line with company expectations, and is mainly due to Reuters withdrawal from technology consulting as part of the Fast Forward programme, a process which is nearing completion.

Desktop access numbers totalled 346,000 at the end of 2005, up 18,000 from the end of 2004. This increase was driven by the acquisition of Telerate. Average revenue per access (ARPA) for Q4 was up 2% compared to the same period in 2004, driven by price increases and a shift in the product mix to higher value accesses.

Trading Costs

Trading costs (including Core Plus investments for growth and transformation and excluding Fast Forward and acquisition related restructuring charges) totalled £2,075 million in 2005 (2004: £2,013 million), flat on an underlying basis (up 3% on an actual basis), demonstrating Reuters continued cost discipline. The differences between the underlying and actual increases are mostly linked to acquisitions, principally Telerate, with the remainder due to currency movements.

A change to the accounting treatment of the Reuters Pension Fund (RPF), which is now recognised as a defined benefit plans rather than a defined contribution plans, resulted in an additional 2005 charge of £7 million. At the 2005 year end a deficit of £223 million from the RPF was recorded on Reuters balance sheet. Further details can be found on page 31.

As announced in July, Reuters invested £41 million in the second half of 2005 in new transformation projects and Core Plus growth initiatives. These included investment in new electronic trading products and rationalising data centres and product development units.

The Fast Forward business transformation programme is now complete and Reuters remains on track to achieve annualised cost savings of £440 million from the programme by the end of 2006. In 2005, Reuters delivered a further £126 million of annualised savings taking the total to £360 million under Fast Forward. These resulted largely from outsourcing Reuters network to BT Radianz in April 2005, headcount reductions and expanding Reuters content and development facilities in Bangalore and Bangkok.

Trading Profit

Trading profit was £334 million in 2005 (2004: £326 million). Trading margin was 14% (2004: 14%), after including expenditure on investments in the Core Plus programme. The net effect of currency movements on trading profit was neutral with the small positive effect on revenue offset by a small negative effect in the cost base.

Operating Profit

Operating profit totalled £207 million in 2005 (2004: £194 million). Fast Forward restructuring costs of £94 million were higher than originally expected, due to additional severance and property related charges associated with the £20 million acceleration in cost savings, beyond the initial 2005 target of £340 million.

Profit for the Year from Continuing Operations

Profit for the year from continuing operations was £229 million (2004: £356 million). The year-on-year decrease was almost entirely driven by a reduction in profits from asset disposals. In 2004, continuing operations contained the profits from the sale of a 39% stake in Tibco Software Inc. and Reuters holding in GL Trade, whereas the £38 million of disposal profits in 2005 came largely from further sales of Reuters remaining Tibco Software Inc. stake.

Taxation in 2005 of £9 million was notably lower than 2004, driven by the beneficial effect of settling prior year taxation items.

Profit for the Year from Discontinued Operations

Profit from discontinued operations was £253 million (2004: £19 million). This was largely made up of the post-taxation profit of £191 million on the disposal of Instinet Group and £68 million profit after taxation from Instinet Group's business operations prior to its sale in December 2005.

Reuters Group Profit

Reuters Group profit was £482 million in 2005, up from £375 million in 2004.

Cash Flow

Free cash flow was £88 million in 2005 (2004: £208 million). The year-on-year decline was driven largely by increases both in capital investment and restructuring costs. Higher capital investment resulted from Reuters move to its new London headquarters at Canary Wharf, stepped-up investment in data centres and in product development and software costs. 2005 cash restructuring costs were £147 million (2004: £100 million), of which £132 million represented the peak year for Fast Forward cash charges and the remainder related mainly to the integration of Telerate. Cash flow in 2004 also benefited from £49 million of property disposals which did not recur in 2005. A reconciliation between free cash flow and statutory cash flow can be found on page 46.

At the end of December 2005 Reuters had net funds of £253 million (2004: £181 million of net debt in Reuters). Net proceeds from disposals and acquisitions, primarily divestments of Instinet Group and Radianz, totalled £710 million. Dividend payments were £140 million, and Reuters returned £223 million to shareholders as part of the share buyback initiated in July 2005.

SALES & TRADING DIVISION RESULTS – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change
	2005	2004	Actual
	£m	£m	
Revenue	1,595	1,542	3%
Trading costs	(1,354)	(1,289)	5%
Trading profit	241	253	(5%)
Trading margin	15%	16%	

Revenue from Sales & Trading, 66% of Reuters revenue for the year, was £1,595 million (2004: £1,542 million), down 1% on an underlying basis and up 3% on an actual basis. The incorporation of Telerate revenue accounts for most of the difference between the underlying and actual results.

Reuters Xtra family revenue in Sales & Trading grew by 11% compared to 2004. *Reuters 3000 Xtra* revenue growth of 18% in 2005 came from a mixture of new business, including the displacement of competing desktops at some of Reuters largest customers, and the migration of customers from legacy products.

Trading capabilities played an important part in the performance of the **Reuters Xtra family** in 2005. In particular, usage revenue from foreign exchange trading over *Reuters Dealing* was up 10%. As trading between banks and their customers continued to move from phone to screen, *Reuters Electronic Trading* added 30 new customers in 2005 and saw volumes increase six fold. Reuters newest transactions products, *Reuters Trading for Fixed Income* and *Reuters Trading for Foreign Exchange*, continued to build momentum with significant increases in active traders and trading volumes. *Reuters Messaging* is proving increasingly popular in the credit and fixed income communities, and now has around 60,000 regular users.

In the **Reuters Trader family**, reductions in legacy positions continue to be the main drag on recurring revenue, although cancellations were mostly of lower value accesses. Migration to *Reuters 3000 Xtra* and continued growth in new *Reuters Trader* positions (over 8,200 now installed) ensured that overall revenue retention within Reuters remained high.

Trading costs totalled £1,354 million, flat on an underlying basis and up 5% on an actual basis compared to 2004, with the incorporation of Telerate costs accounting for the majority of the difference. Fast Forward savings from reduced communications costs under the BT Radianz agreement were offset by investment in Core Plus initiatives, notably electronic trading and development and data centre restructuring, as well as service resilience.

Looking forward to 2006, the major revenue drivers in Sales & Trading are expected to be new trading services; continued growth from *Reuters 3000 Xtra*; Telerate revenue retention; and the deployment of *Reuters Trader* to reduce attrition and attract new customers. There are three sources of revenue from electronic trading: transactions based revenues; recurring revenue from new desktop sales; per message fees from trades processed through the *Reuters Trade Notification Service*. Increased Core Plus investment in electronic trading and development transformation will affect Sales & Trading profitability.

RESEARCH & ASSET MANAGEMENT DIVISION RESULTS – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change
	2005	2004	Actual
	£m	£m	
Revenue	268	262	2%
Trading costs	(288)	(269)	7%
Trading loss	(20)	(7)	-
Trading margin	(7%)	(3%)	

Revenue from Research & Asset Management, 11% of Reuters revenue for the year, was £268 million, up 2% on an actual basis and 3% on an underlying basis. The difference between the two numbers reflects the net impact of acquisitions and disposals.

Revenue from the **Reuters Xtra** and **Reuters Trader families** included in the Research & Asset Management division grew 5% to £76 million. The success of making *Reuters Knowledge* available through *Reuters 3000 Xtra* and *Reuters Trader* was the key driver of this growth.

In the **Reuters Knowledge family**, revenue of £57 million was up 9% on an underlying basis, excluding disposals. Underlying growth was driven by new sales of *Reuters Knowledge* and feeds of fundamentals and estimates data. *Reuters Knowledge* accesses grew by 3,000 over the course of 2005 to 11,000.

In the **Reuters Wealth Manager family**, revenue of £135 million was up 1% on an underlying basis. Growth in areas such as Lipper, the fund information subsidiary, and *Reuters Plus*, the US retail equities product, was partly offset by a revenue decline from products such as *Reuters Markets Monitor* where Reuters decided to withdraw from unprofitable business.

Trading costs totalled £288 million, a 7% increase compared to 2004. This increase resulted from investment in Core Plus, particularly development transformation; investment to enhance the performance of *Reuters Wealth Manager*; and targeted sales campaigns to drive the growth of *Reuters Knowledge* and *Wealth Management* products. This investment was partially offset by Fast Forward savings generated by the move of certain content activities to Bangalore.

Looking forward to 2006, revenue growth in Research & Asset Management is expected to be driven by three factors: sales of *Reuters Knowledge*, both stand alone and embedded in *Reuters 3000 Xtra*; improved Lipper content; and demand for new high value content such as the new MasterCard data and EcoWin macro-economic data. This will be more than balanced by investment in high value content and product functionality as part of Core Plus.

ENTERPRISE DIVISION RESULTS – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change
	2005	2004	Actual
	£m	£m	
Revenue	393	391	1%
Trading costs	(298)	(328)	(9%)
Trading profit	95	63	52%
Trading margin	24%	16%	

Revenue from the Enterprise division, 16% of Reuters total revenue, was £393 million, up 1% for the year but down 1% on an underlying basis. This was driven by strong growth in **Reuters Enterprise Information**, partly offset by declines in outright revenue from **Reuters Information Management**.

Reuters Enterprise Information, which accounts for 52% of the Enterprise division's revenue, saw revenue rise by 11% to £203 million. Real time datafeed revenue grew 4% and *Reuters DataScope* revenue grew 36%, driven by increased demand for machine readable real time and historical data to power an increasingly wide range of customer applications. Looking forward to 2006, Reuters expects increased customer demand for machine-readable content in standardised formats.

Revenue in **Reuters Information Management**, 28% of divisional revenue, was down 14% to £108 million. Growth in recurring revenue from *Reuters Market Data System* (RMDS), primarily maintenance, was more than offset by a fall in outright revenue. This fall was driven by Reuters withdrawal from technology consulting as part of the Fast Forward programme, the impact of moving to desktop based solutions at smaller sites and the fact that the majority of customers have already migrated from legacy platforms onto RMDS. With the RMDS upgrade programme drawing to a successful close and a standard platform now largely in place, the focus in 2006 will shift to marketing new products such as *Reuters Wireless Delivery Service* and *Reuters Tick Capture Engine*. Reuters will also expand its third party developers programme to encourage development of applications on RMDS.

Reuters Trade and Risk Management, 20% of divisional revenue, saw revenues rise by 1% to £82 million, helped by price increases during the year and steady growth in Asia, including significant new sales with leading banks in China. Total outright revenue in 2005 of £36 million represented a 4% decrease over 2004, partly driven by the longer sales to revenue cycle associated with larger client deals. After a strong Q4, prospects for 2006 in **Trade and Risk Management** are encouraging.

Trading costs totalled £298 million, a drop of 9% compared to 2004. Fast Forward savings from scaling back dedicated technology consulting groups, following the decision to exit this business, were partially offset by investment in Core Plus growth initiatives including the 10 year *Reuters Tick History* database.

During 2006, Reuters will continue to market the New Enterprise Approach launched with Core Plus. It groups Enterprise products together to create workflow solutions for customers, and will focus initially on portfolio valuation and algorithmic trading.

MEDIA DIVISION RESULTS – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change
	2005	2004	Actual
	£m	£m	
Revenue	153	144	7%
Trading costs	(135)	(127)	7%
Trading profit	18	17	5%
Trading margin	12%	12%	

Revenue from the Media division, 7% of Reuters revenue, totalled £153 million, up 7% year-on-year.

Agency revenues grew 6% to £133 million, driven by a good performance from TV, including the successful launch of a Middle East service, continued strength in Pictures and new contractual arrangements with Factiva.

Consumer services revenues grew 12% to £20 million, reflecting a successful move away from syndication of news to other websites and towards promotion of direct to consumer platforms, such as reuters.com. Advertising revenues from online and signage platforms continued to grow rapidly attracting high quality brands as diverse as Diet Coke, GE and Fidelity.

In January 2006 TIMES NOW, Reuters 24 hour TV news channel for India in collaboration with The Times of India, went live. It represents an attractive investment in its own right and a strong branding opportunity from which to launch services to India's growing urban, affluent audience.

Trading costs totalled £135 million, a 7% increase compared to 2004. Key cost drivers included expansion of news coverage to new regions and Core Plus investment in consumer services. These were partially offset by a reduction in data content costs with the move of activities to Bangalore as part of Fast Forward.

In 2006, the Media division is looking forward to continued strong revenue performance. Reuters expects opportunities to grow its video news products and expand its Pictures business on the back of the recent acquisition of Action Images sports photography. The consumer services business expects strong growth in online advertising from its US, UK and Japanese markets. Profitability will be influenced by higher levels of investment in Consumer editorial and marketing teams, and in developing online, mobile and ipTV distribution capabilities.

2006 Outlook

In 2006 Reuters expects to accelerate revenue growth through its Core Plus investment programme against a backdrop of favourable market conditions. Reuters is targeting total revenue growth of around 5%. This includes acquisitions and a percentage point of growth from Core Plus and excludes currency effects.

Within trading profit, Reuters expects 2006 to benefit from the final £80 million of Fast Forward savings taking the total to £440 million of annualised savings committed to in February 2003. In line with Reuters guidance in July 2005, trading profit in 2006 is expected to reduce by £120 million due to investments to drive Core Plus growth and transformation.

In cash flow, Reuters expects to spend £220 million on capital investment in 2006, up from £178 million in 2005, as it continues to invest in new data centres and steps up the level of product development under Core Plus. This increase will be more than offset by an expected £90 million fall in restructuring spend relating to Fast Forward and Telerate integration.

Notes

Reuters (www.reuters.com), the global information company, provides indispensable information tailored for professionals in the financial services, media and corporate markets. Its trusted information drives decision making across the globe based on a reputation for speed, accuracy and independence. Reuters has 15,300 staff in 89 countries, including staff from the acquisition of Telerate in June 2005. It also includes 2,300 editorial staff in 189 bureaux serving 128 countries, making Reuters the world's largest international multimedia news agency. In 2005, Reuters revenues were £2.4 billion.

Reuters and the sphere logo are the trade-marks of the Reuters group of companies.

Reuters Group preliminary results presentation for investors and analysts will be webcast live today from 09:30 GMT and available for replay from 13:00 GMT at <http://about.reuters.com/webcast/resultsq405>.

Reuters will hold a conference call for US investors at 15:00 GMT/10:00 EST. To participate, please register on-line at <http://registration.intercall.com/go/reutersir>. An e-mail confirmation, containing the dial-in details, will be sent by return.

Photographs are available at www.about.reuters.com/pressoffice/library/photos/senior.asp

This announcement includes forward-looking statements. See page 47 for a description of risk factors.

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FINANCIAL STATEMENTS

1) CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Revenue	2,409	2,339
Operating costs	(2,251)	(2,187)
Other operating income	49	42
Operating profit	207	194
Finance costs	(53)	(27)
Finance income	41	15
Profit on disposal of associates and available-for-sale financial assets	38	203
Share of post-taxation profits from associates and joint ventures*	5	11
Profit before taxation	238	396
Taxation**	(9)	(40)
Profit for the year from continuing operations	229	356
DISCONTINUED OPERATIONS		
Profit for the year from discontinued operations	253	19
PROFIT FOR THE YEAR	482	375
Attributable to:		
Equity holders of the parent	456	364
Minority interest	26	11
EARNINGS PER SHARE		
Basic	32.6p	26.0p
Diluted	31.7p	25.4p
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Basic	16.3p	25.4p
Diluted	15.9p	24.8p

* Share of post-taxation profits from associates and joint ventures includes a taxation charge of £1 million (2004: £2 million).

** The taxation charge of £9 million includes a credit for UK taxation of £16 million.

2) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Profit for the year	482	375
Actuarial losses on defined benefit plans (net of taxation £10 million, 2004: £45 million)	(38)	(160)
Exchange adjustments offset in reserves (net of taxation £12 million, 2004: £10 million)	106	(58)
Translation differences taken to the income statement on disposal of assets	(2)	6
Fair value losses on available-for-sale financial assets (net of taxation £12 million, 2004: £nil)*	(33)	-
Fair value gains on available-for-sale financial assets taken to the income statement on disposal of assets (net of taxation £12 million, 2004: £nil)*	(55)	-
Fair value loss on net investment hedges (net of taxation £12 million, 2004: £nil)*	(27)	-
Fair value gains taken to income statement on disposal of net investment hedges (net of taxation £4 million, 2004: £nil)*	(10)	-
Minority interest in subsidiary disposed of in year	(237)	-
Net losses not recognised in income statement	(296)	(212)
Total recognised income for the year	186	163
Attributable to:		
Equity holders of the parent	374	166
Minority interest	(188)	(3)

* Fair value gains and losses arise as a result of Reuters application of IAS 39 which was adopted from 1 January 2005, as explained on page 22.

The adoption of IAS 39 resulted in an increase in equity at 1 January 2005 of £129 million, of which £2 million was attributable to the minority interest. Refer to the Consolidated Reconciliation of Changes in Equity on page 15.

3) CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005 (UNAUDITED)

	At 31 December	
	2005	2004
	£m	£m
ASSETS		
Non-current assets	1,179	1,025
Current assets	957	1,410
Non-current assets classified as held for sale	1	145
Total Assets	2,137	2,580
LIABILITIES		
Current liabilities	(736)	(1,249)
Non-current liabilities	(831)	(714)
Liabilities directly associated with non-current assets classified as held for sale	-	(47)
Total Liabilities	(1,567)	(2,010)
NET ASSETS	570	570
SHAREHOLDERS' EQUITY		
Share capital	360	359
Share premium	107	96
Other reserves	(1,692)	(1,755)
Retained earnings	1,795	1,671
Total parent shareholders' equity	570	371
Minority interest in equity	-	199
TOTAL EQUITY	570	570

4) CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Cash flows from operating activities		
Cash generated from operations (page 16)	271	280
Interest received	55	19
Interest paid	(49)	(30)
Taxation paid	(24)	(43)
Net cash flow from operating activities	253	226
Cash flows from investing activities		
Acquisitions, net of cash acquired	(124)	(78)
Disposals, net of cash disposed	246	438
Purchases of property, plant and equipment	(145)	(109)
Proceeds from sale of property, plant and equipment	3	66
Purchases of intangible assets	(40)	(27)
Purchases of available-for-sale investments	(1)	(1)
Proceeds from sale of available-for-sale investments	85	25
Dividends received	5	5
Net cash generated from investing activities	29	319
Cash flows from financing activities		
Proceeds from issue of shares	10	6
Share buy back	(223)	-
Decrease/(increase) in short term investments	248	(105)
Decrease in borrowings	(144)	(225)
Equity dividends paid to shareholders	(140)	(140)
Equity dividends paid to minority interests	(23)	-
Net cash flow from financing activities	(272)	(464)
Exchange gains/(losses) on cash and cash equivalents	66	(33)
Net increase in cash and cash equivalents	76	48
Cash and cash equivalents at the beginning of the year	561	513
Cash and cash equivalents at the end of the year	637	561

5) CONSOLIDATED RECONCILIATION OF CHANGES IN EQUITY (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Balance at beginning of the year	570	494
Transitional adjustment on first time adoption of IAS 39*	129	-
As adjusted for IAS39	699	494
Actuarial losses on defined benefit plans (net of taxation £10 million, 2004: £45 million)	(38)	(160)
Exchange adjustments offset in reserves (net of taxation £12 million, 2004 £10 million)	106	(58)
Translation differences taken to the income statement on disposal of assets	(2)	6
Fair value losses on available-for-sale financial assets (including taxation £12 million, 2004: £nil)	(33)	-
Fair value gains on available-for-sale financial assets taken to the income statement on disposal of assets (net of taxation £12 million, 2004: £nil)	(55)	-
Fair value loss on net investment hedges (net of taxation £12 million, 2004: £nil)	(27)	-
Fair value gains taken to income statement on disposal of net investment hedges (net of taxation £4 million, 2004: £nil)	(10)	-
Minority interest in subsidiary disposed in year	(237)	-
Net expense recognised directly in equity	(296)	(212)
Profit for the year	482	375
Total recognised income for the year	186	163
Employee share schemes	58	41
Proceeds from shares issued to ordinary shareholders	12	6
Proceeds from shares issued to minority shareholders of Instinet	3	4
Repurchase of own shares	(224)	-
Dividends:		
- Prior year final paid to ordinary shareholders	(86)	(86)
- Current year interim paid to ordinary shareholders	(54)	(54)
- Share of Instinet's dividend paid to minority shareholders	(23)	-
Other movements	(1)	2
Balance at the end of the year	570	570
Attributable to:		
Equity holders of the parent	570	371
Minority interest	-	199

* The transitional adjustment on the balance sheet at 1 January 2005 primarily comprises recognition of the fair value of Reuters investments in SAVVIS (£45 million gain) and TSI (£86 million gain), offset by initial recognition of embedded derivatives (£14 million loss, plus £3 million tax credit).

6) NET CASH FLOWS FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Net profit from continuing activities	229	356
Adjustments for:		
Depreciation	99	112
Impairment of associates and joint ventures	2	-
Impairment of intangibles	1	35
Amortisation of intangibles	33	28
Loss on disposal of property, plant and equipment	-	1
Employee share scheme charges	30	22
Foreign exchange (gains)/losses	(8)	9
Fair value movements in derivatives	(18)	-
Fair value movements in other financial assets at fair value through profit and loss	16	-
Profits on disposals	(42)	(207)
Share of profits of associates and joint ventures	(5)	(11)
Income from investments	(1)	-
Interest income	(41)	(15)
Interest expense	53	27
Income taxes	9	40
Movements in working capital:		
Decrease/(increase) in inventories	2	(1)
Decrease in trade and other receivables	3	2
Decrease in trade and other payables	(52)	(98)
Increase/(decrease) in pensions deficit	9	(17)
(Decrease)/increase in provisions	(27)	16
(Decrease)/increase in amounts payable to discontinued operations	(24)	8
Cash generated from continuing operations	268	307
Cash generated from discontinued operations	3	(27)
Cash generated from operations	271	280

7) DIVIDENDS PER SHARE FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	pence	pence
Dividend per share		
Prior year final paid	6.15	6.15
Current year interim paid	3.85	3.85

The weighted average number of ordinary shares used for the calculation of earnings per share was 1,396 million for the year ended 31 December 2005 (December 2004: 1,400 million).

The final dividend of 6.15 pence per share is payable on 4 May 2006 to ordinary shareholders on the register as at 17 March 2006. The final dividend is payable on 11 May 2006 to American Depositary Shareholders on the record at 17 March 2006. The ex-dividend date for ordinary shareholders and American Depositary Shareholders is 15 March 2006.

8) DISCONTINUED OPERATIONS (UNAUDITED)

Reuters adopted IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' from 1 January 2005 prospectively in accordance with the standard's provisions. The adoption of IFRS 5 has resulted in the presentation of Instinet Group (including BTC) and Radianz as discontinued operations at 31 December 2005. There is no impact on the prior year financial statements other than a change in the presentation of the income statement and cash flows of discontinued operations. The prior year balance sheets are not restated. The accounting treatment of Reuters investment in Radianz in the 2004 financial statements is discussed further below.

The 'Profit for the year from discontinued operations' line within the income statement comprises the post-taxation profit/(loss) of discontinued operations, and the post-taxation profit/(loss) on the disposal of the assets or disposal groups.

	Year to 31 December	
	2005	2004
	£m	£m
DISCONTINUED OPERATIONS		
Profits after taxation of subsidiaries acquired with a view to resale	-	1
Profits after taxation of subsidiaries (net of taxation of £20 million, 2004: £21 million)	69	39
Profit/(loss) on disposal of subsidiaries (net of taxation of £43 million, 2004: £nil)	184	(1)
Re-measurement of subsidiaries (net of taxation of £nil, 2004: £nil)	-	(20)
Profit for the year from discontinued operations	253	19

Subsidiaries acquired with a view to resale: Radianz

On 21 October 2004, Reuters entered into exclusive discussions with BT to secure a long term agreement for the provision of network services, including the sale of Radianz to BT. As a prerequisite to this agreement Reuters acquired Equant Group BV's 49% voting interest in Radianz, with a view to selling the 100% interest to BT.

On 29 April 2005, Reuters completed the sale of its 100% voting interest in Radianz to BT, for gross proceeds of \$219 million (£115 million).

Subsidiaries acquired with a view to resale are, by definition, discontinued operations under IFRS 5. However, IFRS 5 was only applicable from 1 January 2005, whereas Reuters acquired the remaining 49% of the voting shares in Radianz in November 2004. Radianz was a subsidiary from this date, and was therefore consolidated under IAS 27 'Consolidated and Separate Financial Statements'. For presentation purposes, the results for the year and the balance sheet position at 31 December 2004 have been presented using the income statement and balance sheet headings detailed in IFRS 5. The 2004 results of £1 million include £9 million in respect of Reuters share of the disposal by Radianz of its Voice Services business. Additionally, an impairment loss of £3 million recognised on re-measurement of Radianz's net assets to fair value less costs to sell is shown in discontinued operations.

The disposal of Radianz resulted in a loss on disposal of £4 million, which is presented in the income statement within 'profit for the year from discontinued operations.' This line also includes results for Radianz up to the date of disposal.

Discontinued Operations - disposal of Instinet Group

Reuters held approximately 62% of the shares in Instinet Group, a US based company, which was previously accounted for as a subsidiary of Reuters Group PLC on a 100% consolidated basis with offsetting minority interest.

On 31 March 2005, Reuters sold BTC, a soft dollar execution broker, to Instinet Group, for approximately 3.8 million shares of Instinet Group stock, valued at approximately \$22 million. In 2004, an impairment loss of £17 million was recognised for BTC within 'profit for the year from discontinued operations'.

The sale to Instinet Group has been accounted for as a partial disposal of the Group's interest in BTC, which resulted in a loss of £3 million. BTC made profits after tax of £1 million in the period prior to sale.

On 22 April 2005, Instinet Group entered into a definitive agreement, pursuant to which The NASDAQ Stock Market Inc. would acquire all outstanding shares of Instinet Group.

At the same time, Instinet Group also agreed to sell its subsidiary, Lynch, Jones & Ryan, Inc. (LJR) to the Bank of New York for \$174 million in cash, which closed on 1 July 2005.

In addition to these transactions, Instinet Group's Board approved the declaration of a dividend to all stockholders of an amount not to exceed the net proceeds of the LJR transaction. The dividend was declared in July for approximately \$109 million in cash (Reuters share being approximately \$67 million).

Following regulatory approval, the NASDAQ transaction closed on 8 December 2005. Instinet Group's electronic broker business was combined with NASDAQ's current operations. The gross proceeds received by Reuters on completion of the sale were \$1.1 billion (£612 million).

Reuters has recorded a net gain on sale of £191 million.

Instinet Group's results up until sale, a profit after taxation of £68 million (before minority interest), are also included in Reuters Group results as part of discontinued operations.

REVENUE & ACCESSES

1) REVENUE BY DIVISION BY TYPE – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change	
	2005	2004	Actual	Underlying
	£m	£m		
Recurring	1,513	1,465	3%	(1%)
Outright	6	8	(35%)	(40%)
Usage	76	69	10%	10%
Sales & Trading	1,595	1,542	3%	(1%)
Recurring	264	256	3%	4%
Outright	2	3	(33%)	(36%)
Usage	2	3	(41%)	(41%)
Research & Asset Management	268	262	2%	3%
Recurring	331	313	6%	4%
Outright	62	78	(20%)	(21%)
Enterprise	393	391	1%	(1%)
Recurring	134	130	3%	3%
Usage	19	14	40%	34%
Media	153	144	7%	6%
Recurring	2,242	2,164	4%	1%
Outright	70	89	(22%)	(23%)
Usage	97	86	13%	12%
Total revenue	2,409	2,339	3%	-

2) REVENUE BY DIVISION BY PRODUCT FAMILY – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change	
	2005 £m	2004 £m	Actual	Underlying
Reuters Xtra	882	797	11%	11%
Reuters Trader	374	424	(12%)	(23%)
Recoveries	339	321	6%	-
Sales & Trading	1,595	1,542	3%	(1%)
Reuters Xtra	67	62	7%	6%
Reuters Trader	9	11	(12%)	(15%)
Reuters Knowledge	57	65	(12%)	9%
Reuters Wealth Management	135	124	8%	1%
Research & Asset Management	268	262	2%	3%
Enterprise	393	391	1%	(1%)
Media	153	144	7%	6%
Total revenue	2,409	2,339	3%	-

Each Division consists of specific products. Each product falls into one Division except for 3000 Xtra and 2000/3000 products. Revenues at asset management clients are attributed to the Research & Asset Management Division by reference to activities at particular sites. All other revenue for these products are Sales & Trading revenues.

Where costs relate to a specific Division, they are mapped directly to that Division. Where costs are shared, Activity-Based Costing (ABC) techniques are used to appropriately apportion these costs between Divisions. These dynamic cost drivers (e.g. number of helpdesk calls, number of accesses, number of installations) are derived from various underlying source systems.

3) REVENUE BY GEOGRAPHY – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December		% Change	
	2005 £m	2004 £m	Actual	Underlying
UK and Ireland	379	374	1%	(1%)
EMEA West	375	393	(5%)	(4%)
EMEA East	576	577	-	(2%)
Americas	651	609	7%	4%
Asia	428	386	11%	3%
Total revenue	2,409	2,339	3%	-

4) REUTERS QUARTERLY NON-GAAP PRODUCT FAMILY STATISTICS (UNAUDITED)

	Three months ended			Underlying percentage change	
	December	September	December	Versus	Versus
	2005	2005	2004	September 2005	December 2004
Period end accesses (000s)					
3000 Xtra	100	97	88	3%	14%
Dealing	18	18	18	-	(2%)
Other Xtra	2	2	2	(11%)	(7%)
Reuters Xtra	120	117	108	2%	11%
2000/3000	30	35	44	(16%)	(35%)
Other Trader	73	73	56	-	(3%)
Reuters Trader	103	108	100	(6%)	(17%)
Knowledge & Wealth Manager	123	128	120	(2%)	(2%)
Total period end accesses	346	353	328	(2%)	(2%)
Access driven revenue (£m)					
Reuters Xtra	216	208	193	3%	12%
Reuters Trader	87	92	86	(3%)	(21%)
Knowledge & Wealth Manager	24	23	19	3%	5%
Total access driven revenue	327	323	298	2%	2%
Other recurring revenue	264	251	245	3%	1%
Recurring revenue	591	574	543	2%	2%
Average revenue per access (£)					
Reuters Xtra	598	595	613	-	(2%)
Reuters Trader	275	281	278	1%	(4%)
Knowledge & Wealth Manager	64	60	54	3%	4%
Total average revenue per access	309	304	304	2%	2%

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to 2005 and 2004, unless otherwise stated.

Adoption of International Financial Reporting Standards

Prior to 2005, the Group prepared its audited annual financial statements under UK Generally Accepted Accounting Principles (UK GAAP). For the year ended 31 December 2005, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements take account of the requirements and options in IFRS 1 'First-time Adoption of International Financial Reporting Standards' as they relate to the 2004 comparatives included herein.

The Group's transition date to IFRS was 1 January 2004. All adjustments on first time adoption were recorded in shareholders' equity on the date of transition, except for adjustments relating to IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' which were recorded in shareholders' equity at 1 January 2005.

IFRS 1 sets out the transition rules which must be applied when IFRS is adopted for the first time. As a result, certain of the requirements and options in IFRS 1 may result in a different application of accounting policies in the 2004 financial information, presented for the first time under IFRS, from that which would apply if the 2004 financial statements were prepared using full retrospective adoption of IFRS. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. The optional exemptions taken by the Group are:

- (a) Business combinations;
- (b) Employee benefits;
- (c) Cumulative translation differences;
- (d) Share-based payment transactions;
- (e) Financial instruments.

The mandatory exceptions outlined in IFRS 1 relevant to the financial statements of the Group (with which the Group has complied) relate to:

- (f) Estimates;
- (g) Assets classified as held for sale and discontinued operations.

For more details regarding the Group's transition to IFRS and detailed explanation of the above, please refer to page 30.

The following accounting policies have been consistently applied to 2005 and 2004, except those noted in (e) and (g) above, where the comparative information is determined under the previous accounting policies in accordance with UK GAAP.

Basis of accounting

The consolidated financial statements of the Group have been prepared under the historical cost convention, except as disclosed in the accounting policies presented below.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain judgements, estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include impairment of assets, accounting for employee share plans and defined benefit pension funds, provisions, allowances for doubtful accounts, deferred taxation, measurement of non-current assets held for sale and accounting for derivative assets and liabilities.

Basis of consolidation

The consolidated financial statements include the financial statements of Reuters Group PLC and its subsidiaries and the Group's share of the post-acquisition results of joint ventures and associates.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as

goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group transactions are eliminated as part of the consolidation process. In preparing the Group financial statements accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are all entities over which the Group has joint control with one or more other entities outside the Group. Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, plus the Group's share of post-acquisition reserves.

The Group's share of post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest. For Group reporting purposes, the results of associates and joint ventures, have been adjusted where necessary, to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Amounts included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in pounds sterling, Reuters Group PLC's functional and presentation currency.

Transactions in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement except when deferred in equity as qualifying cash flow and net investment hedges.

Translation differences on non-monetary items, such as investments held to maturity, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as available-for-sale financial assets and investments, are included in the fair value reserve in equity.

The results and financial position of all Group companies that have a functional currency other than sterling are translated as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, in which case income and expenses are translated at the dates of the transactions); and
- all resulting differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and from borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Revenue recognition

Revenue represents the turnover, net of discounts, derived from services provided to subscribers and sales of products applicable to the period.

Revenue from sales of subscription-based real-time and historical information services is recognised rateably over the term of the subscription.

Revenue from contracts for the outright sale of systems-based product solutions, which include the sale of fully developed software licences, is recognised at the time of client acceptance, at which time the Group has no further obligation. Long-term contracts are accounted for in accordance with the contractual terms either on a percentage of completion basis or on a time and materials as incurred basis.

Revenue from associated maintenance and support services is recognised rateably over the term of the maintenance contract. Where contracts allow the Group to recharge costs from communications suppliers and exchanges onwards to subscribers, this income is recognised as revenue.

Transaction products usage revenue is accounted for on a trade date basis.

Interest income is accrued on a time basis by reference to the amount outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Securities transactions between Instinet Group counterparties which pass through Instinet Group in its role as agency broker are recorded on a settlement date basis and, therefore, are only reflected in the balance sheet if there is a failure to settle. Revenues and related expenses arising from such securities transactions are accrued from the date of the transaction.

Pensions and similar obligations

IAS 19 'Employee Benefits' was amended on 16 December 2004, with effect from 1 January 2006. The amendment provides the option to recognise all actuarial gains and losses in the statement of recognised income and expense. The Group has elected to adopt this treatment early and will apply this from the date of transition to IFRS.

Group companies operate defined contribution and defined benefit pension plans and provide post-retirement medical benefits.

Payments to defined contribution pension plans are charged as an expense to the income statement as incurred when the related employee service is rendered. The Group has no further legal or constructive payment obligations once the contributions have been made.

For defined benefit pension plans, the cost of providing benefits is determined using the Projected Unit Credit Method and is charged to the income statement so as to spread the service cost over the service lives of the employees. An interest cost representing the unwinding of the discount rate on the scheme liabilities, net of the expected return on scheme assets, is charged to the income statement. The liability recognised in the balance sheet, in respect of defined benefit pension plans, is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid and that have terms of maturity approximating to the terms of the relevant pension liability.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation, and the fair value of plan assets, are recognised immediately in the statement of recognised income and expense.

Post-retirement medical benefits are provided to employees of some Group companies. The expected costs are accrued over the service lives of the employees using an accounting methodology similar to that for defined benefit pension plans.

Share-based payments

The Group makes equity-settled and cash-settled share-based payments to its employees. Equity-settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable.

Cash-settled share-based payments are accrued over the vesting period of the award, based on the current fair market value at each balance sheet date.

When share options are exercised the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets (including intangible assets) of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying value of the investment. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity or investment sold. Goodwill that was previously directly written off to reserves under UK GAAP is not included in the gain or loss on disposal of an entity.

Internally generated intangible assets – Product development

Expenditure on new or substantially improved products is capitalised as an intangible asset and amortised over the expected useful life of the product concerned. Capitalisation commences from the point at which the technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed. Capitalisation ceases when the product is ready for launch.

Internally developed intangible assets are systematically amortised over their useful economic lives which range from three to five years on a straight line basis.

Expenditure on research activities and on development activities which do not meet the above criteria is charged to the income statement as incurred.

Other intangibles

Costs that are directly associated with the production of software for internal use in the business are capitalised as an intangible asset. Software which forms an integral part of the related hardware is capitalised with that hardware and included within Property, Plant and Equipment. Software assets are amortised on a straight line basis over their expected useful economic lives.

Acquired intangible assets include computer software licences, customer relationships, trade names and trademarks. These assets are capitalised on acquisition and amortised over their expected useful economic lives.

Other intangible assets are systematically amortised on a straight line basis over their useful economic lives which are as follows:

Computer software	3 to 5 years
Other acquired intangibles	5 to 15 years

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units, 'CGUs'). Where assets do not generate independent cash flows and their carrying value cannot be attributed to a particular CGU, CGUs are grouped together at the level at which these assets reside, and the carrying amount of this group of CGUs is compared to the recoverable amount of that particular group.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and includes expenditure directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis so as to write down the assets to their residual values over their expected useful lives:

Freehold land	Not depreciated
Freehold buildings	Normally 50 years
Leasehold property	Over the term of the lease
Computer systems equipment, office equipment and motor vehicles.....	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Non-current assets held for sale (effective 1 January 2005)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered, principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less selling costs.

For 2004 comparatives, the Group has applied the disclosure requirements for assets held for sale at 31 December 2004. Balance sheet values have not been restated, in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

Investments (effective 1 January 2005)

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit and loss

This category includes financial assets held for trading and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are initially recognised at fair value and subsequently remeasured at fair value. Realised and unrealised gains and losses are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; they are included in trade and other receivables in the balance sheet. Assets in this category are initially recognised at fair value and subsequently measured at amortised cost.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Assets in this category are initially recognised at fair value and subsequently measured at amortised cost.

Available-for-sale financial assets

The Group has classified all of its marketable securities as available-for-sale. Assets in this category are initially recognised at fair value and subsequently remeasured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in the statement of recognised income and expense.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. On disposal or impairment of the investment, gains or losses in equity are recycled through the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits repayable on demand, other highly liquid investments with original maturities of three months or less, and bank overdrafts.

Inventories and contract work in progress

Inventories and contract work in progress are valued at the lower of cost and net realisable value less progress payments received and receivable from the client.

Cost is calculated on First-In-First-Out basis by reference to the invoice value of supplies and attributable costs of bringing inventories to their present location and condition.

Net realisable value is the estimated market value less selling costs.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost.

Trade receivables do not carry interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of these receivables. The amount of the provision is the difference between the carrying value and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Provisions

Provisions, other than in respect of pension and post-retirement healthcare benefits, are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination liabilities, employee termination payments and other liabilities incurred as part of restructuring programmes. Provisions are not recognised for future operating losses.

Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease rentals are charged against profit on a straight line basis over the period of the lease. Operating lease incentives received are initially deferred and then recognised over the full period of the lease.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs on qualifying assets are expensed as incurred and not capitalised as part of the cost of the asset.

Purchases and sales of financial assets

Purchases and sales of financial assets are recognised on the settlement date, which is the date that the asset is delivered to or by the Group. This includes securities transactions between Instinet Group counterparties which pass through Instinet Group in its role as agency broker and, therefore, are only reflected in the balance sheet if there is a failure to settle. Revenues and related expenses arising from such securities transactions are accrued from the date of the transaction.

Derivative financial instruments and hedging (effective 1 January 2005)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item will affect profit and loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, project costs or a major business investment) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges for net investments in foreign operations are through derivatives and foreign currency borrowings. Any gain or loss on a derivative hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement. Any gains or losses on foreign currency borrowings used as a hedge are recognised in equity.

Gains and losses accumulated in equity are included in the income statement on disposal or impairment of the foreign operation.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges under the Group's policies, are not designated as hedges. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. The Group does not hold or issue derivative financial instruments for speculative purposes.

Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The fair value of foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Other financial instruments are valued using standard pricing models based on quoted forward market rates, interpolated between dates where appropriate, and discounted cash flow techniques.

Interest in shares of Reuters Group PLC

Shares held by the employee share ownership trusts, excluding shares unconditionally vested, and repurchased shares are recorded in the balance sheet as a deduction from shareholders' equity at cost.

Dividend distribution

Dividend distributions are recognised as a liability in the period in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meeting by shareholders.

Taxation

The taxation expense for the year comprises current and deferred taxation. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current taxation expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current taxation is calculated using taxation rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method, and is the taxation expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit. Deferred taxation is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates that are expected to apply to the year of realisation or settlement based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

Deferred taxation liabilities are generally recognised for all taxable temporary differences. Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxation assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation assets and liabilities are not recognised if the temporary differences arise from goodwill not deductible for taxation purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Segment reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those in other business segments. A geographical segment is a different economic environment in which an entity operates.

Business segmentation is the primary reporting dimension for the Group, with geographical segmentation being the secondary reporting dimension. Accordingly, the four business divisions (i.e. Sales & Trading, Research & Asset Management, Enterprise and Media) are the primary reporting segments for the Group.

Applicable accounting policies for 2004 comparatives

IAS 32 and IAS 39 have been adopted as at 1 January 2005. The comparative information in 2004 for financial instruments, within the scope of IAS 39, is determined under the previous accounting policies, in accordance with UK GAAP. Those policies follow:

Investments

Government securities are stated in the balance sheet at the lower of cost plus accrued capital appreciation and market value. Income from these securities and any adjustment for changes in their market value during the year is reported as part of profit.

Debt issuance

Medium-term notes and commercial paper are stated at the amount of the net proceeds plus accrued interest or any discount or premium. Discounts or premiums to the nominal value are amortised over the term of the issue. Costs associated with debt issuance are charged against profit over the life of the instrument.

Foreign currency swap agreements and forward contracts are used to convert non-sterling debt into sterling. Interest rate swaps, swaptions and forward rate agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contract.

Treasury

The Group receives revenue and incurs expenses in more than 70 currencies and uses financial instruments to hedge a portion of its net cash flow and operating profit.

The derivative contracts are treated from inception as an economic hedge of the underlying financial instrument, with matching accounting treatment and cash flows. The derivative contracts have high correlation with the specific underlying risks being hedged, both at inception and throughout the hedge period.

The Group uses financial instruments to hedge a portion of its interest exposure. Profits and losses on financial instruments are reported as part of profit for the period to which they relate.

Financial instruments to hedge the risk on foreign currency assets are revalued at the balance sheet date and the resulting gain or loss offset against that arising from the translation of the underlying asset into sterling.

RECONCILIATIONS OF UK GAAP TO IFRS (UNAUDITED)

1) RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR TO 31 DECEMBER 2004 (UNAUDITED)

Refer also to the explanatory notes in section 3.

	Year ended 31 December 2004				
	Note	UK GAAP £m	IFRS impact £m	Discontinued operations £m	IFRS £m
Revenue		2,885	-	(546)	2,339
<i>Development and software licences</i>	2		(21)		
<i>Employee benefits - Share based payments</i>	3		(7)		
<i>Employee benefits - Pension costs</i>	4		7		
<i>Goodwill amortisation and impairment</i>	5		40		
<i>IFRS adjustments to discontinued operations</i>	7		(10)		
Operating costs		(2,732)	9	536	(2,187)
<i>Profit/(loss) on disposal of subsidiaries</i>	8		(6)		
Other operating income		50	(6)	(2)	42
Operating profit		203	3	(12)	194
Finance costs - net	6	(4)	(1)	(7)	(12)
Profit on disposal of associates and fixed asset investments	8	225	(2)	(20)	203
Share of profits/(losses) from associates and joint ventures	6	4	-	7	11
Share of JV profit on disposal of a business		9	-	(9)	-
Share of profits/(losses) from associates and joint ventures		13	-	(2)	11
Profit/(loss) before taxation		437	-	(41)	396
Taxation	9	(73)	11	22	(40)
Profit/(loss) from continuing operations		364	11	(19)	356
DISCONTINUED OPERATIONS					
Profit after taxation from discontinued operations	12	-	-	19	19
Profit from discontinued operations		-	-	19	19
PROFIT FOR THE YEAR		364	11	-	375
Attributable to:					
Equity holders of the parent		351	11	2	364
Minority interest		13	-	(2)	11
Basic EPS		25.1p	0.8p	0.1p	26.0p
Basic EPS from continuing operations		26.0p	0.8p	(1.4p)	25.4p

2) RECONCILIATION OF SHAREHOLDERS' EQUITY (UNAUDITED)

Refer also to the explanatory notes in section 3.

	Note	31 December 2004 £m	1 January 2004* £m
REPORTED UNDER UK GAAP		612	407
First-time adoption of IFRS:	1		
Development and software licences	2	49	49
Employee benefits	3, 4	(14)	(14)
Goodwill amortisation and impairments	5	6	6
Taxation	9	(21)	(21)
Post-balance sheet events – Dividends	10	86	86
Financial assets and derivatives	11	-	-
Acquired intangible assets	1	(14)	(14)
Other		(5)	(5)
		87	87
Ongoing IFRS adjustments:			
Development and software licences	2	(21)	-
Employee benefits	3, 4	(200)	-
Goodwill amortisation and impairments	5	29	-
Taxation	9	63	-
Post-balance sheet events – Dividends	10	-	-
Financial assets and derivatives	11	-	-
Acquired intangible assets	1	(1)	-
Other		1	-
		(129)	-
IFRS impact		(42)	87
SHAREHOLDERS' EQUITY UNDER IFRS		570	494

* Date of transition to IFRS for the Group

This reconciliation has been updated since the 2005 interim press release, primarily due to the reclassification of the Reuters Pension Fund (RPF) to a defined benefit plan under IFRS. The RPF is a complex, hybrid pension fund, with both defined company and employee contributions, and defined employee benefits. The RPF has been in existence since 1893 and has historically been treated as a defined contribution plan under UK and US GAAP.

Under the rules of the pension fund, the Company is not able to access any surplus in the RPF. Although the Company and employees make defined contributions to the fund, the RPF does not provide for contributions to be made to individual plan participant accounts. Under IAS 19, the RPF is treated as a defined benefit plan from the date of transition to IFRS. At transition, the net plan liabilities are £nil. At 31 December 2004, a net liability of £178 million has been recognised together with a related deferred tax asset of £39 million.

We also filed an amendment to our 2004 Form 20F/A with the SEC to reflect the RPF as a defined benefit plan under US GAAP.

3) EXPLANATORY NOTES TO THE UK GAAP TO IFRS RECONCILIATIONS

1. **Transition date and first-time adoption of IFRS;** the Group's transition date to IFRS was 1 January 2004. All adjustments on first-time adoption were recorded in shareholders' equity on the date of transition, except for adjustments relating to IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' which were recorded in shareholders' equity at 1 January 2005.

IFRS 1 sets out the transition rules which must be applied when IFRS is adopted for the first time. As a result, certain of the requirements and options in IFRS 1 may result in a different application of accounting policies in the 2004 restated financial information from that which would apply if the 2004 financial statements were prepared using

full retrospective adoption of IFRS. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. The optional exemptions taken by the Group are:

- (a) *Business combinations*; The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that took place prior to the transition date to IFRS. Consequently, goodwill arising on business combinations before the transition date remains at its previous UK GAAP carrying value at the date of transition from the UK GAAP financial statements. The functional currency of certain subsidiary goodwill and intangible balances has been changed to reflect the functional currency of the subsidiary to which the goodwill relates, which resulted in £13 million additional translation losses being recorded in opening equity at the date of transition.
- (b) *Employee benefits*; The Group has elected to recognise all cumulative actuarial gains and losses relating to employee benefit schemes in full in the Statement of Recognised Income and Expense. The impact is to recognise a net liability as at 1 January 2004 of £17 million.
- (c) *Cumulative translation differences*; Under IAS 21 'The Effects of Changes in Foreign Exchange Rates' cumulative translation differences within reserves are recycled from equity to the income statement on disposal of a foreign operation. In order to eliminate the need to retrospectively apply this requirement, the Group took the exemption to set cumulative translation differences to zero at the date of transition. Resetting to zero has no impact on net equity.
- (d) *Share-based payment transactions*; the Group adopted the exemption in IFRS 1 which allows a first-time adopter to apply the new standard, IFRS 2 'Share-based Payments', only to share options and equity instruments granted after 7 November 2002 that have not vested by 1 January 2005. This will result in a number of existing schemes not being considered under IFRS and charges in 2004 and 2005 are likely to be lower than in 2006, when the full impact of IFRS 2 will be seen.
- (e) *Financial instruments*; The Group took the exemption within IFRS to apply IAS 32 and IAS 39 from 1 January 2005. The comparative information in 2004 for financial instruments, within the scope of IAS 39, is based on the underlying UK GAAP numbers. The main differences relate to the fair value of certain financial assets and recognition of all derivatives (including embedded derivatives) at fair value. The adjustment to increase opening equity as at 1 January 2005 for the adoption of IAS 32 and IAS 39 is £129 million.

The mandatory exceptions outlined in IFRS 1 relevant to the financial statements of the Group (with which Reuters has complied) relate to:

- (f) *Estimates*; Estimates under IFRS at the date of transition are required to be consistent with estimates made for the same date under previous GAAP.
 - (g) *Assets classified as held for sale and discontinued operations*; An entity with a transition date to IFRS before 1 January 2005 shall apply the transitional provisions of IFRS 5, which require prospective application of IFRS 5. Earlier application is permissible so long as the necessary valuation information was available at the time the classification criteria would originally have needed to be met. The Group has applied IFRS 5 from 1 January 2005, but has used the relevant statement headings in its 2004 comparative numbers.
2. **Development and software licences**; under UK GAAP, both internally developed and acquired software licence costs were expensed through the profit and loss account in the year that they were incurred. Under IFRS, the Group capitalises expenditure on development of new or substantially improved products which is incurred between establishing technical feasibility and the asset becoming income generating, provided it satisfies the conditions set out in IAS 38.
 3. **Employee benefits (share-based payments)**; under UK GAAP charges were based on the intrinsic value of awarded shares at grant date, with no charge required for certain SAYE and Discretionary Share Option Plans (DSOP). Under IFRS the income statement cost is based on the fair value of all share-based awards at grant date if equity-settled, or at the balance sheet date if cash-settled. The cost is calculated using option pricing models and, for equity-settled awards, applies to all options granted after 7 November 2002 that have not vested by 1 January 2006 and amortised over the vesting period of the options.
 4. **Employee benefits (pension costs)**; under UK GAAP the expected costs of defined benefit pension plans and post-retirement medical benefits were charged against the income statement over the expected service lives of employees. The Group has elected to adopt the December 2004 amendments to IAS 19 'Employee Benefits', hence differences between actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the Statement of Recognised Income and Expense. The amount reflected on the balance sheet is therefore the value of the plan liabilities less the fair value of defined benefit plan assets. The service cost of post retirement benefits accruing, the unwinding of the discount rate on the scheme liabilities and the expected return on scheme assets are accounted for as operating costs. Under IAS 19, the Group reassessed the classification of its pension schemes, resulting in the reclassification of the Reuters Pension Fund as a defined benefit scheme from the date of transition. The restated opening IFRS balance sheet reflects the present value of the defined benefit obligations less the fair value of the plan assets of the Group's defined benefit schemes.
 5. **Goodwill amortisation and impairments**; under UK GAAP goodwill was amortised through the income statement on a straight line basis and impairment reviews were carried out periodically or when a specific event occurred.

Under IFRS 3, goodwill is not amortised through the income statement but instead is subject to an annual test for impairment resulting in adjustments in the income statement and the balance sheet.

6. **Share of profits/(losses) from joint ventures and associates;** is reported net of interest and taxation under IFRS, whereas under UK GAAP, interest and taxation were reported separately in the respective headings. In 2004, the Group acquired the 49% voting interest in Radianz that it did not already own. Under UK GAAP equity accounting continued for the original 51% interest and the 49% interest was held on the balance sheet as an asset held for sale. Under IFRS, from the date of acquisition of the remaining 49%, it was necessary to consolidate 100% of Radianz. IFRS 5 presentation was used, and hence the results of Radianz prior to 16 November 2004 were presented within discontinued operations on the income statement.
7. **IFRS adjustments to discontinued operations;** these adjustments relate to employee benefit costs (as described in notes 3 and 4) and deferred taxation (as set out in note 9).
8. **Profit/(loss) on disposals;** under UK GAAP the profit or loss on disposals represented the difference between the balance sheet carrying value and the net disposal proceeds. Under IFRS, any currency translation differences previously taken to reserves are now included in the profit on disposal calculation. Also, the carrying value will be higher under IFRS as subsidiary goodwill is no longer amortised.
9. **Taxation;** under IFRS deferred taxation is recognised on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet, and their taxation bases. Deferred taxation has been recognised on the IFRS adjustments to the extent that they result in a temporary difference. The principal items that result in adjustments to deferred taxation between UK GAAP and IFRS are: financial asset and derivative valuations; fair values of employee benefits; development and software licences; acquired intangible assets; and share based payments. The £6 million change in the carrying value of goodwill at 1 January 2004 represents the creation of a deferred taxation liability on intangibles acquired in past business combinations.
10. **Post-balance sheet events: dividends;** under UK GAAP dividends are provided for in the year in respect of which they are declared or proposed by the Directors. Under IFRS, dividends declared after the balance sheet date are not recognised as an adjusting post-balance sheet event. Dividends are only provided for when they are declared. The final 2003 dividend is derecognised on transition to IFRS and has been disclosed as a movement in reserves during 2004 alongside the 2004 interim dividend.
11. **Financial assets and derivatives;** under IFRS the Group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' at the effective date of 1 January 2005. IAS 39 covers the recognition, measurement and derecognition of financial instruments for which there is no UK equivalent standard. The Group decided to take the exemption granted in IFRS 1 which removed the requirement to produce 2004 comparatives. Financial assets and liabilities recognised at 31 December 2004 have therefore been valued in accordance with the requirements of UK GAAP.
12. **Profit after taxation from discontinued operations;** the adoption of IFRS 5 has resulted in presentation of certain group subsidiaries as discontinued operations. For more details on discontinued operations please refer to page 17.

4) EXPLANATION OF PRINCIPAL DIFFERENCES BETWEEN THE CASH FLOW STATEMENTS PRESENTED UNDER UK GAAP AND THE CASH FLOW STATEMENTS PRESENTED UNDER IFRS (UNAUDITED)

The cash flow statement has been prepared in conformity with IAS 7 'Cash Flow Statements'. The principal differences between the 2004 cash flow statements presented in accordance with UK GAAP and the cash flow statement presented in accordance with IFRS for the same periods are as follows:

1. Under UK GAAP net cash flow from operating activities was determined before considering cash outflows from (a) returns on investments and servicing of finance, (b) dividends received from associates, and (c) taxes paid. Under IFRS, net cash flow from operating activities is determined after these items.
2. Under UK GAAP foreign currency swap agreements and forward contracts are used to convert debt from one currency into another. The impact of derivatives with a positive fair value in 2005 was to increase reported borrowings and to recognise separately financial assets and financial liabilities for the related derivatives. Under IFRS, derivatives are reported separately and in the case of qualifying fair value hedges, are adjusted in reported borrowings.
3. Under UK GAAP capital expenditure, financial investments and acquisitions were classified separately, while under IFRS, they are classified as investing activities.
4. Under UK GAAP dividends paid were classified separately, while under IFRS, dividends paid are classified as financing activities.
5. Under UK GAAP movements in short-term investments were not included in cash but classified as management of liquid resources. Under IFRS, short-term investments with maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

USE OF NON-GAAP MEASURES

To supplement IFRS measures, Reuters undertakes further analysis to break these measures out into their component parts, which results in the creation of certain measures which differ from the IFRS headline indicators ('non-GAAP measures'). The rationale for this analysis is outlined below, and reconciliations of the non-GAAP measures to IFRS measures are included within the review of results. These measures are used by management to assess the performance of the business and should be seen as complementary to, rather than replacements for, reported statutory results.

1) Underlying results

Period-on-period change in Reuters is measured in overall terms (i.e. actual reported results under IFRS) and sometimes in underlying terms as well. Underlying change is calculated by excluding the impact of currency fluctuations and the results of acquisitions and disposals, as these are factors that are not on a like-for-like basis between periods. This enables comparison of Reuters operating results on a like-for-like basis between periods.

- Variations in currency exchange rates impact the results because Reuters generates revenues and incurs costs in currencies other than its reporting currency. Year-on-year, currency exchange rate movements will influence reported numbers to a greater or lesser extent, and therefore they are discussed separately from underlying results to make clear their impact on the overall growth or decline in operations. Underlying results are calculated by restating the prior periods' results using the current period's exchange rates. This also reflects the variables over which management has control, as business units do not manage currency exposure, and business division operating performance is managed against targets set on a constant currency basis.
- Underlying results are calculated excluding the results of entities acquired or disposed of during the current or prior periods from the results of each period under review. Underlying results reflect the operating results of the ongoing elements of each business division, and measure the performance of management against variables over which they have control, without the year-on-year impact of a step change in revenue and costs that can result from acquisition or disposal activity.

2) Exclusion of restructuring charges

Reuters results are reviewed before and after the costs of Reuters business transformation plan (which includes the Fast Forward programme) and acquisition integration charges.

Under the Fast Forward programme Reuters incurred restructuring charges relating primarily to headcount reduction and rationalisation of the company's property portfolio. Fast Forward is a three year programme implemented to accelerate and expand on Reuters five year business transformation plan which was launched in 2001; the programme completed in 2005, as originally envisaged.

The Fast Forward programme was centrally managed, and its performance against targets was evaluated separately from the ongoing Reuters business. Fast Forward restructuring charges are therefore excluded from certain profit and margin measures.

Acquisition integration costs are one-off charges associated with transaction activity which do not recur. As described above, the charges in respect of acquisition activity are excluded to enable better like-for-like comparison between periods.

Because of their time-limited and defined nature, Reuters believes that presenting these measures, both including and excluding restructuring charges, gives investors a more detailed insight into the performance of management and the business. In addition, Reuters management uses both measures to assess the performance of management and the business.

3) Exclusion of amortisation and impairment of intangibles acquired in a business combination, investment income, profit/(losses) from disposals, and fair value movements

For certain cost, profit, margin and earnings per share measures, Reuters analyses its results both before and after the impact of restructuring charges, amortisation and impairments of intangibles acquired in a business combination, investment income, profits and losses from disposals, and fair value movements. The adjusted measures are referred to as 'Trading Profit', 'Trading Costs' and 'Trading Margin'. The rationale for isolating restructuring charges is explained above.

Amortisation and impairment of intangibles acquired in a business combination, investment income and profit/(losses) from disposals

Reuters isolates the impact of income and charges in respect of its investments. Income and charges from investments relate to impairments of goodwill, subsidiaries, associates and joint ventures; impairments and amortisation of other intangibles acquired in a business combination; income from investments; and pre-taxation profits and losses on disposal of subsidiaries, joint ventures, associates and other investments.

Such charges and income may arise from corporate acquisition and disposal activity, rather than the ongoing operations of the business divisions, with a reasonable allocation being determined for segmental reporting. These are analysed and reviewed separately from ongoing operations, as this is consistent with the manner in which Reuters sets internal targets, evaluates its business units and issues guidance to the investor community.

(Note: Amortisation and impairment charges in respect of software and research and development intangibles are included within operating costs)

Fair value movements

Reuters also isolates the impact of movements in the fair value of financial assets held at fair value through profit or loss, embedded derivatives, and derivatives used for hedging purposes (where those changes are reflected in the income statement).

Financial assets held at fair value through profit or loss included Reuters investment in SAVVIS convertible shares. This investment was sold as part of the acquisition consideration for Moneyline Telerate (MLT). Fair value movements for this investment have been analysed separately from the ongoing operations of the business units during 2005.

Embedded derivatives are foreign exchange contracts implicitly contained in some of Reuters revenue and purchase commitments. Changes in the fair value of embedded derivatives arise as a result of movements in foreign currency forward rates. The unpredictable nature of forward rates, the uncertainty over whether the gains or losses they anticipate will actually arise, and the volatility they bring to the income statement lead Reuters to consider that it is appropriate to analyse their effects separately from the ongoing operations of the business. This enables Reuters to undertake more meaningful period-on-period comparisons of its results, as well as to isolate and understand better the effect of future currency movements on revenue and purchase commitments. This separate analysis is also consistent with the manner in which Reuters sets its internal targets, evaluates its business divisions and issues guidance to the investor community.

The impact of fair value movements on derivatives relating to treasury hedging activity is also excluded, unless there is an equivalent offset in operating results. All derivatives undertaken provide effective economic hedges, but some may not qualify for hedge accounting and in these situations the reported impact of the underlying item and the hedge may not offset. The impact of treasury derivatives is mainly due to currency or interest rate movements and, as for the other items noted above, business division operating performance is managed against targets which exclude these factors.

Taxation

To ensure consistency, the non-GAAP EPS measure also eliminates the earnings impact of taxation charges and credits related to excluded items.

Dividend policy

Presenting earnings before the impact of restructuring charges, amortisation and impairment of intangibles acquired in a business combination, investment income, disposals and fair value movements also helps investors to measure performance in relation to Reuters dividend policy. In 2001, Reuters Group defined the long-term goal of its dividend policy to be a dividend cover of at least two times, based on Reuters UK GAAP earnings before amortisation of goodwill and other intangibles, impairments and disposals. Reuters dividend policy remains unaltered. With the adoption of IFRS, the equivalent earnings measure is Reuters earnings (after interest and taxation) before amortisation and impairments of intangibles acquired in a business combination, fair value movements and profits/(losses) on disposals.

4) Free cash flow

Reuters free cash flow is used as a performance measure to assess Reuters ability to pay its dividend from cash flow. Free cash flow is intended to measure all Reuters cash movements, other than those which are both discretionary in nature and unrelated to ongoing recurring operating activities such as purchase of shares by the Employee Share Option Trusts (ESOTs), loans with associates and joint ventures and dividends paid out by Reuters. Whilst Reuters believes that free cash flow is an important performance measure in respect of its cash flows, it is not used in isolation, but rather in conjunction with other cash flow measures as presented in the financial statements.

5) Net funds/debt

Net funds/debt represents cash and cash equivalents and short term investments, net of bank overdrafts and borrowings. This measure aggregates certain components of financial assets and liabilities and is used in conjunction with total financial assets and liabilities to manage Reuters overall financing position.

RECONCILIATION OF NON-GAAP MEASURES (UNAUDITED)

1) RECONCILIATION OF OPERATING PROFIT TO TRADING PROFIT (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Reuters operating profit from continuing operations	207	194
Excluding:		
Restructuring charges	112	120
Impairments & amortisation of business combination intangibles	22	16
Investment income	(1)	-
Profit on disposal of subsidiaries	(4)	(4)
Fair value movements	(2)	-
Reuters trading profit*	334	326

2) RECONCILIATION OF OPERATING MARGIN TO TRADING MARGIN (UNAUDITED)

	Year to 31 December	
	2005	2004
	%	%
Reuters operating margin from continuing operations	9%	8%
Excluding:		
Restructuring charges	4%	5%
Impairments & amortisation of business combination intangibles	1%	1%
Investment income	-	-
Profit on disposal of subsidiaries	-	-
Fair value movements	-	-
Reuters trading margin*	14%	14%

* Reuters trading profit and trading margin are defined as operating profit from continuing operations before restructuring charges associated with Fast Forward and acquisitions, impairments & amortisation of intangibles acquired via business combinations, investment income, profits from disposals of subsidiaries and fair value movements.

3) RECONCILIATION OF OPERATING PROFIT TO TRADING PROFIT BY DIVISION (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Continuing operations		
Sales & Trading		
Operating profit	157	175
Excluding:		
Restructuring charges	76	63
Impairments & amortisation of business combination intangibles	13	10
Investment income	(1)	-
(Profit)/loss on disposal of subsidiaries	(7)	5
Fair value movements	3	-
Trading profit	241	253
Research & Asset Management		
Operating profit	(37)	(16)
Excluding:		
Restructuring charges	11	18
Impairments & amortisation of business combination intangibles	3	3
Investment income	-	-
Loss/(profit) on disposal of subsidiaries	5	(12)
Fair value movements	(2)	-
Trading loss	(20)	(7)
Enterprise		
Operating profit	76	31
Excluding:		
Restructuring charges	17	27
Impairments & amortisation of business combination intangibles	5	3
Investment income	-	-
(Profit)/loss on disposal of subsidiaries	(1)	2
Fair value movements	(2)	-
Trading profit	95	63
Media		
Operating profit	11	4
Excluding:		
Restructuring charges	8	12
Impairments & amortisation of business combination intangibles	1	-
Investment income	-	-
(Profit)/loss on disposal of subsidiaries	(1)	1
Fair value movements	(1)	-
Trading profit	18	17

4) RECONCILIATION OF OPERATING MARGIN TO TRADING MARGIN BY DIVISION (UNAUDITED)

	Year to 31 December	
	2005	2004
Continuing operations	%	%
Sales & Trading		
Operating margin	10%	11%
Excluding:		
Restructuring charges	5%	4%
Impairments & amortisation of business combination intangibles	1%	1%
Investment income	-	-
(Profit)/loss on disposal of subsidiaries	(1%)	-
Fair value movements	-	-
Trading margin	15%	16%
Research & Asset Management		
Operating margin	(14%)	(6%)
Excluding:		
Restructuring charges	4%	7%
Impairments & amortisation of business combination intangibles	1%	1%
Investment income	-	-
Loss/(profit) on disposal of subsidiaries	2%	(5%)
Fair value movements	-	-
Trading margin	(7%)	(3%)
Enterprise		
Operating margin	20%	8%
Excluding:		
Restructuring charges	4%	7%
Impairments & amortisation of business combination intangibles	1%	1%
Investment income	-	-
(Profit)/loss on disposal of subsidiaries	-	-
Fair value movements	(1%)	-
Trading margin	24%	16%
Media		
Operating margin	7%	3%
Excluding:		
Restructuring charges	6%	9%
Impairments & amortisation of business combination intangibles	1%	-
Investment income	-	-
(Profit)/loss on disposal of subsidiaries	(1%)	-
Fair value movements	(1%)	-
Trading margin	12%	12%

5) RECONCILIATION OF REUTERS NON-GAAP BASIC EPS FROM CONTINUING OPERATIONS TO BASIC EPS (UNAUDITED)

	Year to 31 December	
	2005	2004
	pence	pence
Reuters basic EPS from continuing operations	16.3	25.4
Excluding:		
Impairments & amortisation of business combination intangibles	1.6	1.1
Investment income	(0.1)	-
Profit on disposals	(2.9)	(14.7)
Fair value movements	(0.2)	-
Adjustment to taxation charge for taxation effects of excluded items	(0.9)	-
Reuters basic EPS from continuing operations before impairments & amortisation of business combination intangibles, investment income, profit on disposals, fair value movements and related taxation effects	13.8	11.8

6) RECONCILIATION OF REUTERS NON-GAAP PROFIT BEFORE TAXATION TO PROFIT BEFORE TAXATION (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Reuters profit before taxation from continuing operations	238	396
Excluding:		
Impairments & amortisation of business combination intangibles	22	16
Investment income	(1)	-
Profit on disposals	(42)	(207)
Fair value movements	(2)	-
Reuters profit before taxation from continuing operations before impairments & amortisation of business combination intangibles, investment income, profit on disposals and fair value movements	215	205

7) RECONCILIATION OF ACTUAL PERCENTAGE CHANGE TO UNDERLYING CHANGE - REUTERS REVENUE BY DIVISION BY TYPE – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	% change versus year ended 31 December 2004			
	Underlying change	Impact of currency	Impact of acquisitions & disposals	Actual change
Recurring	(1%)	-	4%	3%
Outright	(40%)	5%	-	(35%)
Usage	10%	-	-	10%
Sales & Trading	(1%)	-	4%	3%
Recurring	4%	-	(1%)	3%
Outright	(36%)	3%	-	(33%)
Usage	(41%)	-	-	(41%)
Research & Asset Management	3%	-	(1%)	2%
Recurring	4%	1%	1%	6%
Outright	(21%)	1%	-	(20%)
Enterprise	(1%)	1%	1%	1%
Recurring	3%	-	-	3%
Usage	34%	(1%)	7%	40%
Media	6%	-	1%	7%
Recurring	1%	-	3%	4%
Outright	(23%)	1%	-	(22%)
Usage	12%	-	1%	13%
Total Reuters revenue	-	-	3%	3%

8) RECONCILIATION OF ACTUAL PERCENTAGE CHANGE TO UNDERLYING CHANGE - REUTERS REVENUE BY DIVISION BY PRODUCT FAMILY – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	% change versus year ended 31 December 2004			
	Underlying change	Impact of currency	Impact of acquisitions & disposals	Actual change
Reuters Xtra	11%	-	-	11%
Reuters Trader	(23%)	1%	10%	(12%)
Recoveries	-	1%	5%	6%
Sales & Trading	(1%)	-	4%	3%
Reuters Xtra	6%	1%	-	7%
Reuters Trader	(15%)	2%	1%	(12%)
Reuters Knowledge	9%	1%	(22%)	(12%)
Reuters Wealth Manager	1%	-	7%	8%
Research & Asset Management	3%	-	(1%)	2%
Enterprise	(1%)	1%	1%	1%
Media	6%	-	1%	7%
Total Reuters revenue	-	-	3%	3%

9) RECONCILIATION OF ACTUAL PERCENTAGE CHANGE TO UNDERLYING CHANGE - REUTERS REVENUE BY GEOGRAPHY – YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	% change versus year ended 31 December 2004			
	Underlying change	Impact of currency	Impact of acquisitions & disposals	Actual change
UK and Ireland	(1%)	(1%)	3%	1%
EMEA West	(4%)	-	(1%)	(5%)
EMEA East	(2%)	-	2%	-
Americas	4%	1%	2%	7%
Asia	3%	1%	7%	11%
Total Reuters revenue	-	-	3%	3%

10) RECONCILIATION OF ACTUAL PERCENTAGE CHANGE TO UNDERLYING CHANGE - REUTERS QUARTERLY NON-GAAP PRODUCT FAMILY STATISTICS (UNAUDITED)

	% change versus three months ended 30 September 2005			
	Underlying change	Impact of currency	Impact of acquisitions & disposals	Actual change
Period end accesses				
3000 Xtra	3%	-	-	3%
Dealing	-	-	-	-
Other Xtra	(11%)	-	-	(11%)
Reuters Xtra	2%	-	-	2%
2000/3000	(16%)	-	1%	(15%)
Other Trader	-	-	-	-
Reuters Trader	(6%)	-	1%	(5%)
Knowledge & Wealth Manager	(2%)	-	(1%)	(3%)
Total period end accesses	(2%)	-	-	(2%)
Access driven revenue				
Reuters Xtra	3%	1%	-	4%
Reuters Trader	(3%)	1%	(3%)	(5%)
Knowledge & Wealth Manager	3%	1%	2%	6%
Total access driven revenue	2%	-	(1%)	1%
Other recurring revenue	3%	1%	1%	5%
Recurring revenue	2%	1%	-	3%
Average revenue per access				
Reuters Xtra	-	1%	-	1%
Reuters Trader	1%	-	(3%)	(2%)
Knowledge & Wealth Manager	3%	1%	4%	8%
Total average revenue per access	2%	1%	(1%)	2%

11) RECONCILIATION OF ACTUAL PERCENTAGE CHANGE TO UNDERLYING CHANGE - REUTERS QUARTERLY NON-GAAP PRODUCT FAMILY STATISTICS (UNAUDITED)

	% change versus three months ended 31 December 2004			
	Underlying change	Impact of currency	Impact of acquisitions & disposals	Actual change
Period end accesses				
3000 Xtra	14%	-	-	14%
Dealing	(2%)	-	-	(2%)
Other Xtra	(7%)	-	-	(7%)
Reuters Xtra	11%	-	-	11%
2000/3000	(35%)	-	3%	(32%)
Other Trader	(3%)	-	33%	30%
Reuters Trader	(17%)	-	20%	3%
Knowledge & Wealth Manager	(2%)	-	5%	3%
Total period end accesses	(2%)	-	8%	6%
Access driven revenue				
Reuters Xtra	12%	-	-	12%
Reuters Trader	(21%)	2%	20%	1%
Knowledge & Wealth Manager	5%	3%	18%	26%
Total access driven revenue	2%	-	7%	9%
Other recurring revenue	1%	2%	5%	8%
Recurring revenue	2%	1%	6%	9%
Average revenue per access				
Reuters Xtra	(2%)	-	-	(2%)
Reuters Trader	(4%)	1%	2%	(1%)
Knowledge & Wealth Manager	4%	2%	12%	18%
Total average revenue per access	2%	1%	(1%)	2%

12) COMPONENTS OF NET FUNDS AT 31 DECEMBER 2005 (UNAUDITED)

	At 31 December	
	2005	2004
	£m	£m
Cash and cash equivalents	662	578
Bank overdrafts	(25)	(17)
	637	561
Short-term investments	1	258
Borrowings (excluding bank overdrafts)	(385)	(493)
Net funds	253	326

13) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT) FOR THE YEAR ENDED 31 DECEMBER 2005 (UNAUDITED)

	Year to 31 December	
	2005	2004
	£m	£m
Increase in cash and cash equivalents	76	48
Cash (inflow)/outflow from movement in short term investments	(248)	105
Cash outflow from movement in borrowings	144	225
Exchange gains on short term investments and borrowings	11	19
	(17)	397
Net funds arising on disposal	(2)	1
IAS 39 transitional adjustments	(69)	-
Fair value movements	22	-
Other non cash movements	(7)	5
Movement in net funds	(73)	403
Opening net funds/(debt)	326	(77)
Closing net funds	253	326

14) RECONCILIATION OF CASH GENERATED FROM REUTERS OPERATIONS TO REUTERS FREE CASH FLOW (UNAUDITED)

	Year to 31 December 2005		
	Continuing operations	Discontinued operations	Reuters Group
	£m	£m	£m
Cash generated from operations	268	3	271
Interest received	42	13	55
Interest paid	(49)	-	(49)
Taxation paid	(11)	(13)	(24)
Purchases of property, plant and equipment	(138)	(7)	(145)
Proceeds from sale of property, plant and equipment	3	-	3
Purchases of intangible assets	(40)	-	(40)
Interim funding repayment from MLT	(18)	-	(18)
Dividends received	5	-	5
Repayment of funds to/(from) BTC	26	(26)	-
Free cash flow	88	(30)	58

	Year to 31 December 2004		
	Continuing operations	Discontinued operations	Reuters Group
	£m	£m	£m
Cash generated from operations	307	(27)	280
Interest received	10	9	19
Interest paid	(29)	(1)	(30)
Taxation paid	(34)	(9)	(43)
Purchases of property, plant and equipment	(90)	(19)	(109)
Proceeds from sale of property, plant and equipment	49	17	66
Purchases of intangible assets	(27)	-	(27)
Interim funding repayment from MLT	18	-	18
Dividends received	4	1	5
Free cash flow	208	(29)	179

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to Reuters Group's financial condition, results of operations and business, and management's strategy, plans and objectives for the Group. In particular, all statements that express forecasts, expectations and projections with respect to certain matters, including trends in results of operations, margins, growth rates, overall financial market trends, anticipated cost savings and synergies and the successful completion of restructuring programmes, strategy plans, acquisitions and disposals, are all forward-looking statements. These statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to:

- Reuters ability to realise the anticipated benefits of the transformation initiatives undertaken through its Fast Forward programme and its Core Plus growth strategy;
- unfavourable conditions in financial markets;
- the impact of currency and interest rate fluctuations on Reuters Group's reported revenue and earnings;
- difficulties or delays that Reuters Group may experience in developing or responding to new customer demands or launching new products;
- the dependency of Reuters Group on third parties for the provision of certain network and other services;
- any significant failures or interruptions experienced by the networks or systems of Reuters Group and such networks' ability to accommodate increased traffic;
- the impact of significant competition or structural changes in the financial information and trading communities;
- changes in the regulatory or competitive environment;
- adverse governmental action in countries where Reuters conducts activities;
- the ability of Reuters to realise the benefit of acquisitions;
- any issues identified with controls over financial reporting, including in the project to achieve compliance with Sarbanes Oxley Act, section 404;
- the increasingly litigious environment in which Reuters Group operates, especially in the area of patent and other intellectual property claims.

For additional information, please see "Risk Factors" in the Reuters Group PLC Annual Report and Form 20-F for the year ended 31 December 2004. Copies of the Annual Report and Form 20-F are available on request from Reuters Group PLC, South Colonnade, Canary Wharf, London E14 5EP. Any forward-looking statements made by or on behalf of Reuters Group speak only as of the date they are made. Reuters Group does not undertake to update any forward-looking statements.

Ends