

**REUTERS**

**Q3 2007 RESULTS CONFERENCE CALL**  
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**Miriam McKay:** Ladies and gentlemen, good morning and welcome to Reuters third quarter conference call. It is my pleasure to introduce David Grigson, our CFO, who is with me here in London and will walk you through the numbers, and Tom Glocer, our CEO, who is joining the call from New York and will talk about the operating environment and recap where we are on the Thomson-Reuters transaction,

Before we start, I need to remind you that our comments today include forward-looking statements. The Risk Factors section of our Annual Report and today's press release describe certain important factors which could cause actual results to change materially from those in our forward-looking statements today. You can get copies of our Annual Report and our press release from our website or from our Corporate Relations offices in London and New York. David, with that, over to you.

**David Grigson (Chief Financial Officer):** Thank you very much. The key message from our figures today is that this has been another strong quarter for Reuters. Our revenue grew 7.6% on an underlying basis, excluding the effects of currency and acquisitions, to £646 million. This represents our strongest quarter of underlying growth for six years, and takes our year to date underlying revenue growth to 6.8%. This is particularly pleasing given the backdrop of a turbulent market, and the focus we have within the business of preparing for our integration with Thomson, as well as delivering on our commitments for this year.

Revenue on an actual basis grew 2.3%, reflecting the £33 million impact on revenues this quarter from currency effects, notably the weakness of the US dollar. There is chapter and verse on currency in the press release. Suffice to say here that currency effects have reduced our revenues so far this year by some £119 million. While we are confident that we can sustain business momentum into the fourth quarter, we know that currency will continue to impact us in actual terms.

Let us take a closer look now at what is driving underlying revenue growth, and I would highlight three key factors. First, as we told you at the Interims in July, our sales

and installations have been very strong this year. These, as you know, are the key lead indicators for the 90%+ of our business that is subscription-based. Sure enough, we saw subscription-based recurring revenues continue to grow in the third quarter, giving year-to-date underlying growth of 6.5%. Sales and installations remained strong in the third quarter, so our key lead indicator remains positive.

Secondly, the third quarter was a very healthy one for usage revenues, which grew 30% on an underlying basis. This reflects the good contributions from our core transactions services such as FX Matching, as well as new transactions initiatives under Core Plus, like Prime Brokerage. Media usage revenues were also strong, driven by online advertising and use of our pictures archive. Usage revenues made up nearly 6% of our revenues for the quarter – an unusually high proportion. Whether we continue to see such a strong contribution from usage going forward is obviously dependent on market volumes, which we cannot take for granted. In general, however, we see as a positive trend that our growing suite of transaction products aligns our revenues more closely with market volumes.

Third, Core Plus as a whole continued to contribute strongly: 2.8 percentage points of the 7.6% underlying growth for the quarter came from Core Plus – that is £17 million of new revenue this quarter. The main sources of new revenue from within Core Plus were the investments we have made in content to accelerate sales of Reuters Knowledge and our emerging markets initiatives in China and India. The year-to-date contribution to growth in Core Plus stands at 2.4%, on track for the 2% that we have for the year as a whole.

Now, let's look at each of the business divisions in a little more detail. Sales & Trading revenue increased by an underlying 3% in the third quarter, to £402 million. The revenue picture here is of strong growth in our premium products – including the growth in usage that I referred to earlier – balanced by our efforts to manage the migration of, and revenue loss from, our legal desktops. Telerate continues to cause a two percentage point drag to Sales & Trading revenue growth and is about 1% for the group as a whole.

Research & Asset Management revenue continued to see excellent growth at an underlying 23% to £92 million. This was driven by a strong performance in the Investment Banking, Investment Management and Corporates community, where we benefit from being able to deliver Reuters Knowledge in a variety of formats: either as a

standalone desktop, embedded in a fully fledged 3000 Xtra screen, or as a content feed for integration with our customers' own systems.

Growth in the Enterprise division continued to accelerate this quarter, up an underlying 11% to £109 million. Demand for machine-readable data remains strong and our commercial arrangements are increasingly linked to the value and volume of data our customers consume, rather than the technology used to deliver it. Information Management Systems are still showing a decline, but the trend is showing signs of improvement as the impact of product obsolescence is increasingly offset by growth from new capabilities, such as wireless distribution. Risk management continues to be a key area of focus for our customers, in both established and emerging markets, which has fuelled underlying growth of 16% in this area of our business.

Turning finally to Media: as we anticipated at the half year, the division's performance did pick up again in the third quarter, with 11% underlying growth, to £43 million. Demand for multi-media remains strong in our agency business, fuelling strong growth in pictures and TV, and we saw good growth in online advertising and syndication.

To summarise then, this has been a good quarter for all the divisions and we continue to fire on all four cylinders. When it comes to looking forward to the rest of the year, we are still in an offer period, so we are not going to give any specific 2007 revenue or margin guidance as part of these Q3 results. As you know, our business tends to be prone to a certain amount of fourth quarter lumpiness, because of the high proportion of outright sales that need to close before year end; but it is great to approach the year end with 6.8% underlying growth year-to-date and to have that growth under our belts.

With that, I will hand over to Tom.

**Tom Glocer:** Thank you, David. What I thought I would do over the next few minutes is to add a little colour to the operating environment and summarise where we are on the Thomson-Reuters combination.

I will start by echoing David's comments that our revenues and sales remain very strong. I am proud of this for two reasons. First, because we delivered this performance despite the potential distraction of the Thomson transaction. We all know how important

it is for companies involved in large deals such as this to keep their eye on the ball and at Reuters we have stayed focused on delivering the signature year that David and I have called for.

Second, I am proud because we have continued to make progress, despite the ongoing credit crisis. The work that we have done over the last few years to improve the competitiveness and relevance of our franchise means that our business is increasingly aligned to what our customers need, even in tough markets. We saw record volumes on our trading systems during August, and demand for Enterprise solutions to manage data consumption and business automation has never been higher. A sustained financial market downturn would undoubtedly affect us but, with our business now more closely linked to data consumption and trading activity, I think we have built considerable resilience into the model.

In a way, I wish I could tell you that we were more directly exposed to the effects of the credit crunch but, as you know, fixed income as a whole accounts for only about 10% of our revenues. Demand for transparency in credit markets has never been greater and we actually have some interesting initiatives underway to take advantage of this opportunity. For example, we have recently announced a partnership with Markit Partners to combine their Credit Default Swaps data with our live pricing, powerful news and analytics, in an open systems environment. This has generated strong levels of customer interest which should allow us to build on the 2,000 positions of 3000 Xtra that we have sold to credit professionals so far this year.

Looking at the operating environment more broadly, we continue to monitor the overall health of the financial services market and our customers' investment patterns worldwide.

In Europe, where our business built on its first-half strength to grow an underlying 7% in the quarter, customers continue to invest in areas where Reuters has strong product offerings – growth markets such as Russia and the Gulf, and enterprise solutions to fuel alternative trading strategies, including those made possible by the competing liquidity pools created under MiFID which, by the way, comes into effect next week.

In Asia, we saw 10% underlying growth, boosted by an improving performance by Japan. Our investments in content and technology for new markets, such as China

and India, are increasingly positioning us as the vendor of choice for our global customers, as they expand their operations. The strength of our brand and depth of relationships we enjoy in the Asian markets are among the key strengths that make us such an attractive partner to Thomson.

Our Americas business also continued to deliver strong growth this quarter – 7% underlying. The areas seeing the most immediate fall-out from the credit crunch, like the mortgage sector, are not traditional Reuters heartlands. We are continuing to see strong demand for Reuters Knowledge and our Enterprise product suite, fuelled by continued growth in electronic trading and business automation.

So, to summarise, we continue to monitor the macro trends, including the risk that the liquidity crisis spills over into the “real” economy, but we have come a long way towards improving the resilience of our business by targeting areas of clear value to our customers – electronic trading, high value content, enterprise solutions and our new markets initiatives.

Last but not least, let me turn to the creation of Thomson-Reuters. Since I last spoke to you in July, a lot of my time has been spent planning for the integration and I continue to be pleased with the progress that we are making on the strategic, technical and organisational blueprints.

You will have seen that we now have clear timetables from the regulators and that we anticipate receiving regulatory clearance in the first quarter.

We are moving ahead as quickly as we can with integration planning so that, when we get clearance, we will be ready to move swiftly towards bringing Thomson-Reuters to life. I remain very confident that the transaction will be cleared, given the support we have from our customers and the complementary nature of our two businesses.

In the meantime, I am delighted that Reuters remains on track to deliver the signature year we spoke about in July. With that, let me turn back to Miriam, who will moderate your questions.

**Miriam McKay:** Thank you very much, Tom. We will now take questions.

**Paul Gooden (ABN):** Good morning. My first question is, in terms of net contract sales, can you add a little more colour there: how was Q3 compared to Q2 and within the quarter were there any surprising monthly movements that should give us confidence or concern?

**David Grigson:** Hello, Paul. I can tell you that Q3 was a little better in total than Q2 and we saw a good first half, as you know, with which we were very pleased. We were particularly pleased that August, which is generally a pretty quiet month, was not only very active in trading terms but it was also pretty active for Reuters, and we saw a better-than-average August, and September remained strong too. As far as we can judge this far into October, we are not seeing any clear signs of anything other than the pick-up in momentum we have been seeing through this year, continue.

**Paul Gooden:** Just one more question. Is there any anecdotal evidence yet that customers are planning to drop either Reuters or Thomson for reasons other than contingency requirements, or is there just no sign of that yet?

**Tom Glocer:** That is a little premature. What we owe our customers first, and we shall certainly do by the time we close, is a very clear roadmap of the strategic product architecture and what direction we are taking it in. Without that, it is way too early for them to choose, but the support from our customers throughout this period is very good.

**Colin Tennant (Lehman Brothers):** I wonder if you could update us on the timeframe for negotiations on pricing going into next year? It comes back to the market turmoil question: are the customers potentially pushing back on the sort of price increases that you saw last year, or do you anticipate achieving them again?

**David Grigson:** Colin, there are no signs of pushback yet. You are right to assume that our working assumption this time as we speak with our customers is that we shall see price increases of roughly the same level as last year, yielding roughly the same revenue benefits as last year. Today, I have certainly heard of no suggestion from around the company that we are seeing any particular pushback, and certainly no pushback specifically related to the current state of the market. We remain reasonably

confident that the 2% revenue uplift that we saw this year and last year will be something we can look forward to next year as well.

**Colin Tennant:** May I have a quick follow-up on legacy products and Telerate? The headwind that you mentioned – 2% in Sales & Trading and 1% for the Group – am I right in thinking that that ends this year, so that next year we should not assume any headwind?

**David Grigson:** It does not fall away on 31 December to zero, so there is a little bit of a flow-through into next year, but you will recall that we worked very hard at the back end of 2006, certainly in Europe and in Asia, where much of this business was, to get the migration onto a Reuters product done. Therefore, we can certainly see that the impact falls to a much smaller number - it will become lost in the roundings and is not something that we will want to talk about.

**Polo Tang (UBS):** I have two questions. The first is you say you have not seen any impact from the turbulence in the markets. In the last couple of weeks, we have had a lot of investment banks announcing job losses, so could you give some colour as to how you expect that to impact your business? Secondly, can you give us some colour on the issues that the regulator is looking at for the EC in light of your discussions?

**Tom Glocer:** Let me start with the issue of headcount loss. To date, if you look specifically at where the heads have come from, they have tended to be very directly from those areas affected by the credit fall-out. In particular, you have big firms such as Lehman taking out the mortgage desks or asset-backed and general structured finance. We have not yet seen a knock-on effect to the general trading desks and, with volumes as high as they have been, people are making money on the trading side, if you look beyond the issue of how you mark-to-market, or even mark-to-model the existing paper hung up on your books.

The really interesting question for us all, and one we are looking at carefully in connection with the 2008 budget, is, will there be a knock-on effect to the real economy from the crisis in the instruments economy or the credit economy? And we do not have a crystal ball there. However, what I can say is that, not only in our sales results and

revenue that are in the bag, but in our current net sales in October and the pipeline, we are not seeing a fall-off.

The final point I want to mention, which you can see when looking back over the last several quarters, is that we have worked hard to try to realign Reuters money-making ability away from just headcount. If you look at our terminal populations in the back page of this and other press releases, you can see that our terminal count has been flat, reflecting churn and a move-up to Xtra. However, with the strong growth coming out of Enterprise this quarter, revenues are strong and have been accelerating.

To put that all together, if we had a very material recession, big fall-out, failures in the US and, therefore, very large headcount cuts, I have no doubt that would temper our growth in 2008. However, from where we sit today, this year looks very strong and we do not see a fall-off in customer demand, even though people are in the midst of quite active markets.

Turning to the second question on the dialogue with the EC, it has been very constructive. It is a conversation that we want to have in private with them as opposed to publicly or in notes. There is not much more to add than we said in the regulatory update a couple of weeks ago. We have a timetable that looks realistic and we very much look forward to getting clearance in the first quarter.

**Rogan Angelini-Hurll (Citigroup Smith Barney):** I have two questions. In terms of your sales growth and the improvement in the third quarter, are there any geographical distinctions we should be aware of? Specifically, I am thinking of whether the US has followed the same trend, or has it been more driven by Asia and Europe?

The second question – I do not know how much colour you can give here – can you talk about the trend of recurring revenue growth pre- Core Plus recurring revenue growth? I don't want to get into being a pop mathematician any more but what does that trend look like through this year? On my back-of-the envelope numbers, although it is strong, it looks like it might have slowed a little in the third quarter relative to the second quarter, i.e. Core Plus has been accelerating. If you strip that out maybe it slowed a little. Can you talk about that please?

**David Grigson:** Let me pick up on both of those, Rogan. On the sales Q3 versus previous quarters, no real shift of trend. This year has been driven more by

an acceleration of sales in Europe, particularly in France and Germany where we have seen really good performance; and also the Gulf and Russia, which we have talked about before, where we have seen revenues growing at 13%, 14% and even 15%. Also Asia - and Tom mentioned Japan in his opening remarks - certainly has been picking up well this year. Obviously, 50% of our Asian revenue is in Japan so if we are going to see improvements in Asia, Japan has to be contributing to that as well as the performance we have seen in other geographies including China and India. There are no significant shifts in the trend regionally at least. All regions are positive and our biggest customers are also showing good sales performance in the third quarter, as they were doing in previous quarters.

On the recurring revenue growth, you are right that the arithmetic shows us that quarter to quarter there wasn't anything particular – I think it fell by 10 basis points, nothing very much - it is pretty well flat. I think you should put that down to some of the lumpiness, some of the noise around the edges of this thing. The change is occurring where we are building on that sales performance. It is positive and remains positive into the fourth quarter of this year as well. So you may see the lines dip a bit and pick up from quarter to quarter but if you draw a straight line through those things then you would see upward momentum, and you will certainly see that in the fourth quarter.

**Rogan Angelini-Hurll:** That is great. Maybe a specific one: are the US sales in the third quarter better than the US sales in the second quarter?

**David Grigson:** I can check – I do not actually have that information to hand – but I do not think there was any material difference. If the answer to that question is different, we will come back to you.

**Giasone Salati (Execution):** Just one point on the merger, again: in the last statement from Reuters, we could imply that Reuters officially expects the merger to close with no remedies and possibly even ahead of 25 February in Europe. Would that be correct? Is that still your position?

**Tom Glocer:** On the issue of remedies, where we stand today is that we have had no discussions about remedies. What I said in the summer still holds, which I caveated to say that I cannot speak for the regulators and obviously, we have great respect for what they do and how they see the market. From our perspective though,

because of the relatively small penetration of Thomson in Europe, coupled with just the very complementary nature of the two businesses, we do not see where there should be a need for remedies. That does not translate to a guarantee that there will not be any. That is the first point.

Secondly, on the timing, we do obviously have more information than we did in the summer. We are in Phase 2 and the natural date for it to end, if it just followed the regular Phase 2 course, would be 25 February. You then need to tack on four to six weeks to that to get the court approvals, the EGMs and so on. It is still possible, and the EU will, on occasion, allow a shortened Phase 2. I do not want to say any more other than from my perspective and David's, the sooner we can close and get running as a joint company, the better. So come back to what we said in the release: we expect to get clearance in the first quarter. That might be on 25 February. It is possible that might be sooner. And we will then proceed to close as soon as we can.

**Giasone Salati:** May I follow up on that, please? Then we will have no official guidance for Reuters standalone?

**Tom Glocer:** I suppose that is right, David? We will not be updating our guidance? You will obviously get to see, at the end of February, what the full year looked like but for the same reasons we did not do so today, we will not be updating specifically our guidance either on revenue margin or certainly on profit line.

**Giasone Salati:** Thank you.

**Mark Braley (Deutsche Bank):** Just two questions. I wonder if you could give us a feel as to how FX MarketSpace is progressing. Are you on track with what you were looking for in terms of the number of participants and volume levels?

The second question is just on the agency business, bearing in mind the CNN situation. How do you see that evolving as the traditional clients come under pressure to cut down their spend? Overall, do you think that that is a positive for your business, because they have become more reliant on agency? Or do you think it is a negative, because you face more underlying pricing pressure?

**Tom Glocer:** The second question, in particular, is a very interesting business strategy and modelling question. I thought we had rather a soft second quarter

in Media and David, at that time, predicted that we would see that rebound in the second half of the year which, in fact, we are. It is great to see that come through.

Very specifically on the agency side, the distinction between whether it is good or bad is a short and a long-run issue. In the short-run, and that includes the one to three year horizon, I think it is very positive because as newspapers need to retrench, they have been cutting international reporting and they have become more reliant on Agency for that dimension. In particular, as everyone tries to expand their web presence, suddenly photos and video (with video, in particular, never having been something that you needed as a newspaper) become vital. We are seeing an interesting pick-up as a result of that trend.

The danger, long-term, is that ultimately, if the patient dies, it is not great for the drug-maker. I do not think newspapers are dead but, in the three to five-year horizon, it will be a challenge. That is one reason why Chris Ahearn and team have been developing the electronic publishing model. We are watching this carefully but, for the moment, it is a very favourable trend. I expect that will continue for a while but, long, long-term, we will obviously be looking to grow media revenues from different models.

Speaking of different models, I will use that to segue to FXMS (FX MarketSpace). We have just had a review with the CME and the good news is, first, that it is a very good and strong relationship. The CME is a great partner and brings much to the party. We have reviewed the customer uptake and the relevance of the model, in particular, and we are still getting very strong indications. People believe that this is a model by which they want to trade and we are seeing a healthy pipeline of new folks coming onto the model, i.e., signing up to participate. There is a fair amount that is required, both technologically to do the hook-up, and legally and by contract and so on; this is on plan or rather ahead of where we thought we would be.

In terms of the actual volumes, our experience, whether it was on Dealing or Instinet, is that it takes time, particularly in very volatile markets, where people do not necessarily want to move and redirect flow from whatever they have been doing. Volumes have been building. I just think that this is something that we have to look at not month to month, but over the longer term. The bottom line on both the CME's and our part is a strong commitment to make this model work. We really think the platform is right.

**Veronika Pechlaner (Goldman Sachs):** I have just a follow-on question to Colin's earlier question on prices. You mentioned in your opening comments your distribution agreement on CDS spreads with Markit. Obviously Markit is going around in the market and selling screens for a couple of hundred dollars. I was just wondering, when you integrate that into your Reuters 3000 Xtra product, how are you going to price for it? Or is that just an addition to the content which will come into the regular price increases that you do for Reuters 3000 Xtra?

**Tom Glocer:** Our relationship with Markit is not significantly different from that of many third parties with which we work. So a certain amount of the information comes in just to make Xtra stronger. We have very good CDS pricing from the inter-dealer broker market – GFI in particular, but ICAP and others as well – and obviously, news and everything around central bank activity, which Reuters covers so well, is great for that market.

The particular pricing with Markit is that you get some information included and there will be additional packages available as a third party market service over Reuters and we typically fee share. I do not know the particular arrangements with Markit but they have established a very good product and position that makes both of us stronger.

**Veronika Pechlaner:** Thanks very much.

*[No further questions]*

**Miriam McKay:** It looks as if we have no further questions, so we will bring our conference call to an end. Thank you very much, everybody.

*[End of conference call]*