

Interim results – financial highlights

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REUTERS 

Definitions

"Reuters Group" refers to Reuters Group PLC and its subsidiary undertakings.

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. 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 Group'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, cash flow 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', 'Trading Margin' and 'Trading Cash Flow'. 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 in 2005 included Reuters investment in SAVVIS convertible shares. This investment was sold as part of the acquisition consideration for Telerate. 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.

Adjusted EPS is defined as basic EPS from continuing operations before impairments and amortisation of intangibles acquired via business combinations, fair value movements, disposal profits/losses and related tax effects.

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 acquisitions and disposals 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.

Reuters Group results



Headlines

- Revenue trends improving
- Core profitability strengthened
- Core Plus on track
- Revenue guidance improved
- Dividend increased

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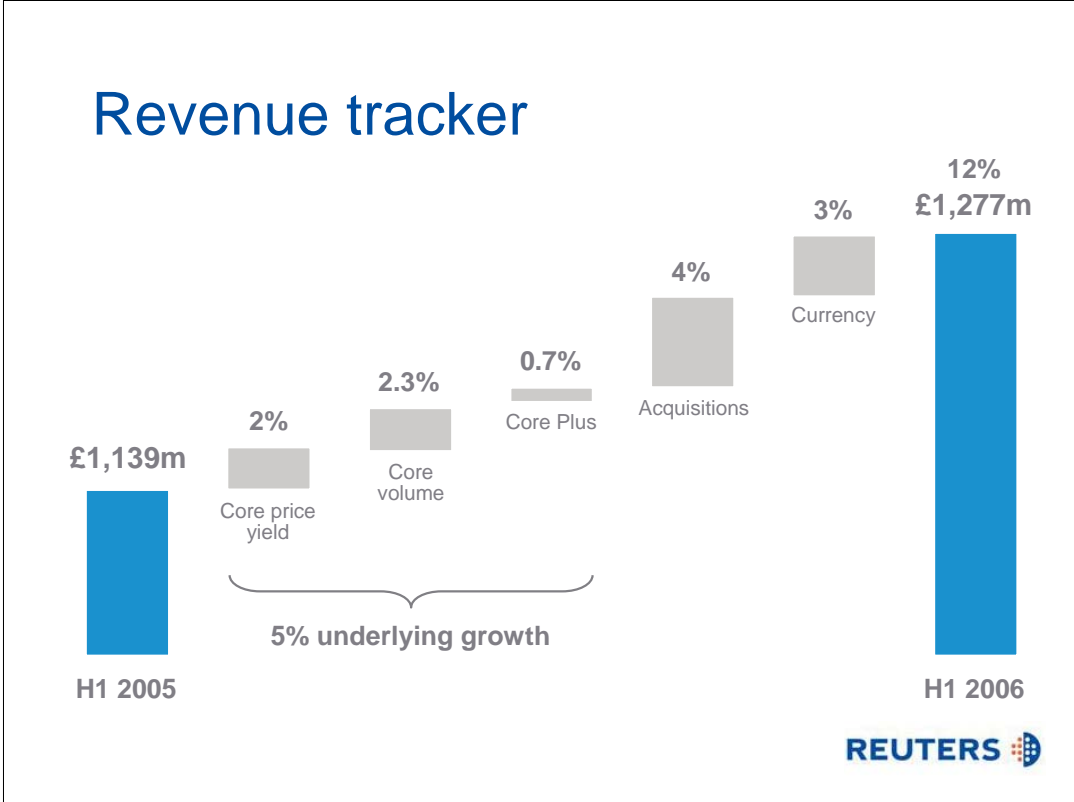
Trading performance

£m	H1 2006	H1 2005	Underlying change
Recurring	1,187	1,074	3%
Usage	65	47	26%
Outright	25	18	38%
Total revenue	1,277	1,139	5%
Trading costs	(1,121)	(983)	7%
Trading profit	156	156	(7%)
<i>Trading margin</i>	<i>12%</i>	<i>14%</i>	

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Actual rate changes

	%
Recurring	11%
Usage	35%
Outright	40%
Total revenue	12%
Trading costs	14%
Trading profit	-



Core volume growth

	H1 2006
Recurring	
- Volume (incl. recoveries)	1.7%
- Strategic exits	(0.6%)
	1.1%
Usage / Outright	1.2%
Core volume	2.3%

Revenue by division

£m	H1 2006	H1 2005	Underlying change
Sales & Trading	851	770	2%
Research & Asset Management	144	122	9%
Enterprise	195	173	10%
Media	87	74	14%
Total revenue	1,277	1,139	5%

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Actual rate changes

	%
Sales & Trading	11%
Research & Asset Management	17%
Enterprise	13%
Media	18%
Total revenue	12%

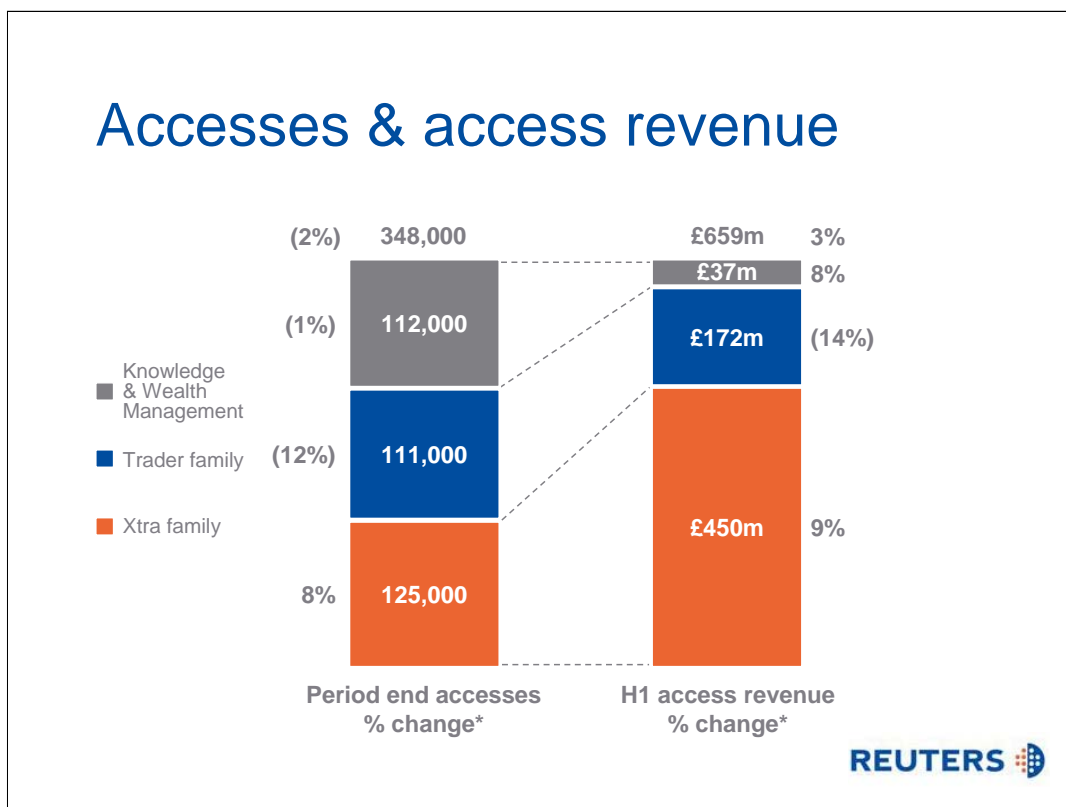
Revenue by geography

£m	H1 2006	H1 2005	Underlying change
Europe, Middle East & Africa	691	645	3%
Americas	356	301	6%
Asia	230	193	7%
Total revenue	1,277	1,139	5%

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Actual rate changes

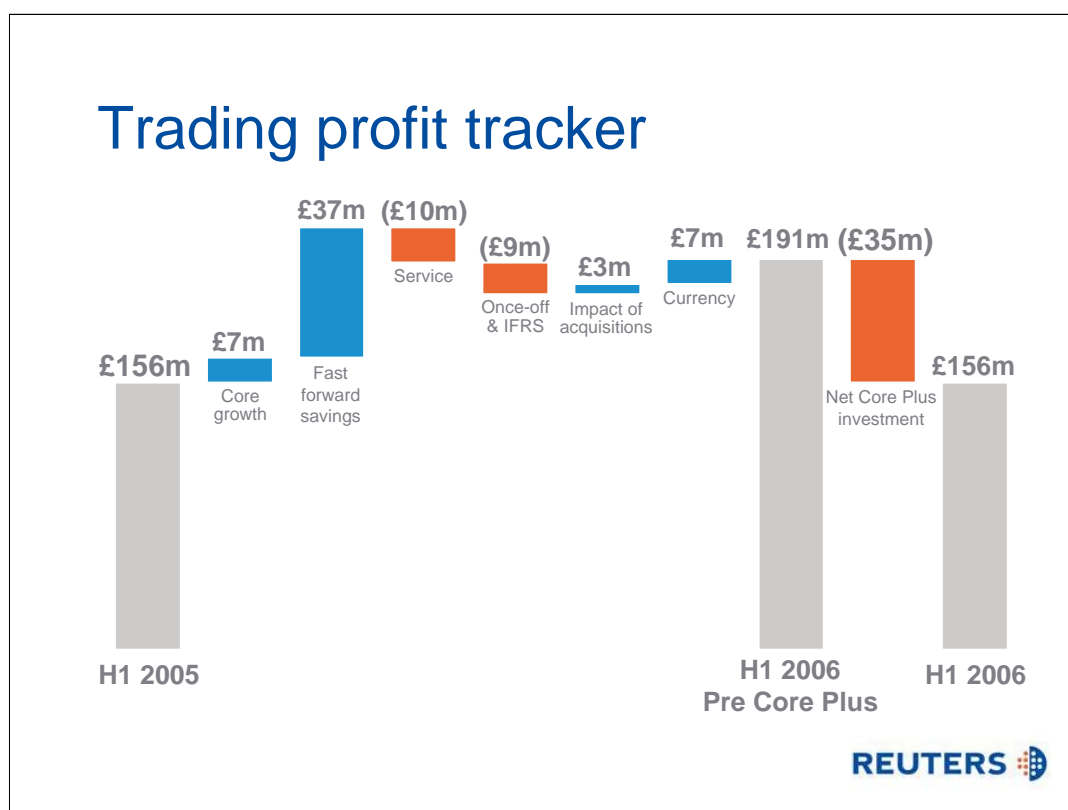
	%
Europe, Middle East & Africa	7%
Americas	18%
Asia	19%
Total revenue	12%



* % change refers to growth against H1 2005 comparatives

Access and access revenue trends

	H1 2006	H1 2005
Accesses (000 at period end)	348	354
Access revenue (£m)	659	594
Total revenue (£m)	1,277	1,139
Underlying access revenue / total revenue	51%	52%



Core growth

	£m
Revenue growth	47
Recoveries cost	(9)
Other operational gearing	(4)
Inflation / other	(27)
Core growth	7

Once-off & IFRS

	£m
Pensions	(5)
Share based payments	(4)
Once-off & IFRS	(9)

Net Core Plus investment

	£m
Revenue growth	8
Growth investment	(21)
Transformation investment	(22)
Net Core Plus investment	(35)

Trading profit by division

£m	H1 2006	H1 2005	Underlying change
Sales & Trading	111	117	(14%)
Research & Asset Management	(1)	(7)	-
Enterprise	35	36	1%
Media	11	10	5%
Total trading profit	156	156	(7%)



Actual rate changes

	%
Sales & Trading	(5%)
Research & Asset Management	-
Enterprise	(2%)
Media	2%
Total trading profit	-

Statutory Income Statement

£m	H1 2006	H1 2005	Actual change
Continuing operations			
Operating profit	122	105	16%
Profit before tax	123	142	(13%)
Profit for the period from continuing operations	96	115	(17%)
Discontinued operations			
Profit for the period from discontinued operations	-	15	-
Profit for the period	96	130	(27%)
Basic EPS	7.3p	8.8p	(17%)
Reuters adjusted EPS*	8.5p	6.4p	33%
Average number of shares (millions)	1,321	1,405	(6%)



*Reuters adjusted EPS is defined as basic EPS from continuing operations before impairments & amortisation of business combination intangibles, investment income, profits on disposals, fair value movements and related taxation effects

Profit for the period from continuing operations

£m	H1 2006	H1 2005
Revenue	1,277	1,139
Trading costs	(1,121)	(983)
Trading profit	156	156
Restructuring costs	(11)	(41)
Intangible amortisation excluding development & software	(11)	(7)
Impairments excluding development & software	-	(2)
Profit on disposal of subsidiary undertakings	2	4
Fair value movements	(14)	(5)
Operating profit	122	105
Net interest	-	(3)
Profit on disposal of joint ventures, associates & investments	-	38
Share of associates & joint ventures results	1	2
Profit before tax	123	142
Taxation	(27)	(27)
Profit for the period from continuing operations	96	115

Trading cash flow

£m	H1 2006	H1 2005	Movement
Trading profit	156	156	-
Capital expenditure	(99)	(79)	(20)
Depreciation & amortisation	59	56	3
Working capital	10	(69)	79
Share scheme charges	18	16	2
Property & other fixed asset disposals	1	2	(1)
Trading cash flow	145	82	63
Cash conversion (rolling 12 month basis)	95%	81%	
Capex / revenue	8%	7%	

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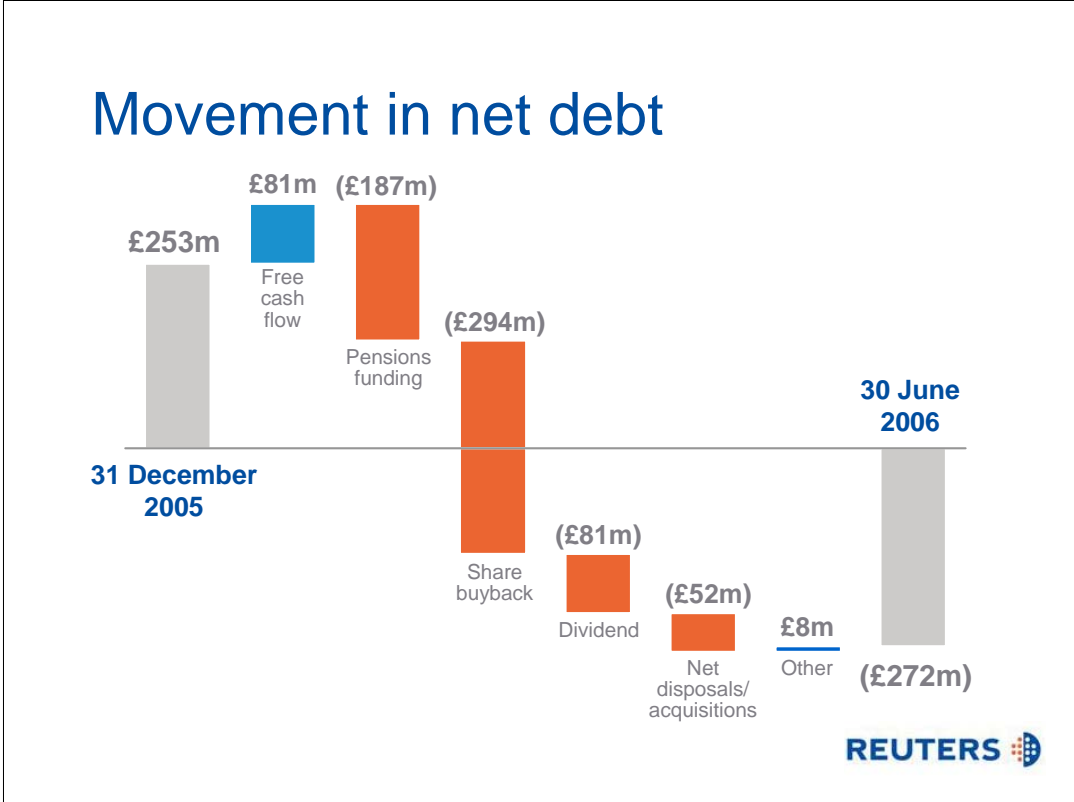
Capital expenditure

	£m
Product development	(29)
Other capital investment	(70)
Total capital expenditure	(99)

Free cash flow

£m	H1 2006	H1 2005	Movement
Trading cash flow	145	82	63
Restructuring	(36)	(71)	35
Tax	(17)	15	(32)
Interest	(3)	(9)	6
Other	(8)	(9)	1
Free cash flow	81	8	73

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Share buyback

- Plan to return £1billion over two years from July 2005
- Returned £525m (133m shares)
- Increased momentum after receipt of Instinet proceeds
- Remaining £475m to be divided roughly equally between H2 2006 and H1 2007



Capital structure & dividend policy

- Interim dividend increased by 6.5% to 4.1p
- Reflects growing confidence in future business performance
- Intend to rebuild cover to a minimum of 2x adjusted earnings
- Aiming for sustainable rate of growth



2006 Outlook

Revenue

- Full year revenue growth expected to be 5% - 6% on a constant currency basis

Trading Profit

- On track for final £80m of Fast Forward savings
- On track for £120m net impact of Core Plus investment

Capex

- On track for £220m capital investment



Supplementary

Additional information

1) Restructuring charges

£m	H1 2006	H1 2005
Fast Forward:		
Staff reductions	-	28
Property rationalisation		
Canary Wharf	-	2
Other	-	2
Migration costs	-	5
Other	-	3
Total Fast Forward charges	-	40
Telerate	11	1
Total restructuring charges	11	41

2) Share of associate and joint venture profits

£m	H1 2006	H1 2005
Factiva	1	1
Other affiliates	-	1
Total associate and joint venture profits	1	2

3) Impact of currency movements on reported 2005 results

£m	Impact on revenue	Impact on trading costs	Impact on other operating costs and operating income	Impact on operating profit
Stronger Dollar	29	(24)	(1)	4
Weaker Euro	(3)	1	-	(2)
Other currencies	(1)	1	-	-
Reported exchange rate movements	25	(22)	(1)	2
Change in currency mix	9	(5)	(1)	3
Total currency movements	34	(27)	(2)	5

Supplementary

Non-GAAP to IFRS reconciliations

1) 2006/2005 movement in revenue and trading profit – underlying to actual reconciliation

Total	Underlying	Currency	Acqn/Disp	Actual	Slide
Recurring	3%	4%	4%	11%	6
Usage	26%	6%	3%	35%	6
Outright	38%	2%	-	40%	6
Total revenue	5%	3%	4%	12%	6
Trading costs	7%	3%	4%	14%	6
Trading profit	(7%)	5%	2%	-	6

Sales & Trading	Underlying	Currency	Acqn/Disp	Actual	Slide
Total revenue	2%	4%	5%	11%	8
Trading costs	5%	3%	5%	13%	-
Trading profit	(14%)	7%	2%	(5%)	12

Research & Asset Management	Underlying	Currency	Acqn/Disp	Actual	Slide
Total revenue	9%	4%	4%	17%	8
Trading costs	5%	3%	3%	11%	-
Trading profit	-	-	-	-	12

Enterprise	Underlying	Currency	Acqn/Disp	Actual	Slide
Total revenue	10%	2%	1%	13%	8
Trading costs	12%	4%	1%	17%	-
Trading profit	1%	(5%)	2%	(2%)	12

Media	Underlying	Currency	Acqn/Disp	Actual	Slide
Total revenue	14%	2%	2%	18%	8
Trading costs	15%	4%	2%	21%	-
Trading profit	5%	(3%)	-	2%	12

2) 2006/2005 movement in access revenue by product family – underlying to actual reconciliation

	Underlying	Currency	Acqn/Disp	Actual	Slide
Total access revenue	3%	3%	5%	11%	10
Knowledge and Wealth Management	8%	4%	1%	13%	10
Trader family	(14%)	3%	16%	5%	10
Xtra family	9%	4%	-	13%	10

Supplementary

3) Reconciliation of actual percentage change to underlying change - revenue by geography

	Underlying	Currency	Acqn/Disp	Actual	Slide
Europe, Middle East, Africa	3%	1%	3%	7%	9
Americas	6%	8%	4%	18%	9
Asia	7%	3%	9%	19%	9
Total revenue	5%	3%	4%	12%	9

4) Reconciliation of operating profit to trading profit

£m	H1 2006	H1 2005	H1 2006	H1 2005
Operating margin / profit	9.5%	9.2%	122	105
Restructuring charges	0.8%	3.6%	11	41
Impairments & amortisation of business combination intangibles	0.9%	0.8%	11	9
Profit on disposal of subsidiaries	(0.1%)	(0.4%)	(2)	(4)
Fair value movements	1.1%	0.5%	14	5
Trading margin / profit	12.2%	13.7%	156	156

5) Reconciliation of PBT/basic EPS from continuing operations to PBT/basic EPS from continuing operations before impairments & amortisation of business combination intangibles, investment income, profit from disposals, fair value movements and related taxation effects

	PBT £m		EPS	
	H1 2006	H1 2005	H1 2006	H1 2005
PBT / basic EPS from continuing operations	123	142	7.3p	8.2p
Exclude:				
Impairments and amortisation of business combination intangibles	11	9	0.8p	0.7p
Profit / (loss) on disposal of subsidiaries, associates & joint ventures	(2)	(42)	(0.1p)	(3.0p)
Fair value movements	14	5	1.0p	0.4p
Profit / basic EPS from continuing operations before taxation, impairments & amortisation of business combination intangibles, investment income, profit on disposals and fair value movements	146	114	9.0p	6.3p
Adjusted tax charge / tax effect	(33)	(25)	(0.5p)	0.1p
Adjusted tax rate / average number of shares	23%	22%	1,321m	1,405m
Profit / basic EPS from continuing operations before impairments & amortisation of business combination intangibles, investment income, profits on disposals, fair value movements and related taxation effects	113	89	8.5p	6.4p

6) Reconciliation of operating profit to trading profit by division

Sales & Trading		
£m	H1 2006	H1 2005
Operating profit	85	82
Exclude:		
Restructuring charges	11	24
Impairments & amortisation of business combination intangibles	7	5
Profit on disposal of subsidiaries	(2)	(3)
Fair value movements	10	9
Trading profit	111	117
Research & Asset Management		
£m	H1 2006	H1 2005
Operating loss	(4)	(12)
Exclude:		
Restructuring charges	-	5
Impairments & amortisation of business combination intangibles	2	1
Fair value movements	1	(1)
Trading loss	(1)	(7)
Enterprise		
£m	H1 2006	H1 2005
Operating profit	31	30
Exclude:		
Restructuring charges	-	6
Impairments & amortisation of business combination intangibles	2	2
Fair value movements	2	(2)
Trading profit	35	36
Media		
£m	H1 2006	H1 2005
Operating profit	10	5
Exclude:		
Restructuring charges	-	6
Impairments & amortisation of business combination intangibles	-	1
Profit on disposal of subsidiaries	-	(1)
Fair value movements	1	(1)
Trading profit	11	10

Supplementary

7) Reconciliation of adjusted tax charge on continuing operations to reported tax charge on continuing operations

£m	H1 2006	H1 2005
Adjusted tax charge	(33)	(25)
Tax on fair value movements	4	(3)
Tax on amortisation of intangibles	2	1
Reported tax charge	(27)	(27)

8) Reconciliation of Cash Flow

These tables provide a reconciliation of the non-GAAP cash flow measures on slides 14, 15 & 16 to the IFRS format of the cash flow shown in the Press Release.

Analysis of continuing operations net (debt) / funds

£m	H1 2006	H1 2005
Short-term investments	2	260
Cash and cash equivalents	338	635
Bank overdrafts	(9)	(13)
Borrowings (excluding bank overdrafts)	(603)	(569)
Net (debt) / funds	(272)	313

Reconciliation of opening to closing net (debt) / funds

	£m
Opening net funds as at 1 Jan 2006	253
Cash flow	(516)
Fair value movements	16
Other non cash movements	(12)
Exchange gains	(13)
Closing net debt as at 30 June 2006	(272)

Supplementary

8) Reconciliation of Cash Flow continued

Analysis of Reuters working capital

	£m
Increase in receivables	(62)
Increase in payables	58
Decrease in provisions	(20)
Decrease in pension deficit	(178)
Less UK pension schemes funding	187
Restructuring provision	25
Working capital	10

Analysis of other included in free cash flow

	£m
Dividends received	1
Foreign exchange gains	(9)
Other	(8)

Analysis of net disposals / acquisitions

	£m
Cash proceeds from disposals	1
Cash outflows relating to prior year disposals	(17)
Net proceeds from 2006 disposals	(16)
Cash outflows on acquisitions	(28)
Cash outflows relating to prior year acquisitions	(8)
Net disposals / (acquisitions)	(52)

Analysis of other not included in free cash flow

	£m
Fair value movements in net debt	16
Other non cash movements in net debt	(12)
Proceeds from issue of shares	17
Foreign exchange gains	(13)
Other	8