REUTERS

INTERIM RESULTS 2007

Friday, 27 July 2007

Reuters

INTERIM RESULTS 2007

Friday, 27 July 2007

Miriam McKay: Good morning, ladies and gentlemen, and welcome to Reuters interim results. With me on the platform are David Grigson, who is going to take you through our numbers for the half year and Tom Glocer, who will then give you an update on where we are with the Thomson-Reuters transaction.

Before we start, I need to remind you that our statements today contain forward-looking statements and the Risk Factors section of our Annual Report and today's press release contain information about how our actual results could differ from our forward-looking statements today. You can find copies of these documents on our website or obtain copies from us in Investor Relations.

With that, over to you, David.

David Grigson (Chief Financial Officer): Good morning everyone, and thank you for staying on. We know that you have had a long morning and so we will keep our presentations nice and short and sweet but still leave plenty of time for your questions.

As Miriam said, the running order this morning is that I will take you through our first half results and then Tom will give you a progress update on the Thomson-Reuters transaction. As usual, I will skip over the definitions of our non-GAAP measures, which are in the front of your booklets, which are all reconciled to the statutory measures in the press release, and move straight into the presentation.

Headlines

Against a back-drop of the Thomson deal, the headlines for me from the first half are:

- that we saw an acceleration in our sales and installs performance from 2006;
- that while currency effects have had a significant impact on our reported results, our underlying revenue growth remained good, at 6.4%;
- that our Core Plus initiatives are well on track – in terms of both revenue growth and cost savings coming through from recent investments,
- and that we translated this revenue growth, with good cost discipline, into a 36% underlying improvement in trading profit, at a trading margin of 13.8%.

All of this, plus reductions in restructuring costs last year, an adjusted 17.3% tax rate and the accretion benefits of our share buybacks, add up to an adjusted earnings-per-share number of 10.6p, which is up 25%. As we said at the time of the announcement of the Thomson-Reuters transaction, we are paying an interim dividend of 5p, having already declared a full-year dividend of 12p for 2007.

Trading performance

Here are our top-level trading numbers. The main positive for me is that the benefits of Core Plus and strong revenue growth are flowing through into our trading profit.

Recurring revenue growth remains strong, at an underlying 6.4%, driven by 2007 price increases, which added 2%, and strengthening volumes consistent with our excellent first-half sales and installs performance. As you can see on this chart, the growth trend in underlying recurring revenue is particularly apparent when you look at growth before third party recoveries.

The main component of usage revenue, which is FX brokerage, continued to be a strong driver of growth, with record volumes reported in June. The effect of this is masked somewhat in the 9% overall growth figure for usage by the uneven phasing of TV usage revenues in Media.

Outright revenue declined slightly in the first half. This is a revenue stream that tends to be second-half weighted, as you know, and is driven largely by sales of Risk Management software. Customer demand for risk management remains high and the sales pipeline for trade and risk management products is stronger than ever.

Trading costs are now growing considerably more slowly than revenue (an underlying 3% versus 6% for revenue) thanks to tight cost control and the fact that we are now past the ramp-up phase of our Core Plus investment.

All of this delivers a trading profit of £175 million for the first half, at a margin of 13.8%.

Trading profit tracker

If we look in a little more detail at what is driving trading profit, you will see that both the core business and our Core Plus initiatives are now contributing to trading profit growth. The £18 million core business contribution to profits is being driven by revenue growth and tight cost control.

Core Plus contributed £26 million of trading profit growth, with the period of heavy investment now complete and revenue momentum beginning to build. The first half saw £27 million of *new* or additional revenue from Core Plus initiatives (£35 million in total) – the most significant contributors being next generation electronic trading initiatives; high value content to accelerate sales of Reuters Knowledge; new markets initiatives in China and India and in Consumer Media, and new enterprise solutions. There were £12 million of Core Plus-related cost savings in the first half and £13 million of additional spend, which is new investment and costs associated with revenue growth. So, taken as a whole, Core Plus is now beginning to contribute significantly to an improving bottom line – very much in line with our expectations.

Let us pause for a moment to look at currency. Exchange rate movements reduced revenues by £85 million and trading profit by £25 million in the first half and that is the equivalent of a point of trading margin compared to last year. This is mainly the result of an 11% weakening of the US dollar. Sterling's strength against other currencies also contributed, notably against the yen, which weakened by some 13%. There is a slide at the back of your booklets which gives you chapter and verse on our currency exposure.

The rule of thumb that we gave you at the Prelims was that a 5 cent movement in the US dollar causes a £10 million full-year impact to trading profit, as does a 5 cent movement in the euro. This is certainly holding true, with added impact from other currencies like the yen.

One of the benefits of the Thomson-Reuters transaction is that the combined entity, which will report in US dollars, will be proportionately less exposed to currency movements.

Sales & Trading

I want to move on now to look at our trading performance by division, starting with Sales & Trading.

Sales & Trading revenue increased by an underlying 3% in the first half, to £802 million, and trading profit by an underlying 22% to £118 million. The revenue picture is of strong growth in our premium products, balanced by our efforts to manage the migration of, and revenue loss from, our legacy desktops. Revenue from our premium products in Xtra family grew an underlying 10% to £511 million, driven by a combination of new sales, migrations from other products and the 2007 price increases. Revenues in the Reuters Trader family declined by 20% to £144 million, reflecting the flip side of the migration story, as well as the tail end of the revenue loss associated with Telerate. As we expected, Telerate caused a two percentage point drag to Sales & Trading revenue growth in the first half, just over 1% for the group as a whole.

Moving on to trading profit, the underlying 22% increase reflects the operational gearing associated with revenue growth, tight control of core costs and the benefits of Core Plus beginning to come through. As Tom said at the Prelims, our Core Plus initiatives in Sales & Trading are focused on pointing the business towards higher margin transactions-related revenues and, in the longer term, rationalising our desktop platforms. We are making good progress on both of those.

Research & Asset Management

Moving on to Research & Asset Management, the division continued to see strong revenue growth – 25% underlying to £173 million – and I am very pleased to report that Research & Asset Management moved into profit for the first time in this half, delivering £15 million of trading profit at a 9% margin.

At the Prelims, Tom talked about three key priorities for Research & Asset Management. First, accelerating sales of Reuters Knowledge; second, achieving sustainable differentiation through proprietary content, including primary research; and third, driving profitability through top line growth and product and platform rationalisation; it is good to be able to report clear progress against each of these objectives. Sales of

Reuters Knowledge desktops and content in datafeed format drove a 36% underlying increase in revenue in the Investment Banking, Investment Management and Corporates side of Research & Asset Management. The smaller Wealth Management side of the business also saw good growth – an underlying 11% increase – driven by content businesses, such as Lipper, and client demand for feed and web based solutions.

Under Core Plus, Research & Asset Management has continued to build high value content. Our primary research service, for example, was launched in the second quarter, to offer expertise and customised analysis in the healthcare, technology and alternative energy sectors.

Enterprise

Moving on now to Enterprise, it delivered strong revenue and trading profit growth at a healthy 18% margin, in what is traditionally the weaker half of the year for this division.

At the Prelims, we talked about the Enterprise division's 2007 agenda being to respond to customer demand for increased business automation, transparent pricing and ever more sophisticated risk management. Sure enough, as customers prepare to address the requirements of MiFID, they are consuming greater quantities of data and focusing increasingly on regulatory compliance and risk. Strong performances in Enterprise Information, which grew revenues at 17% underlying to £132 million, and Risk Management, which saw 9% underlying revenue growth to £42 million, are testament to our ability to respond to these customer needs.

Core Plus initiatives in the Enterprise division are focused on adding new types of machine readable data, as well as strengthening the third part of the Enterprise business, which is our Information Management Systems. The Reuters Market Data System is an essential means of data transfer for our most sophisticated customers and our challenge is to add new facilities to it – such as a Wireless Delivery Server – to replace declining revenue sources such as hardware.

Media

Finally, our Media division: after excellent growth last year, boosted by exceptionally high levels of TV usage revenues in the first half of 2006, Media's revenue growth slowed to an underlying 2% in the first half of 2007. Agency services grew by an underlying 1%, with good underlying growth in our TV, text and pictures syndication revenues, offset by lower TV usage revenues which were impacted by the uneven phasing. Consumer Services grew an underlying 10%, with good growth in syndication revenues and online advertising in the UK and Asia offset by a weaker performance in the US, where we saw some changes in the Online sales team. With these behind us, recent sales performance bodes well for the second half.

The fall in Media trading profit reflects continued investment in our new Web platform and in Editorial resources to support new services. Editorial excellence remains at the heart of our financial divisions as well as our Media business and has a key role to play going forward in Thomson-Reuters.

Revenue by geography

Let me spend a couple of moments looking at our regional performance. The highlight here is that all of our geographic regions are now growing well. Particularly pleasing is the pick-up in the growth rates in Europe off the back of strong sales in 2006 and even stronger sales in 2007. This is particularly important to us, given the region's side – you will recall that 55% of our revenues come out of Europe. Momentum is building well in France and in Germany and we are seeing double digit revenue growth on an underlying basis in the emerging markets of Russia and the Gulf. But we continue to see revenue declines in Italy where our performance is still being impacted by customer consolidation.

Asia's revenue growth continues to improve and now stands at 7%, with strong growth in China and India and good sales in Japan. The fundamentals remain strong in the Americas as well, which delivered 8% underlying growth, driven by good sales of Reuters Knowledge and our enterprise products.

Statutory Results

Let us move on now to look at the key lines of our Statutory Income Statement. Operating profit grew 10% to £134 million after including £21 million transaction costs related to Thomson-Reuters. This largely represents legal and advisory fees incurred to date and there will be more between now and completion.

Profits before tax which includes finance costs and associated losses (notably FXMarketSpace), was boosted by £19 million of profits from disposals, principally from the sale of our 10% stake in the software vendor, Intralinks.

Profit for the period was up 19% and basic EPS by 26%, boosted by the receipt of some tax-related liabilities from Instinet and the reduced number of shares in issue following the buy-back.

I should also point out that the adjusted tax rate was 17% in the first half, and my tax team tell me they expect the rate to be below 20% for the full year.

Trading cash flow

Moving on to trading cash flow, as we said at the Prelims, our main focus here is on achieving a profit into cash conversion ratio of around 90% over the two years of 2006 and 2007 combined. Those are the two step-up years of our investment in Core Plus, and we believe we are on track to do this.

As I highlighted in our full year results, the improvement in working capital we saw last year was driven partly by timing differences around things like Core Plus restructuring provisions. As expected, these have reversed in the first half of this year to give a working capital outflow of £72 million.

Capex

On the next slide, I have given you a bit more insight into our capital expenditure, which totalled £126 million in the first half.

As you can see from the chart, the increases in capex have been in transformation projects such as the common platform, and service-related investments to maintain sufficient capacity as data volumes continue to rise, and as we move towards a simpler data centre network. With most of the catch-up investment behind us, we are expecting data centre capex levels to start to come down in the second half.

As we said at the Prelims, we expected 2007 capex to be at similar levels to the £228 million we spent in 2006, and we still expect this to be the case.

Guidance

At this point in the presentation, I would usually update you on our guidance. But, as you know, we are in an offer period which makes it problematic to give guidance which could constitute a profit forecast. We will not be giving any specific revenue and margin guidance for 2007 as part of these interim results.

Therefore, I will simply conclude by reiterating how pleased we are with the strong sales, revenue growth and profit uplift we have delivered in the first half, and hand over to Tom.

Tom Glocer: Thank you, David. That was a warning bell that time was up, and these poor people have been through UBM and Sky, so I will try and keep it brief and get to questions.

I just have two topics on my agenda for today. First, I will give you a quick perspective from me on our Interim results, and second, an update on the Thomson-Reuters combination.

H1 performance highlights

For me, there are three things that stand out about our first half performance. First, as David mentioned, we have delivered our strongest six months of sales and installations for more than five years, really for the whole time I have been in this job. I have to say I have longed to be able in those early years to put up a chart that looked like this and know it is not upside down! Bearing David's advice - with respect to what we are not doing on guidance - in mind, our business is 90%-plus subscription based, so these are obviously the lead indicators for us for future performance.

The second issue is the good news that customers are continuing to invest in the areas that we have been targeting under Core Plus: electronic trading, high value content, enterprise solutions and new markets. Core Plus itself contributed 2.3 percentage points of growth in the first half, and that is good.

Third, and importantly, we have begun now in the first half to do well, to translate that revenue growth into earnings growth, with the 36% underlying growth in trading profit and the 25% growth in EPS on an adjusted basis that David had flagged.

Naturally, when two companies come together, there is always some anxiety about the future, so I am particularly pleased that trading has been so strong in a period when staff are quite reasonably concerned about what the combination means for them, and their company. I have been impressed by the positive attitudes of my Reuters colleagues, and I just want to take this chance – I do not get many others on a one-to-one basis, and many of them listen into this webcast – to thank them for all the hard work they have done, and also to have kept the focus on the business, on our customers and on delivering these results.

Operating environment

Turning over to look at the operating environment, with Europe delivering strong sales results after several years in the doldrums, the business is now firing on all cylinders. In addition to the Sales team focus I was mentioning, the business divisions have also really kept up with product innovation and here, I would flag in particular how we have begun to engage with our customers to confront their challenges with the new MiFID directive.

FXMarketSpace is also making very good progress. We had a great June and, as customers begin to gain experience on the system, they are now working over the summer to fine-tune their trading engines. As I said before, we are not going to be declaring victory on FXMarketSpace after one very good month in June; we will need to see this trend develop over many months – and in fact, over quarters – but the customer pipeline is strong and we are really pleased that the business is on its business plan.

In terms now of the general market conditions, we continue to watch very carefully for signs that could give us concern: slowdown in market volumes or in headcount growth, for example. But I have been spending a lot of time out talking to customers and so far, despite periods of turbulence like yesterday or like the scare at our full year results around the unwind of the Japanese carry-trade, the evidence among our customer base is that they remain upbeat, certainly, for this year, and that they continue to invest and again, with regulatory changes like MiFID being a strong driver for investment in Europe.

All in all, therefore, I am very pleased and in fact proud of how the business has performed in the first half. David and I have asked our colleagues to deliver a signature year as the final year of Reuters as a truly stand-alone company and the good news is that the company is responding and doing just that. We all think that is important, so that we can enter a new era for Reuters as Thomson-Reuters with the best possible showing of what we were capable of doing on the Reuters side.

Thomson-Reuters transaction update

Let me turn then to update you on where we are on the deal. When we announced the transaction back in May, I talked about our vision to become a leading provider of electronic information and related applications to professionals in all knowledge based markets – in other words, to create the information company for the 21st century: global, electronic and focused on the most valuable of audiences, professionals in media, tax, regulatory, legal, accounting, scientific and healthcare. We talked then about meeting customers' growing demand for more specialised and deeply integrated information and software, combining two experienced management groups and delivering net synergies in excess of $500 million by the end of Year 3. We also looked at a process to completion and the creation of a dual-listed company which would allow our shareholders to continue to participate in value creation.

In my subsequent conversations with many of you, I have been pleased that you share our enthusiasm for the combination. For Reuters, it provides a means to accelerate and amplify what we have really been doing under Core Plus, both growth and transformation, as well as now to diversify the sources of our revenues. For Thomson, it brings better scale in the financial markets and a route to help globalise their other businesses.

Customer reaction

Thus now, two months into the process, I would like to share some thoughts with you on where we are on each of those topics and what we have learned as we have moved forward in the integration planning.

First then, customer reaction: in the weeks following the deal announcement, we have engaged with most of our customers and these slides what customers have highlighted – on a no-names basis – as the key features of the deal for them. What I would highlight out of this is the creation of enhanced services for the buy-side, a more competitive offering in the fixed income area in terms of content and trading with Trade Web, and deep reference and analytical content. The other factor that many customers are discussing with me is the rapidly changing face of the market data industry, with the arrival of new entrants, the formation of sell-side consortia and the consolidation of exchanges. Thomson-Reuters will be better-placed to compete in this fast moving environment than, I think, either company would have been on its own.

Graph

Next, management: one of the many positive aspects of the deal is the way the two management teams will fit together. There were a couple of open slots that I needed to fill on my org chart when I showed this slide back in May. I am pleased to say that now the full team of eight has been selected and I am going to be supported at Head Office by a good combination of both Thomson and Reuters people. We will be running an integration programme - we are running an integration-planning programme - with three streams. First, creating the new Thomson-Reuters Head Office: what does the corporate centre do to add value in the combination? Second, and most importantly, obviously integrating our two financial businesses; but also, and quite important in terms of long term growth potential, forming the new professional division out of Thomson's legal, tax & accounting, scientific and healthcare businesses.

Both Thomson and Reuters have deep and recent experience of running integration projects. We know how to manage change as well as how to create value. So there is a small core team working with me on the integration but, in the meantime, for large parts of both companies, it is business as usual. As you can see from at least our first half results – and you can no doubt look through what Thomson announced yesterday – each company is really focused on its business and going full steam.

Large deliverable synergies

Third then, let me turn to synergies. You will remember when we announced the deal that we talked about net synergies at an annual run rate in excess of $500 million by the end of year 3. This is in addition to the $300 million that we have already promised at Reuters under Core Plus and the $150 million that Thomson has promised to deliver under THOMSONplus. So it is nearly $1 billion in total. A better understanding, as we have gone into it, of how our two costs bases compare has only reinforced our confidence that the deal synergies are well achievable. The combination of Thomson and Reuters, though, is a lot more than $500 million in cost synergies.

Integration program objectives

Successful integration will really be about creating a company that can grow faster than the market as a whole and that can grow faster than either company could achieve on its own. A company with a world class brand, world class talent bench, culture and a really global operating platform. This is what is really able to make Thomson-Reuters such a fast-growing, high-margin cash machine and this is exactly what I have tasked the integration teams to deliver.

Deal timetable

Next, let us turn to deal timetable. As we highlighted at the announcement of the transaction, competition law clearances will represent key milestones in getting the deal done. We engaged rapidly, after announcement, with the authorities in various jurisdictions, most notably in the EU, the US and Canada and we intend to wait until we have the key clearances before we publish our shareholder circulars.

Let me just talk you through a bit of both the EU and US processes. In Europe, we are in pre-filing discussions with the Commission staff and we currently expect to make our formal filing in September. This will trigger the usual Phase 1 inquiry, which lasts from five to seven weeks. By filing after the summer and co-operating and having discussions with the EU Commission staff during the summer, what we hope to be able to do is give them the opportunity to conduct quite a thorough initial review, which could put them in the position to clear the transaction at the end of the Phase 1 period. If not, they would continue into a Phase 2 review and our working assumption is that if a Phase 2 is required, we could then close the deal, say, in the first quarter of next year. But, as I said, if we can get out at the end of a Phase 1, we think we would still be able to close by the very end of this year. Ultimately, of course, this is much more up to the regulators than it is to me and we respect both the process and their timetable.

In the US, interestingly, the transaction will not be subject to the formal Hart-Scott-Rodino anti-trust process, because of the dual-listed nature of the structure. However, we are still voluntarily presenting the transaction to the Department of Justice. We have been in discussions with them and in practice, we expect their review to be comparable to what an HSR review would have been. So I expect in the end that both the EU and the US processes will be pretty much co-terminus.

It is a large transaction, and it involves fairly complex businesses, so we always expected that the authorities would need some time to conduct their reviews. However, I remain very confident, certainly based on the customer feedback that we have also been having, that the deal is pro-competitive, with major benefits to customers, and that therefore we should receive our clearances in due course.

Dual-listed company structure

Finally, let me talk a little about the dual-listed company that we will create. The mix of cash and shares in the transaction, and the dual listing structure, were particularly important to the Reuters board, including David and me, because we wanted to give our shareholders the opportunity to continue to participate in the value that we have created at Reuters and which we believe we can continue to create as a result of the transaction.

Thomson-Reuters will be a global company that is anchored in the two largest capital markets in the world and our intention is to see this reflected not only in our business but in our shareholder base as well. I plan to keep my current offices in both New York and London and I look forward to continuing actively to engage with investors and analysts on both sides of the Atlantic.

A signature year

To sum up, with this pretty view of a race car, this has been a high octane first-half for us. We are very enthusiastic about the potential of the Thomson-Reuters combination and we will use the time afforded us by the regulatory process to make sure that we really get off to a flying start when the deal completes.

Equally important for us is the focus on the delivery of a signature year for stand-alone Reuters. I hope today's results show that we are off to a very good start in doing just that as well.

This was always going to be a very important year for Reuters, as Core Plus started to deliver earnings growth and not just revenue growth. With an even bigger prize now in sight, we intend to drive hard right to the finish line.

Thank you very much for your patience and thank you for coming. David and I will be more than happy to take your questions now.

Questions & Answers

Paul Gooden (ABN Amro): I have three questions. First, is there any evidence yet in your business of revenue dis-synergies whereby some customers, for contingency purposes, might say that they do not want to source from both you and Thomson, if you are going to be the same company?

My second question is on capex beyond this year. Do you think capex will come down, or do you think that the £220 to £230 level is where it will be, going forward?

Finally, could you clarify the accounting standard that will exist for Thomson-Reuters?

Tom Glocer: I will take the first question and let David give the fun answers on the second and third.

The short answer is that we have no evidence yet and, in the discussions that we have had, there is no discernable trend and no material amount of revenue dis-synergy. However, that is as much due to the fact that we are not, at this early stage, into a deep discussion yet of what actually is the product roadmap. Because we are pretty conservative and because we have experience, we have budgeted in, in arriving at the net £500 million figure, a certain amount of revenue dis-synergy. There will also be significant synergies which we have not budgeted at all, and that is just based on our own experience that there are people whose sourcing rules will require them to take from one of the many other sources in the market.

David Grigson: On capex, as you know, we have been playing catch-up a little with that, just because we have had to build greater resilience into our existing data centres, because we have had to build them out and strengthen them in advance of migrating onto the new BT network, and hence being able to close down a whole lot of smaller data centres. That level of peak investment is now behind us.

As I said at the Prelims, we felt that our capex would come down from the over 9% rates that we were seeing then, to something closer to 7% within the next couple of years or so. Seven per cent, then, was a number that we really felt was right for Reuters. It is interesting, of course, that subsequently that Thomson has also said that 7% is a number that they are comfortable with, with not-dissimilar businesses on the professional side to Reuters. That feels right. There is nothing about our business which suggests that we should change that target and, who knows, there may be opportunities within the integration, particularly around data centres, to bring that down further.

On accounting standards, the combined entity will be put under Canadian GAAP but obviously reconciled both into US GAAP and into IFRS. Reuters-Thomson PLC will report under IFRS, but it will not be a particularly meaningful set of accounts because it will just be for that particular leg. I noticed yesterday, or was it the day before – I think the SEC are starting to try and accelerate, particularly in the US, acceptance of IFRS as an accounting standard. Bob Daleo and the team there are committed to transferring across to IFRS as soon as it becomes sensible and feasible to do so. I do not think that is expected for a couple of years but, who knows – it may come more quickly.

Rogan Angelini-Hurll (Citigroup): I have three loosely-related questions. First, on the Reuters Core business – as in the Reuters business stand-alone - terminal numbers *in toto* keep on coming down as the legacy products come up. When do you think you might reach a turning point, when either legacy stops coming off or at least the premiums start outweighing the legacy losses?

Secondly, Tom showed us a lot of positive customer feedback but what was the single biggest concern that you had back from customers, when you were talking to them, of the deal together?

My third question is an extension from Paul's question. You were talking about customer dis-synergies, perhaps, but one of the key things of Core Plus has been to reduce the number of services – the whole Transformation product and different products that Reuters offers. You are now adding to them, of course, with the Thomson products. Is there a level or a number of services that you have identified, that you will get rid of in a combined Thomson-Reuters – i.e., will you actively make more legacy products?

Tom Glocer: Those are good questions. Let me start from the beginning. I think holding market conditions constant, as they are – once we get through the US migration of Telerate, which is winding down this year, you reach a point where there will still be a few legacy old Trader positions coming out, but that will be more than made up for by the success we have been having with Reuters Knowledge, with Xtra and even in the FX Trading products. Absent the Thomson acquisition, I would have said that towards the second part of this year and certainly by the end of this year.

In time, to answer your third question, we will see some level of consolidation again with Thomson. The good news is both on the Thomson side, with their strategy which has been the creation of the Thomson ONE platform out of what was, for them, a multitude of really separate companies, not just separate products. With the common platform project that we were running independently and before the merger, that is the way architecturally they come together.

Heading into your question about customer concerns, one concern that was raised with me was a hope that we weren't going to suddenly change our overall approach which has been to have a segmented commercial policy, so you don't only have to buy Xtra, you can buy a fit-for-purpose, or if you will, a smaller product for a different market. The second that we would not change our approach technologically which is to provide open services that can be integrated, including via a Reuters Market Data System (RMDS). The answer I have given to both those questions, was a very heartily 'we are not going to change that at all'.

The only other concern, and the feedback has been overwhelmingly positive, is just to understand what the roadmap is, what are our plans in the US, bringing Reuters Plus and the old Thomson ILX business together. What we hope to do there is simply bring together a best of breed product for that lower end of the market.

Mark Braley (Deutsche Bank): Just two questions. Slide 22, the rather pleasing net sales graph, can you give us a feel for how Q1/Q2 2007 looked on that. Did it get even better at an even faster rate in Q2?

The other one, I'm afraid, is the usual question about Asia. China and India are going very well. I think you said either solid or good growth in Japan. What is still holding Asia back? Is it the smaller other territories, the Malaysias, Hong Kongs?

Tom Glocer: I will answer that one and David will give you the slope of acceleration on the graph.

The answer is that in Asia, Japan is 40-50% of the overall retail revenues. Although we are very encouraged that Japan is growing again, overall the average rate in Asia is 7%, and it is such a big part of the pie that I don't know off-hand what the Japan growth is. [*3-4%*]. Even if we have high teens, twenties, growth in some pockets, your average rate is 7%.

David Grigson: On the quarterly progress of sales, the first quarter was a little bit better than the second quarter, and we talked at the Prelims about having had a really excellent start to the year in sales performance. One of the reasons for that was a particularly large enterprise deal, HSBC, which came through in the first quarter. If you take out enterprise deals, which will always make our sales performance lumpy because they come relatively infrequently, the underlying sales performance, there has been an improvement in the second quarter. There is a strong trend there that we don't see on the face of what we are experiencing and hearing now fundamentally changing into the second half.

Colin Tennant (Lehman Brothers): Just a quick one on the underlying recurring revenue growth chart that you showed. The recoveries number has shrunk down a little bit. Can you just tell us what is going on there?

David Grigson: You will remember this time last year, we talked about the fact that recoveries had picked up quite markedly in the second quarter, partially on the back of strong price increases that had come through from a number of exchanges around the world. If you look at that chart, you would see four quarters where the recovery growth is higher than it might normally have been, and certainly higher than we expected it to be last year. Now that has worked its way out of the system. We have seen more normal recovery growth and price inflation from the exchanges that have come through there. It is just a phenomenon that worked its way out of the system for four quarters that took the first quarter of this year into account as well. That was fairly predicted. It is nothing more than that.

That is the sort of rate of growth in recovery that you should now expect for the balance of this year.

Colin Tennant: Just another one on Core Plus. Back at the time the deal was announced, one of the things that was asked was some of the Core Plus projects were obviously going to go into areas where Thomson was already. Having now had a look at it for a couple of months, as we go through the back end of this year, are there any of those projects that are being wound down now in anticipation of completion so we might see that impacting the Core Plus revenue at the back end of the year?

Tom Glocer: No, not really. There are a couple of the ongoing projects in Core Plus where there is some beautiful complementarity. To give you an example, we have been investing significantly out of Research & Asset Management in the so-called primary research opportunity, which is to provide differentiated, very high quality research on narrow verticals, one of the chosen markets having been pharma. With access now on the Thomson healthcare and scientific side to some really high quality data, for example their web of science that has abstracts from all of the leading scientific journals, which is how scientists often start approaching research work, if you are trying to analyse a GSK drug in Phase II trials, not only will you have the financial information, the additional layer of research that we were providing from trained professionals in those markets, but now the ability to also click through into underlying databases on the hard science. Similarly, if you are trading in the distressed debt markets, you will now be able to get across into – or you will eventually after closing – the Westlaw database of Bankruptcy Court rulings. There is very nice complementarity because obviously what we all do in the financial services sector often relies on content from adjacent fields and that is now all possible to bring in-house.

David Grigson: If you think about where the majority of those investments, and indeed therefore where the savings were going come from, Project Keystone migrating our customers on to a single network, no change. Actually, perhaps from a BT perspective, rather the opposite, maybe even some opportunity that we could get some extra benefit from. Our whole billing and admin systems upgrade, again no change.

Our internal project to effectively outsource the provision of IT services, internal IT services - we have rescoped it in light of the programmes, but it hasn't changed the fundamental financials, and indeed, the outsource provider there sees an opportunity and therefore in the end, the scale of the opportunity managed to grow rather than shrink, even for the Reuters business, just because the scale of the opportunity just grows.

So, no changes to the expected financial outcome, even though some small rescoping within the projects themselves.

Jonathan Helliwell (Cazenove): I wanted to know if you could give us a little more colour on FXMarketSpace in terms of what has gone better, what has gone worse than expected in the first few months.

Tom Glocer: We had a really big June on FXMarketSpace – much sooner than I expected (or our plan did). What we are seeing is, as large firms – such as, say, the prop desks at the big sell-side houses and some of the big trading groups in the hedge fund community - come in, they experiment, then they come off-line, tune their engine, come back in. So we are seeing quite a lot of volatility on a day-to-day basis. Similarly, the way we are looking at it, it is certainly encouraging that we had a very good June but rather than re-base our plan and say, ‘Good, we’re ahead’, what we are actually doing is saying, ‘No, let’s look at the evolution more quarter to quarter’, because really, the issue is going to be, as we get to the second half towards the end of this year, what are we doing in levels? It is promising, but it is too early to declare victory there.

Polo Tang (UBS): Just one question and that is on the cost-saving synergies with Thomson. You have outlined more than $500 million of savings in three years time, but any colour in terms of the profile?

Tom Glocer: Not a lot more to add. We have gone back on both sides and essentially validated on a more granular level. So I would say the confidence level, both from the two separate teams and to the extent we co-ordinate at a steering company level, although without access to all the deep cost data, is very high. The types of places it is coming from are: each side is doing work looking at the data centre opportunity. Reuters was already consolidating data centres but now, we have another opportunity to look at that. Communications, as David has mentioned: everyone has to run in the industry a main line and a back up, but you do not need to run four into, say, the Merrill Lynch building here. In general, if you can do line consolidation, run a fatter pipe and go down, you will save and hopefully will be able to pass on savings to customers there.

We are looking at very pedestrian things really, like leases for office space around the world. If you have two sales offices in Tokyo, can you now have one? That really adds up at this scale. Two levels of payments to outside support on Sarbanes-Oxley; we can run one process now, larger in scope than either one had alone but overall, spend less than the two combined. You start thinking down a very long list of things like that, just basic, sensible business decisions. We get the 500 pretty fast.

Patrick Wellington (Morgan Stanley): For years, analysts have charted the Reuters share price against the investment banks’ index. I have had the notice from my personal holdings: investment banks’ shares have done quite badly in the last few days! What do you feel about your level of sales from investment banks?

What proportion is it now? How do you, using your skill and judgment, feel that they will respond to what is inevitably a period of tightening conditions for them? That is the first question. Then the second is that the combined Reuters-Thomson will be primarily a financial business – a bit cyclical, very high quality legal business. It is roughly 60/40. Once you get your feet under the table, Tom, do you think a bit of rebalancing is required for that portfolio?

Tom Glocer: I think it is way premature for me to be talking about rebalancing the portfolio. It does give me the opportunity to say, how prescient, how good Dick Harrington and team have been at optimising their portfolio. Look at something like their learning business, to be the first one out the door to say, with a nice growing business, a really high quality business, they nonetheless want to divest it, to go out to get it down at a much bigger price and then to allow APACS to do the credit, really just at the end of the incredibly good credit cycle. They have been really good at that so I think I have as much to learn from then as anything that I can bring to bear.

Obviously, we will look at issues like the relevant size of science and healthcare and what the future direction is, how we can grow those businesses, what the other interesting industries are. If the mission of the firm really is all about content and applications to be delivered to professionals at work in all the best verticals – finance, legal, tax, regulatory, and so on – then I do not think the vision just ends with the current businesses. There are other adjacent ones.

Then back to your first question on, I guess, investment banking, the cyclicality. I have been around long enough to remember when you were at that certain other investment bank and wrote the famous *Terminal Reuters* report. Clearly, in my mind one of the advantages, from a Reuters holder, of coming together is not only greater diversity of revenue from having something other than just 94% finance but the very nature of the legal business – and really, science & healthcare as well and tax and regulatory – is that they are less cyclical or at least the cycle does not move in the same places. As an old lawyer, I know that lawyers tend to make money when it goes up and when it goes down, because then the litigators make money and everyone claws over every penny. So I like that profile of professional publishing assets.

In terms of our exposure in finance, again the complementarity of Thomson Financial and Reuters means that we will have a much better presence on the buy-side. If you look at, say, the Reuters Knowledge results or Reuters Research and Asset

Management, you can see how we have grown that from really negative margin to be now plus 9%. But we were still quite sell-side dominant.

Finally, I guess, is the question: I do not think it is the sell-side or that we are at the end of the cycle. The market seemed to shrug off right at the time of our Preliminary results that the unwinding of the end carry-trade was going to ruin the world and then the DOW went on, and the FTSE, to new highs. The first wave of credit issues and the Bear Stearns bale-out of their funds – we recovered from that. It is early in the summer. People are going away. They are closing out positions. I think what we should do is come back, like we did last year, look at September. This year none of us are worried about it at all; the issue really is what 2008 and 2009 look like and it is too early to tell, for me, on two days of trading.

Question (through Miriam McKay): I was going to ask a question about tax rates. What should we use as the rate for 2008 and beyond?

Tom Glocer: Is that from the Inland Revenue? [*Laughter*]

David Grigson: I think I gave the answer that I cannot predict it exactly, but that it will not be more than 20% for this year and it could be a little less.

Thank you all very much indeed.

\- *Ends* -