

**REUTERS**

**2007 Results**

**Thursday, 6 March 2008**

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**Tom Glocer:** Let me start today by saying what a special day it is for Reuters and for me personally. This is the last time that we will be presenting Reuters, at least as a stand-alone entity, so we thought we would do it slightly differently today, as you can probably already tell.

It has not always been that easy for me, getting up in front of you at these presentations but, over the last six or seven years, I have to say that I have come to really enjoy these sessions and, in particular, responding to some of your exacting questions. I have actually learned a good deal from the nature of your questions, as to what you think the important drivers of value in the business really are.

We thought we would also have a very special welcome for John Clarke of Brewin Dolphin, who is in the front row today. John was at the very first Reuters presentation in 1984, so this is a wonderful book-end appearance. The results that we have issued this morning are a fitting end to at least this chapter in the Reuters story and now, as we begin to move on to the next chapter at Thomson Reuters, I hope you will all stay interested in this story and continue to engage with us here in London, where I certainly plan to continue to spend a considerable amount of time. Let me now give you my own view of what the key achievements were in 2007.

#### **Headlines**

This was really a signature year for Reuters. Despite ambitious targets and turbulent markets, and the potential distractions that can come from an acquisition of this size, I believe Reuters delivered really excellent results. Underlying revenue growth improved to 7%, finishing the year strongly at 7.6% growth in the fourth quarter and heading into even stronger growth of around 9% in Q1 2008. The business itself is strong right across the board, both from a geographic perspective and across the four business divisions.

The Core Plus programme is now really starting to produce the goods, generating an additional 2.6 percentage points of top line growth and this is the first year in which the Core Plus programme has started to provide meaningful transformation cost savings as well, which along with tight cost control helped us to

deliver the 14.8% trading margin, well ahead of what had been our guidance at the beginning of 2007.

I am particularly pleased that we started to deliver early on cost savings out of Core Plus with £50 million of incremental savings versus the original target of some £20 million, and that has been driven principally by our continuing efforts to simplify the company and the product line. It builds on what is now a track record that Reuters has established for hitting, or even exceeding, our cost saving targets, and I am pleased that it is something that Thomson knows a thing or two about as well. With excellent revenue momentum and really good profit improvement, standalone Reuters is going into this transaction stronger than it has certainly been at any of my time in Reuters as CEO.

What I thought I might do today in keeping with approaching it from a slightly different perspective is recognise that today is David's last presentation as Finance Director. Therefore, in addition to just running you through the numbers, we all thought it would be a great opportunity for him to step back a little and give you a more free-ranging review of the transformation that Reuters has undergone during his time in the company. Now that Devin is stepping up from COO role to run the combination of Reuters and Thomson Financial, it is an even better time for him to take you through the divisional results and talk, in particular, about the resilience we are seeing in the business. Why are we doing so well and projecting to continue with a very strong first quarter when all around us it looks like it has been doom and gloom since the summer, so that is the core question today.

Before I hand over to David, I want to take a couple of moments to thank him personally for his work and achievements during his time at Reuters. Many of his accomplishments are familiar to you such as: slimming down the company in a £1.5 billion divestment programme, which we started almost immediately upon forming this team, taking out close to £1 billion in the annual cost base of Reuters, which at sometimes was quite painful; the establishment of a world-class finance function, some of whose members are here today which is great; the enviable record we created together in terms of free cash flow conversion, and the disciplined use of that cash flow in investments and returning capital to shareholders. These are many and I could have cited other tangible and fittingly numeric expressions of David's success, and they really are huge achievements in and of themselves.

However, what everyone has not had the chance to see outside are David's other achievements, some of which I think of as "the dogs that did not bark". It is the

acquisitions that we did not make because they did not meet our strict criteria, or the internal projects that we killed because they were not hitting targets. I think of things like the introduction of Profitability Insight and MIS to give us a system or a language by which to run the business.

Lastly, and I believe most importantly, there is the incredible energy, enthusiasm and good cheer that David has brought which inspires all of us. I shall spare David and myself further embarrassment and turn it over to him.

**David Grigson (Finance Director):** Thanks Tom very much and good morning everybody, thank you for coming to this the business end of our day. I very much look forward to seeing as many of you as possible later on tonight when we can all let our hair down and celebrate the end of a bit of an era and for you guys the end of a long results season as well, so it should be a really good night.

Like Tom, I am conscious that today is about closing one chapter of Reuters history but it is also about moving on and it is also about looking to the future. As I run through the 2007 numbers, I want to introduce three themes to show how Reuters recent past can inform the future Thomson Reuters. These are that our business is in substantially better shape than when Tom, Devin and I took the controls. From this year's performance, we can draw a series of positives to take forward to Thomson Reuters and, finally, it is my belief that the best is yet to come. Bearing these in mind, let me start in traditional fashion with our top level trading numbers.

### **Trading performance**

As Tom said in his introduction, we had a great 2007 whichever way you look at it, be it revenue growth, trading margin, earnings growth or cash conversion. We delivered underlying revenue growth of 7%, a testament not only to strong markets but to the strength of our business mix. When you dissect our revenue growth into our division and product lines, you see that over 80% of our business delivered double digit growth this year. Only the product lines with legacy migrations under way bucked this trend and, with the Telerate migration now complete, the revenue from these legacy products is becoming increasingly insignificant. The robustness of our business mix bodes well for Thomson Reuters.

Looking at revenue by type, recurring revenue growth remained strong throughout the year, powered by a healthy volume trend and price increases that

yielded 2 percentage points of additional revenue. As you can see from the graph in your booklets underlying revenue growth accelerated to 7.7% in the fourth quarter, showing that the trends remained strong.

Usage revenues, which include FX, brokerage and TV usage, grew an underlying 15%, with FX brokerage growing 19%. This excellent performance in FX brokerage reflects volatile markets, the incredible strength of our FX franchise and also the development of our product line, with additions such as Prime Brokerage.

Outright revenues were roughly the same as last year but there was an important shift in the mix with customer demand for trade and risk management software, another area we have been developing and investing in, more than offsetting planned withdrawals from legacy information management systems.

Trading costs are now growing considerably more slowly than revenue, an underlying 3% versus 7% for revenue, the results of accelerating the returns from our Core Plus cost saving initiatives and tight cost controls everywhere else, all of which delivers trading profit of £385 million at a margin of 14%, an underlying increase of 43%.

### **Trading profit movements**

If we look in a little more detail at what is driving trading profit, you will see good contributions to profit growth from both the core business and Core Plus. The £25 million core business contribution on the chart is being driven by both revenue growth and tight cost control. Excluding parts of the business which are effectively pass-throughs, like recoveries, this represents a margin of 31% of incremental revenue – a clear demonstration of our ability to drive profit growth from an increasing top line.

Core Plus contributed £89 million to the improvement in our 2007 trading profits. The period of heavy investment is now complete, revenue momentum is building and cost savings are coming through ahead of plan. We saw £63 million of new revenue this year from Core Plus initiatives, making £95 million in total, and adding 2.6% of revenue growth in the year. It is encouraging to note that our customers are continuing to invest in areas where we are targeting: high value content, particularly on the buy side; new markets, such as India and China; next generation electronic trading initiatives, and new enterprise solutions to promote business automation. These are all areas that we would expect to prove resilient in tougher times.

As Tom has already said, Core Plus cost savings are coming through faster than we originally anticipated, at £50 million versus our original target for this year of £20 million. This shows that, far from being a distraction, integration planning with Thomson has strengthened our resolve to push through savings as fast as possible.

Pausing for a moment to look at currency, you will notice that the currency impact in the second half of 2007 was less marked than in the first half. Most major currencies, notably the US dollar – stabilised against Sterling in the second half. Nevertheless, exchange rate movements still reduced full year revenues by £135 million and trading profit by £36 million. 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 than Reuters has been of late.

### **Adjust EPS**

Moving on down the P&L, it is great to be able to report a 35% increase in adjusted EPS, which rose to 23p.

Looking beyond the actual 25% increase in trading profit, you see that the effective tax rate was 17% this year. My thanks, once again, to an outstanding tax team, some of whom are here, for constantly finding ways to create sustainable value from Reuters global presence.

### **Reuters adjusted earnings growth**

Looking at adjusted earnings growth over the last few years, you can see that we have more than delivered the double digit earnings growth target we set out back in 2001. To do so, we have used a variety of levers: cost savings; revenue growth, and share buy backs, to name the most obvious. Looking forward to Thomson Reuters, the proven ability of both management teams to use all the levers at their disposal, and especially at a time when integration offers up even more opportunities, gives me confidence in continued strong earnings performance.

### **Statutory profit**

I will pause at this point, to give due regard to the key lines in our Statutory Income Statement. Operating profit grew 14% to £292 million and this is after including £45 million of transaction costs relating to the Thomson Reuters deal.

Profit before tax, profit for the year and basic EPS saw declines, not only because of the deal related costs but also because profits from disposals were lower in 2007 than in 2006, when you will remember that we booked the gain on the sale of our stake in Factiva.

## **Trading cash flow from continuing operations**

Moving on to cash flow, I am delighted to be able to report that we have exceeded our cash conversion targets. This time last year, I talked about achieving a trading profit into trading cash conversion ratio of about 90% over the two years of 2006 and 2007, which were the step-up years in our investment in Core Plus. It is great to be able to report that cash conversion over the two years averaged 100%.

Cash conversion has always been a strength of Reuters and a particularly important focus for the Finance function who, once again, have played a vitally important role in the delivery of these results. My thanks to you all for the support you have given me over the years and the significant contribution you have made to Reuters performance.

## **Capital investment**

Just a little bit more on capex. Here, again, we are well in line with our target, which was to keep 2007 capex at similar levels to 2006. As it turned out, we spent £225 million compared to £228 million in 2006.

As you can see from the chart, where capex has increased, this has been to invest in transformation projects such as the common platform. This investment may turn out to be our most significant and highest returning yet and the potential for considerable margin uplift in the longer term is only increased by the additional scale benefits of the enlarged Thomson Reuters.

## **Returning cash to shareholders**

As you have seen, Reuters is naturally cash-generative and, over the past few years, we have developed an excellent record of returning cash to shareholders. As you can see from the chart, we have returned £1.5 billion since 2004 – about a third of our then market capitalisation. We intend to start buying back shares again as soon as legally possible and, when we do, we will buy back up to our previously established threshold of 50 million shares and then carry on right through to when the transaction completes on 17 April.

## **Conclusion**

And so, to conclude. As this is my last results presentation, you will allow me the briefest of retrospectives.

The Reuters I joined nearly eight years ago was a great company, with a fantastic brand, an amazing franchise and wonderful people, and I am pleased to say

that it is all those things still today. But back in 2000, it was also an unnecessarily complex company, strategically confused, structurally unwieldy and fundamentally unmanageable. *[Laughter]*

I am pleased to say that, after much Fast Forwarding, Core Plusing and numerous other initiatives that did not get branded publicly, we have managed to turn ourselves around and it has been an amazingly satisfying journey. Reuters today is a straightforwardly focused and purposeful company. We said we were an information company back in 2000 but it took a sweeping programme of disposals and closures to become one.

Reuters has always attracted great people and today's leadership team is its strongest ever as demonstrated by Tom's and Devin's appointments to Thomson Reuters, and by the fact that 75 of the top 100 leadership positions in Devin's new team are taken by Reuters folk.

In the streamlined Reuters of today, we are seeing the investments of recent years really beginning to pay off. Divisional profitability, which we introduced you to in April 2004, was a key turning point. It finally enabled our long-standing goal of moving from managing by geography to managing by global division, and it shone a light through the complexity of a shared cost base. The margin improvement we see in every division, and the great returns we are seeing from our Core Plus investments, are due, in no small part, to giving talented managers the tools they need to manage the business.

So to me the most satisfying achievement of these last few years has been to turn Reuters into a company where great people can achieve great things, and nothing underpins its future success more than that. We are delivering to Thomson a strong business and strong people, with a strong hand to play over the next few years, and I genuinely believe that the best is yet to come. With that, I hand over to Devin. *[applause]*

## **BUSINESS UPDATE**

**Devin Wenig (Chief Operating Officer):** Now that our CFO has done all that warm and fluffy stuff, let me tell you what is really going on with this business! On a serious note, David, I share all of those sentiments and I add one

which is that none of it would have been possible without you, so on behalf of myself and 20,000 people in Reuters, thank you.

## **Sales & Trading**

I shall take you through both the divisional and the regional performance, and then I shall talk a little about some of the macro drivers of our business. Let us start with Sales and Trading, whose performance was helped by good conditions in main markets which are FX commodities and energy. These two asset classes together account for about 60% of the S&T business. In addition, we saw great progress in credit which is a Core Plus initiative, and it has been a multi-year initiative where we are really gaining traction against our main competitor in that case.

Offsetting this was the drag from Telerate migrations, which took around 2 percentage points off revenue growth but this effect will drop away in 2008. Sales and trading also saw a very strong contribution from Transactions revenue, up 19% for the year. We continue to expand our capabilities here, building across asset classes and launching new services in markets like shipping, carbon and real estate. We kept costs firmly in control in S&T, continuing to reduce the complexity in the business. This helped drive trading profit up an underlying 28% for the year. This is a significant achievement as we have been investing heavily in a common platform for future growth. This investment will continue through 2008 in advance of a major set of product launches in 2009.

## **Research & Asset Management**

Research & Asset Management continues to see impressive growth: a 25% increase underlying. Investment Banking, Investment Management and Corporates delivered 34% underlying revenue growth, primarily driven by the sale of content, feeds and the continued success of Reuters Knowledge. Wealth Management grew double digits as well, thanks in part to growth in Lipper funds information and the desire of our clients for datafeeds and online solutions. Of course, this is the division that will be most transformed by the merger with Thomson and will get to real scale in this business. I am really pleased that Research & Asset Management recorded its first full year profit, because, if you recall, we set a double digit margin as a mid-term goal at the beginning of 2007 and we have achieved that in one year. We did that because revenue grew 25% while we held our underlying trading costs to 10%, despite investing in the business – a very impressive performance.

## **Enterprise**

Enterprise growth also continues to be very strong with double digit increases in both the top and the bottom line. Enterprise Information's 18% underlying revenue growth continues to be driven by client demand for machine-readable data, and this is a trend that we believe will continue given the market conditions.

The second important driver of Enterprise was the 14% growth in Trade and Risk Management. Obviously, Risk Management is in demand in this market and much of that growth came out of Germany, eastern Europe, the Gulf and Asia. New products also contributed significantly both to Core Plus and to this division's results.

## **Media**

Finally, I shall wrap up with Media which saw a 6% gain for the year but what that masks is that, in the second half of the year, growth was 11% and there were some one-off reasons for that phasing. In our Consumer business, we grew our online audience 17% in the year which resulted in a 15% increase in revenue in our Consumer Media business, which was a strong contributor to both Core Plus and the overall Media results.

## **Revenue by geography**

Let me take a moment to look at the geographic split of this. All of our regions in 2007 were performing well. In EMEA we are seeing double digit growth in Russia and the Gulf, as well as good performances in France, the UK, Germany, Nordic and Central and Eastern Europe. The Americas grew by a healthy 7%, driven by the Enterprise and Media results that I have spoken about. Growth in Asia continues to improve and now at 9% is our fastest-growing region, largely on the back of our results in China and in India.

## **2001-2002: "The Perfect Storm"**

Let me now shift away from the divisions and regions specifically just to give you a sense of the macro drivers, and David touched on a few of these. The benefit of our business mix is really coming through strongly right now, I cannot emphasise that enough. If I take you back to 2001-2002 – the good old days – many of you will remember that we were really hit by The Perfect Storm at that period of time. We saw a retrenching FX market on the back of the introduction of the euro, we saw equity markets collapsing after the bursting of the dot.com bubble and significant headcount reductions indiscriminately across our banking clients. We saw flat commodities and energy markets and, while it is really hard to believe now, in 2002 oil was \$25 per barrel.

### **FX market strength**

Right now, of course, the situation could not be more different. FX markets are at their most volatile and robust in a decade. Spot market volumes have more than doubled over '01-'07 and volumes transacted on our systems grew by 52% in the fourth quarter alone year on year. I just cannot stress enough the strength of our FX franchise right now. The total FX market, of course, is a \$3 trillion per day market and it is our news, our transaction systems, our data that really make this market run.

### **Markets fragmenting, volumes rising**

Although equity markets have been suppressed, volumes have been very high thanks to volatility and the continued rise of algorithmic trading. It contributed to a growth in our equity transactions volume of 17% in 2007 as we continue to transition our equities desktop business into an equities desktop and transactions business. The rise of electronic trading continues apace, helping drive that demand that I spoke about, from machine readable data and algorithmic trading.

Finally, commodities and energy is obviously hot, with oil now at \$100 a barrel and gold at record highs. This is a segment of the market where Reuters is particularly strong and we are investing to grow our lead. In 2007, we added about 3,300 new accesses in commodities and energy alone.

### **Emerging markets, C&E buoyant**

I will wrap up with emerging markets, which of course, have always been a traditional Reuters strength. Emerging markets were strong in 2007, continued to be strong in 2008, on the back of rising wealth and emerging middle class and an increased transaction volume. The point is that this is not just riding the wave of a cyclical shift in our markets. Our improved performance is a direct result of deliberately pointing our business at areas that are growing. That is what we said when we launched the Core Plus programme and now we are seeing those benefits coming through very strongly.

### **Close to the customers**

I do not want to give the impression that we are unaware of the events that are occurring with many of our clients. We are in constant communication with them, from the CEO to the trading desk. Our customers' response today to the write downs has been surgical. They have cut back substantially in affected businesses, but they are continuing to invest in the growth businesses, many of which I have mentioned already. Cost consciousness has never gone away. It is there today; it has always

been there. That is where we are trying to help them with tools like our Enterprise Licence Agreements. We have made significant renewals of four Enterprise Licence Agreements in 2007 and we signed two new ones in 2007; we see several new ones again in 2008.

To give a sense of what these agreements are like, it is best to understand them from our customers' perspective. The problem many of our major clients have is that they have dozens of data and software suppliers. We tell them to take our tools and our data right through their enterprises, to rationalise their spend and to simplify their businesses, just like we have simplified ours. Of course, we charge for it, but it benefits clients, both on cost and by reducing complexity. We currently have Enterprise Licence Agreements in place with some of our largest clients, including Citigroup, HSBC and Goldman Sachs. These multi year contracts provide for a floor as well as agreed revenue escalation. For larger and more sophisticated clients, it is very good for them and very good for us.

### **Reuters and Thomson Financial**

Finally, I want to give you a sense of progress with the merger and the combination of Thomson Financial and Reuters in particular. We have been able to conduct a very thorough planning process, covering key areas of products, technology, employees, targeted cost savings. We are making really good progress. Of course, we will get back to you in May with the phasing of the cost savings but I am glad to say that this is a relatively straightforward process. Where there are areas of direct overlap, such as data or real estate, we will make progress very quickly; we will get cost savings and achieve them quickly. Obviously, savings in areas like technology and product will take longer, but we know how to do this. We have expertise from other deals that we have done and have a very good handle on how those cost savings will end up being achieved in those areas as well.

More interesting and more exciting is the revenue opportunity and we see from day 1 revenue synergies flowing from this merger. Just to give you a few practical examples: we expect to have Reuters News available to Thomson Financial clients on day 1, or some of the excellent Thomson Financial data assets, like Thomson street events, available to Reuters' clients on day 1. We also intend to make things like our collaboration tools, messaging and collaboration software available to the trade ware transaction base of clients. So we have made a lot of progress and we are expecting this to be a revenue and growth driven merger and to get started on that really early.

In summary, Reuters is in great shape. Our business mix is providing us with really good momentum, helped by investments we made under Core Plus and we are excited about the pending merger with Thomson Financial.

With that, I will stop and turn it back to Tom.

**Tom Glocer:** It feels like Chinese New Year here today! Thanks, Devin. Before I go with my presentation, I wanted to highlight three areas of the business where Devin has been instrumental in making Reuters a completely different company from the one that this team of ours took over six or seven years ago.

First, as you all know, through the great majority of Reuters' history, we have been run on geographic lines and effectively, this was a combination of fiefdoms, whose priorities were not always cost efficiency or global customer service. These have now really been transformed into the divisional structure under Devin, through which we operate the business today and it has given my colleagues and me the opportunity to pursue a single global vision, clear priorities and economic scale. Secondly, Devin has really taken the lead in simplifying the product range and delivering new and improved products, amongst other things by leveraging the divisional structure, to introduce greater customer involvement in product development and shortening the feedback loop from customer to delivered product.

Thirdly, Devin has helped transform the competitiveness of Reuters. It is perhaps easy to forget that it was really only five years ago that many in this room today were convinced that a certain competitor would destroy our few remaining strongholds – FX Transaction Services and Real Time Data Feeds. As both Devin and David have been saying, in 2007, we saw record volumes flow through our revamped trading systems, including novelties like FX Prime Brokerage, and an 18% growth in our Enterprise Information Datafeed business. We have made the transition from when Patrick here could write the famous terminal or cyclical note, to tonight, we can celebrate as it's the party invitation, which is great.

### **Deal update**

I will turn now to an update on the Thomson/Reuters combination. You will all have seen that on 19 February we received our regulatory clearances from the EC and the Department of Justice, for the deal to proceed and, although the result itself was never guaranteed, we had done a lot of work beforehand to understand the

regulatory risk before we announced the deal. We are very happy with the resulting agreement with the competition authorities. The agreed remedies, which are in fact selling copies of four databases, is well within the original strategy and the economics for the deal, including in terms of synergy capture. Completing the sales of those copies of databases is not a precondition for us to complete our overall transaction, but I am confident that the process itself will be completed in the next couple of months with us actually completing the sales of those database copies. With regulatory approval obtained, we can now move ahead to bring this new company to life. Last week, you probably saw that we mailed a massive offering circular to shareholders – I am glad you have not all decided to lug it here today and grill us on all 545 pages of it. That was really driven by the requirements on both sides of the Atlantic as to what the content would be, and the fact that we had to print and mail rather than distributing electronically. Once you have all finished doing bicep curls with this incredible tome I hope you will recycle it, as we are.

On 26 March, we will hold EGMs, both for Reuters and for Thomson and then we expect to complete the transaction on 17 April, when Thomson Reuters shares will begin trading in London, in New York and in Toronto. Until that date, however, we will continue to run Reuters as a stand-alone entity, so I thought I would now give you a little more information about how we see the first quarter panning out for us. I think – or I hope – this should give you a high degree of comfort on our outlook for the remainder of the year, even though we will not be providing specific guidance on full-year 2008 until the first quarter release for the new Thomson Reuters, which will be on 1 May.

### **First quarter 2008 outlook**

There are really four factors which underpin our 2008 first quarter guidance. First, for stand-alone Reuters, we expect revenues from Core Plus initiatives to continue to accelerate in 2008, helping us to expand our business in the critical areas where our customers continue to invest. Second, we experienced very strong sales through 2007 and that has continued in both January and February this year. Those of you who know our business model know that recurring net sales are the best lead indicator for our revenues.

Third, we are benefiting from the price increases that came into effect at the beginning of the year. Our customers have continued to support our policy of raising prices only in line with inflation. Last of all, as Devin mentioned in the context of

Sales and Trading, Telerate cancellations, which were a 2% drag on S&T results and a 1% drag on overall group results, fall away in 2008.

Putting this all together, we are confident that Reuters business really is in very good shape. We expect around 9% underlying revenue growth in the first quarter, with good prospects for the remainder of the year: 9% underlying growth, which seemed unimaginable four or five years ago, is the fastest quarterly growth rate that any of the three of us has seen in our time here.

I am mindful, of course, that our markets continue to be very volatile. Many of our customers are under pressure and this is why we are working with them in areas that really support their business priorities, such as trusted pricing services for hard-to-value securities, risk management systems, trading services and enterprise data feeds that really help facilitate business automation. So we have good visibility over a high proportion of our 2008 growth. The entry rate coming into the year was strong and our momentum remains strong right now.

The real question then is, what lies ahead? Most of you have probably already moved on and are thinking about what 2009 holds. You understand both the lag effect and the subscription model in our business. Certainly, if the media are to be believed – and I guess that we are part of that media, though more restrained – the outlook would seem to be one of absolutely unrelenting gloom. However, we do not see that yet in either our revenues or in our sales and sales pipeline. While our performance has remained robust right through February, if we see a slackening as we go into the year, we certainly know what to do about it.

We are managing the business prudently and not laying on costs or headcount. We stayed tight on costs all the way through 2007, with underlying costs only rising 3%, and that is in a year where classically the Reuters I knew, if it was growing 7%-plus, would be laying on costs and not worrying about it too much. We were cautious about them throughout last year and our budget for 2008 remains a prudent one. If at some point we need to do more, it is very fortuitous that we have an integration process in place, because it provides an excellent framework for cost reduction and, if need be, the ability to turn up the dial somewhat.

I am also pleased that we began to deliver cost savings early under our Core Plus programme. Thomson, as you will have seen, also brought forward some of its Thomson*plus* savings: combined, this just gives me even greater confidence that we will be able to achieve the \$500 million of synergy savings when we combine the two companies.

## **Beyond 2008**

So now the question is, what about beyond that? We are then on to the exciting prospects for the combined Thomson Reuters. As Devin has said earlier, we have done this deal because of the growth prospects and the growth platform, and not because we are able to finance the deal out of cost savings. The combination is an information powerhouse, serving the needs of professionals wherever and whenever they need that critical information and the business support tools to do their jobs. It really is 'must have' content and services.

The company, Thomson Reuters, will have great scale and so the combined 2007 revenues would have been \$12.5 billion, and it is a 90%-plus digital business with leading positions in financial services, legal, healthcare, scientific, tax and accounting and, as Devin said, energy and commodities markets as well. I think we will be ideally suited to be able to innovate at some of the cross-over points because all of our jobs have become much more complex. It is no longer enough to have just five years of P&L and balance sheet data and basic real-time pricing. You need to generate alpha, you need to get insight, and some of that comes from the real cross-over points. This could include providing clinical trial data from Thomson Scientific for investors in front of a Reuters screen, or the latest bankruptcy court decisions for the distressed debt trader, we have a real opportunity, and it does not just go one way into the finance market. Increasingly, M&A lawyers like I used to be, really need financial information and information about their clients and we will have the ability to deliver that into the great West franchise.

## **Thomson Reuters**

Thomson Reuters will also be able to share technology that is applicable in each of these markets because the customers do in fact have quite similar needs. Professionals are looking not only for great in depth content in their particular vertical but search tools, things like alerting applications and news. You can add to that the opportunities that exist to internationalise greatly the Thomson businesses via Reuters' global presence, global brand, and when you start looking at that together, we really have the opportunity to deliver meaningful revenue synergies at attractive margins.

This is only a slight peak ahead – I do not want to steal the thunder from when we do this once the two companies are together. The ten months since announcing the deal itself, I am even more convinced of the long range strategic logic and shareholder value here. To summarise a bit: our recurring revenue has

real momentum at present. We are going to deliver meaningful integration and other self help savings, irrespective of the market turbulence, and the powerful digital platform that we are bringing together, by putting these two companies together, can drive growth for many years to come.

With that, I would like to thank you all for coming, investing in and believing in Reuters, and I know that I will have done my job well if you stay with us in the combined firm.

Thanks and we can open up for questions.

### **Question and Answer Session**

**Polo Tang (UBS):** I have a few different questions. You are highlighting how the business is different from before, in terms of 2001/2002, but could you maybe talk about the operational gearing of the company. Has that changed from before? Because last time you indicated that operational gearing on incremental revenues was about 80%. Is it different nowadays?

The second question is on Core Plus because if you look at revenues and cost savings, you are aiming for £150 million of new revenues, £150 million of cost savings. Given that you have done so well in 2007, can you top that £150 million? Can you give us some colour on that?

The final question is on FXMarketSpace: can you give us an update in terms of how that is doing?

**David Grigson:** Fundamentally, gearing has not really changed particularly. The basic fact is that we have far greater visibility through the connections between revenue and cost, so when it comes to making adjustments to the business, to take account of a different top line environment, we are far better equipped to do that today than we have been previously. Clearly, back then, there were huge buckets of costs that we just went after, both before Fast Forward and then in Fast Forward – not necessarily always perfectly connected to where revenues were coming out. Those were mostly quite easy stuff to go for. There is more variability in our cost base around the investments we are making and clearly, it is one of those areas where you can accelerate or slow down entirely, depending on whether you think our customers have an appetite for those products and for those markets, or not. The business as a whole, using the tools that we have given it, is far

better equipped to turn the dial off or on, all the way up and down the P&Ls. Therefore the operational gearing is more manageable in some respects, but no less material in the context of opportunity to offset any revenue issues that we might have.

**Devin Wenig:** Core Plus: I guess the question is really about how far the programme goes and whether there is anything in addition. I am thinking about it slightly differently as we go forward. We will deliver the £150 and then of course, on top of that now we have \$500 million of net synergy savings from the merger. The way at least I am thinking about Reuters and Thomson Financial is to get beyond programme savings and get to a target growth and margin range. The short answer right now is, no, you should not assume there are any additional savings but in part, that will depend on where the growth rate is and where the target margin rate is. Obviously, we have talked about a target margin range for Reuters stand alone in the past – 17 to 20% - and there should be scale benefits to putting these two businesses together, but it is somewhat premature right now. But I want to get out of the programme mentality of savings and get into running the business for the optimal growth and margin range, which should be better than either Reuters or Thomson alone, because of the scale benefits.

**Tom Glocer:** On FX MS, the thing to say is that nothing has changed dramatically. We are doing something very innovative. We continue to believe that we have got a better mousetrap for how to trade FX on a centrally cleared basis. The venture is a little behind plan, though not dramatically so. We remain really committed, in part because we have a long history at Reuters of seeing how long it takes markets to adopt new ways to trade. Instinet took a good couple of years; the original Reuters Monitor Dealing had a fairly slow uptake; then when they go, they really go.

Probably the other thing about it is that the real risk for our franchise – and maybe this is a bit of a snapshot of how we approach the whole area of innovation – would have been to stay only with the old and let somebody else go off and try to do exchange traded FX. We are really nicely hedged, positioned, with participation in conversational dealing market, matching dealing, the information terminals, one to many systems, the RET franchise and now the Exchange Centrally Cleared model. As you have seen, we have done incredibly well, because the FX market has essentially told us it is not rushing yet to the exchange model. That may still come but the important thing is that wherever it goes, we plan to be there with a big basket under it, to collect the profits.

**Colin Tennant (Lehman Brothers):** Just going back to the Q1 guidance and the 9%, which was obviously a very strong number, could you give us any idea of across the markets and functions, and I guess in the same vein on the net sales line, are you seeing some markets like Fixed Income where you would expect that to be weaker or stronger. Can you give us an idea of how that is panning out?

Secondly, on the synergy revenues: will you be in a position at some point to give us an idea or quantify what might be out there, or, from the answer to your last question, will it part of the overall target as we go through this year?

**Devin Wenig:** The trends early in the year, and we have two months under our belt, very much back up the things that I was saying in the presentation. January and February were two of the best months we have ever had in our history in the FX franchise; commodities and energies continues to perform well, emerging markets early in the year has continued to perform very well. Obviously, there are some areas that are slower. Ironically, fixed income is not one of them, we are doing pretty well in fixed income because of credit. The early response to some of the issues around mark-downs has been the need for independent pricing data. We came to market about a year ago with a credit pricing suite including News data and all of our traditional tools, and we have seen great uptake of that. Therefore, credit and fixed income has been an opportunity for us right now. Equities desktops has been relatively slower than those areas, and there have been a few others that have been relatively slower but the New Year has absolutely seen the trends that we talked about for 2007 continue for us and, in some cases, grow even stronger.

On the revenue side, that will be up to Tom and Bob Daleo about how they want to set those goals and targets for the combined company. From my perspective, I shall track internally revenue synergies that we can achieve from the combined company but I am not fundamentally managing the business that way. I really believe that this is about a target growth in margin range for the company when we get beyond programme after programme after programme, and a contributor to that will be cost savings and revenue uplift. However, it is not the fundamental way in which I think about it. I think about it as far as where will we be against competitors and against our shareholders' expectations on revenue growth and on margin.

**Jonathan Helliwell (Cazenove):** I am again trying to get a little comfort on this surprise acceleration to 9%. You are seeing good stuff in terms of net sales, can you talk about whether you are seeing a higher rate of cancellations but it is offset by an even greater acceleration of gross sales – can you walk us through that? Secondly, if a large US investment bank laid some people off, say, in January this year, just walk us through when you would see that in sales – I guess it is pretty obvious – and when you would see it in revenues: how would it feed through in terms of your contracts so that we can get a sense of the lag that is or is not in there? Lastly, how do you incentivise your sales people to sell particularly during the stub period of this year: is there a danger you have accidentally over-incentivised them to push a load of things out the door before April?

**Tom Glocer:** I shall start with the last point. I do not believe so. If you look at our sales commission plans across the world or management bonus plans, they have been properly focused on driving growth but you can see in terms of our cost performance last year that neither commission costs spiked up hugely, or compensation costs. For years, Reuters was arguably under-gearred to push performance in good periods.

Your question on what happens to the trader who gets fired in January is a complex one in the sense that I can give you an easy answer. If that person is trading at a firm that signed a multi-year Enterprise agreement, nothing happens to the Reuters revenue through, let us say, the next couple of years. Devin mentioned some of the places, including Citi and HSBC, that have had large write-downs where we do have Enterprise agreements in effect. The interesting thing is that we are still seeing appetite for them because the big firms are realising that there is an opportunity to save through rationalisation. However, let us assume for a second that it is not an Enterprise customer. You will have one to two-year contracts, and you are more like to have that especially where it is the terminal business. The part of our business where there is greater flexibility as far as cancellation tends to be in our datafeed business which is very resilient.

The last thing I would say about the whole area before turning over to Devin for a comment on the gross sales versus cancels mix, is that we do not have a perfect crystal ball on the second half of 2008 or 2009. From some of the conversations I have had with customers, the reason why they are not doing indiscriminate layoffs across the board is that they still think the second half of the year might not be bad. I am hearing from some of the biggest firms that the first quarter might be our worst quarter. We have the sort of relationships now with our

customers and are positioned in such a way that, were we heading into a period as bad as 2002/'03 was, I would expect to see some traces of that. David made reference to how bad our December 2002 was and I have gone back to look at November, October, September which were painful months too. That is not to say this could not come if the world is going to end but we do not see that and we do not see even the breadcrumbs that would lead to that trail.

**Devin Wenig:** To this point, we have seen an accelerating addition of new sales and we have not seen any meaningful pick-up in cancellations, nothing unusual, nothing off the trend from the past.

**John Clarke (Brewin Dolphin):** It is good to see that you beat your estimates then just as you beat your estimates in 1984, and I would have thought that 19% forex growth must certainly be something that Glen Renfrew will be congratulating you on from his grave even though then he had the inestimable advantage of launching the Reuter Monitor Dealings service, and you still have 6% of your revenue from Media, which is slightly more than that in 1984 but still there. We were all telling you to sell it for most of the past 20-odd years and it is good to see that you still have it!

Anyway that was then, this is now. Looking to the future, I was going to ask you – and I do not know whether I am allowed to ask a question on this. Mergers have often been difficult to bring into effect, or may have disappointed in the early phase because of IT integration difficulties. How is that proceeding?

**Tom Glocer:** I will let Devin comment on some more specific product platforms. There are two great challenges. One is the soft cultural issues, where there is just an absolute mismatch and people do not consciously recognise that, acknowledge it, and do something about it. One of the benefits of having had a longer regulatory review is that there has been much more time for the sort of proforma management group, which has been functioning as a steering committee for the integration, to get a level of trust and a pattern of working together, which we have been doing all through the year. There will undoubtedly be areas – we are different companies but, so far, culturally, I think it is working out quite well.

For me, that is an interesting bridge into the IT area where Reuters has come a very long way from having big problems doing the big IT projects, to the point now where things like the Core Plus programmes and the common platform are really well managed in teams under Devin. Thomson is particularly good at large scale IT.

Mike Wilens, who will run Technology but also Strategy and Innovation, is one of the most original thinkers in the way you apply technology for business benefit. I actually see all the challenges but I think this will be one of the core strengths of the combined company, once we get over the initial hump of how you pull out Oracle, or how do you put in SAP, which is a real example.

Devin, would you like to comment on the products?

**Devin Wenig:** This is the right question because this is an area of particular complexity and we have some hard issues, but I will just point out a few things.

First, the state of technology has moved on to the point where there are some things which may have been challenging years ago but which are not today. An example is that Thomson Financial, in particular, is a very web services oriented company. It does not solve everything, but it helps. Some of the things that I talk about, in terms of availability on day one, would not have been possible 10 years ago but they are possible today because we are really talking about integrating pretty standard web feeds. I do not want to make this too simple, but it is simpler than it has been historically.

There are other areas where it is not that simple. The one lesson that I have is that, in those areas, you make your big decisions quickly and you implement them quickly. For product platforms, one of the reasons we were successful with the Telerate acquisition is that there were two complex pieces of software – the Reuters Desktop and the Telerate Desktop and, rather than try to pick our way through the best of this and the best of that, we just decided to choose one and we implemented one. You can take a lesson from that, as the way we will approach this.

**Giasone Salati (CSFB):** [*Via webcast*] Going back to the 9% revenue growth in Q1, Giasone is interested in the breakdown between revenues coming from Core Plus and from the core business.

**David Grigson:** I will very quickly answer that. Obviously, we saw Core Plus accelerate in terms of its contribution, quarter-to-quarter through 2007 and we would expect to see that again into the early part of 2008 and throughout. This is partly because, as we have been saying, an awful lot of those initiatives are aimed at areas where our customers are investing, continuing to invest, and will continue to do so in tough times. It would not surprise me if Core Plus contributed a good one-third

of that – about 3% of the growth in that first quarter – and then accelerated further from there.

**Miriam McKay:** Let us take one more question from the webcast. Do you expect capex to remain at the current level for the first half of 2008?

**Tom Glocer:** Yes.

**David Grigson:** Yes.

**Simon Baker (CSFB):** I have three questions. The first is in terms of the 'signature year' that has become a signature 15 months. Can you give us a little more in terms of the run rate of the cost savings, £30 million over-delivery in 2007: what does this mean for 08 from Core Plus? If we are at least keeping the £150 million where it is, what can we say about bringing that forward a little bit, as a consequence?

Secondly, on the 1 May presentation, we appreciate that it will perhaps be a little more margin targeted within the business of Thomson Reuters, going forward, but will we have some sort of information in terms of the revenue synergies that will be kicking in from day one? Could we have something there?

Thirdly, I have just a quick question on price increases from the beginning of this year. What do they go up by?

**Tom Glocer:** Price increases: I will start at the end, because it is always easier for me. I would say that we are doing a little better, even, that we have done in previous years – so 2%-plus. I believe it is particularly good in an environment where, both because of what is going on in the markets, and everybody knew that we were in a long regulatory review, if somebody was really going to have a problem with price increases, then the natural time to come and have a discussion is when the regulators are looking at you carefully, about what your pricing policy is. Here, we are benefiting, because we do not price-gouge. We never just turn up the heat when and if we can. We have been really co-operative with our customers, and they have turned around and supported us strongly through the regulatory process.

As for revenue synergies, we will have more examples for you. I cannot promise you that we will actually give you a figure but we understand that what is most in our interests is to help you get a good picture of what 2009 will look like. To

that end, we are trying not only to give you a single figure for 2008, but also a comparison proforma back to 2007, so that you can see the momentum in the business.

**David Grigson:** On Core Plus savings, it is not for me to project exactly what Devin and his team will be able to do. Suffice it to say that we anticipated that we would see a further acceleration this year in our own stand-alone budget process. Clearly, it gets amalgamated in with the integration effort and Thomson*Plus*, and Devin and his teams have been working very hard to think about how to maximise the overall benefit from all those activities, to deliver the best possible result, as early as possible. That is the stuff they are going to come back with on 1 May, so that will probably be the best time to talk about it.

Let us shoot at this side of the table – Paul, at the back.

**Paul Gooden (ABN Amro):** First of all, is there any evidence yet of revenue dis-synergies, where perhaps you sat down with customers and they have said, 'We have got a Reuters bill and a Thomson bill. One plus one doesn't equal two'? Or examples of where clients have said that for business contingency purposes they have had to drop either a Reuters or a Thomson product?

The second question is, if we do go into a downturn, I seem to recall last time around there were agreements with customers and you said, 'We're not going to force our customers to take our product because that's not good long term relationship management'. Are you saying that this time round, if we were to end up in a similar situation, Reuters would just be more hardnosed about it?

**Tom Glocer:** Are you asking that question for Fred? I'll take the latter one and give the other to Devin.

The answer is the best relationships are ones where you do not pull the contract out and wave it in your customer's face. The issue is not whether we would not sit down and have a conversation. Often the issue is you find other ways to reach the goal and the thing we are always focused on is, how we can reduce the overall total cost of ownership, whether that is taking market share from another competitor, whether that is reducing the telecommunications or maintenance cost. So even during, say, a period of relative weakness for Reuters, in the 2001/2003 period, people respect the contracts and nobody says, 'I know I owe you 100 but I am only paying you 50'. It just has not happened, nor do I expect that it would.

**Devin Wenig:** On revenue, there will be some dis-synergies. It is imprudent not to assume that in any large merger like this. I have not seen any specific evidence of cases of that now and I just point out that the issue of back up, or someone using both Thomson and Reuters as sort of replacements for each other is a lot less than we probably thought even when we announced the merger. The businesses really are complementary. Thomson's business is in a lot of places where Reuters is not. That does not mean that that does not exist anywhere, but it is significantly less than, say in a case like Telerate where we have said that often, Telerate and Reuters were used by some people as interchangeable services – much less so. The Venn diagrams overlap much less when it comes to Thomson.

Having said that, any time you are going to swap our technology, any time you are going to make some big heavy lifting that we will do, there will be some revenue dis-synergies and we have said that. When we announced the \$500 million, we said that was a net number, net of about \$150 million of revenue dis-synergies. At this point, that number seems as good as any and at the right point no doubt we will update it but there is no update to that now; it still seems reasonable.

**Mark Braley (Deutsche Bank):** Devin, you referred to some investment in 2008, ahead of a series of major product launches in 2009. As I understand it, the path at the moment is Xtra 5 gets rolled out this year and we do not really notice that as users and then Xtra 6 is the great leap forward. Is that correct? More broadly, when you talk about major product launches in 2009, can you roughly state how much of the terminals' revenue base that will be impacting, so we understand the degree of change risk?

**Devin Wenig:** You are right about everything other than Xtra 6. It will not be called that. The Xtra franchise is doing its last lap now and we are going to retire it, along with other great Reuters' brands like 2000 and 3000 and we will probably go with something else. But it will be the most significant product launch in 2009 that this company has had in a long period of time, probably decades, and it will impact a majority of the terminal base. Not immediately, obviously something of that scale takes time to roll out. But it is not just the premium desktop – call it 'Son of Xtra' – it will also be all of our mid tier products. Basically all of our desktop products over time will be impacted and it will be significant. In many ways, it is the next model year after 2000 and 3000 Xtra. The next model year is 2009 and it will be a big event for us.

**Tom Glocer:** I would just add that we were incredibly excited about the prospect of changing our game off the common platform with a user experience that was going to be much better, just stand alone Reuters. But having all of the Thomson content, expertise and scale in the US, it is a really exciting event for us. It is different from a migration from 2000 to 3000. This is something where the user base currently – the billion pounds or so of revenue that is on Xtra 5, or will be – is very solid and on a great product. This is the sort of move up where there are pricing implications, market share implications and that might come at a very handy time in 2009.

**Devin Wenig:** As I said, it won't impact every single one of our customers right away. It will be out there, it will be available, but we will be prudent in the way it rolls out to our customer base.

**Gareth Thomas (Collins Stewart):** Just going back to Jonathan's question and your answer about the lag effect on the multi Enterprise contracts, can you give any idea of the proportion of your accesses that are within those sorts of contracts, as opposed to ones that are not? Secondly, aside from that lag effect, if there is a downturn, can you give any feel on recurring revenues if they are likely to be any less correlated to financial services' headcount reductions?

**Tom Glocer:** I was trying to do the mental arithmetic quickly on Enterprise. You may have the number –

**David Grigson:** It is a little less than 10%, about 8%, of our total revenue, and it is not just the accesses but across the board, obviously. And the second question?

**Gareth Thomas:** Sorry, just the correlation of recurring revenues with financial services headcount reductions: is there any reason that, aside from the timing or the lag effect, you will be any less correlated than in the last downturn?

**Tom Glocer:** There are a couple of reasons. One is a very purposeful reorientation of the firm towards machine to machine, the Enterprise story, and transaction revenues. Number 2 is exactly where we are, peak to trough, in the headcount reduction, if you want to compare what has happened in the last six months versus three or four years ago. There are also interesting stats that we look at on the percentage of people who have two accesses, for example they have Reuters and Bloomberg today versus before and there are fewer overlapping

services. So there are a number of reasons why we feel that, yes, taken to the extreme, reducing heads will affect - call it the half of our business which is terminal-based, but it is likely to be a softer landing than it has been before. An easy way to see that is to look at our terminal numbers over the last three years: they have been flat to slightly down, while revenues accelerated up, and that is a function of the Enterprise story and transactions.

**David Grigson:** I think we are done but, before we are, there is one big thank-you still to make which is to the other person on the platform here who is taking a bow today. To my left is Miriam McKay, with whom you have all become familiar and come to know as well as we have. We shall reserve the big thank-you and send-off until tonight so no big dramatic ceremony now. I thought it would be great if we could give her a big round of applause for being the best IR professional.  
[applause]

**Miriam McKay:** May I just say that in thanking me, you thank the whole of the Reuters IR team so to the guys behind the scenes, thank you. You are in great hands with Frank in New York and Chris here in London. Thank you all.

- Ends -