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EDITED TRANSCRIPT

REL.L - Full Year 2012 Reed Elsevier PLC Earnings Conference Call

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OVERVIEW:

REL.L reported that 2012 revenue was GBP6.1b and reported net profit was GBP1.07b.

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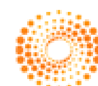

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PRESENTATION

Anthony Habgood *- Reed Elsevier PLC - Chairman*

So good morning, everybody, and welcome and thank you for coming to Reed Elsevier's 2012 results presentation. And for those of you who are on our webcast, thank you for listening in.

I hope you will agree with me that this set of results is another incremental improvement, with a strong increase in earnings per share at both parent companies and positive momentum continuing to build across the business. Underlying sales growth of 4%, which is 3% without the cycling, and profit growth of 6% were underpinned by positive growth of sales and profits in each of our five business areas. This in turn is the result, among other things, of digital and face-to-face revenue growth at this point far offsetting the continuing decline of the now only 20% of the business that is in print format.

Erik, Duncan and the team are continuing to streamline the business. Increased focus on capital allocation, combined with improved profitability, is reflected in the return on capital increasing by 0.7 percentage points in the year to a much more satisfactory almost 12%.

The approximate proceeds from disposals have been used to buy back shares both in 2012 and earlier this year. And as announced today, this will continue through 2013.

Also announced today is our intention to appoint Dr. Wolfhart Hauser, the Chief Executive of Intertek plc, to our Boards in April. This appointment, following that of Duncan Palmer and Linda Sanford, will complete this phase of our Board's evolution. Together with the many management changes that Erik has made over the past two or three years, I believe Reed Elsevier is now well staffed at the Board and senior executive level to continue to build on its positive momentum going forward.

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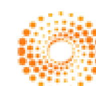

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The declaration of a full-year dividend increase of 7% for both PLC and NV is a further statement of the Board's confidence in the ability of the business to continue to develop forward into the future.

I would now like to introduce Duncan Palmer, who some of you will have already met and who will be presenting the results. As you know, he joined us in August, became CFO in November, and has settled in really well and already proved himself to be a critical member of the Executive. He will now take you through the results. Then Erik will discuss the businesses and outlook more generally. Duncan.

Duncan Palmer - *Reed Elsevier PLC - CFO*

Thank you, Chairman, and good morning, everybody. I'm very pleased to have joined Reed Elsevier and I'm proud to be presenting our 2012 results with Erik. I look forward to getting to know all of you over the coming months.

I'd like to start this morning with the financial highlights for 2012. Our primary measures of revenue and operating profit growth are on an underlying basis; that is, excluding the effects of currency movements and acquisitions and disposals which took place in 2011 and 2012. In 2012, we grew underlying revenues by 4%. In our Exhibitions business, we have several shows that take place every other year, with more shows taking place in even years than odd years. This cycling impact was therefore positive in 2012. Excluding the cycling impact, underlying revenue growth was 3%.

Underlying adjusted operating profit grew 6%. Adjusted earnings per share growth was 8% in constant currency terms, with the sterling denominated PLC adjusted EPS up 7% and the euro denominated NV adjusted EPS up 14%, reflecting a weaker euro in 2012. The proposed full-year dividends for both the PLC and NV shares represent a 7% increase over 2011. Return on invested capital was up by 0.7 percentage points in 2012.

Reed Elsevier ended 2012 in a strong financial position. Net debt was GBP3.1b. Our primary leverage ratio as measured by net debt to EBITDA after adjusting for the net pensions deficit and capitalizing leases was 2.2 times, compared to 2.3 times in 2011, well within the parameters of our BBB+ Baa1 credit ratings and offering us substantial financial flexibility. On an unadjusted basis, net debt to EBITDA was 1.7 times, compared to 1.8 times in 2011. In 2012, we converted 94% of adjusted operating profit into cash.

Following the announcement at midyear of our intention to apply the gross proceeds from disposals to buy back shares, we completed GBP250m of share buybacks during the second half of 2012, in line with gross disposal proceeds of GBP242m. In December 2012, we announced the intention to buy back a further GBP100m of shares, reflecting a number of well-progressed disposals. This program was completed three weeks ago.

I would like to go through the profit and loss statement in a little more detail. I will present the results in sterling. In the appendix, you can find the equivalent euro denominated results.

Revenue grew to GBP6.1b and adjusted operating profit to GBP1.7b, with the adjusted operating margin rising from 27.1% to 28%. The net interest expense declined by 8% to GBP216m, reflecting term debt maturities and redemptions. The effective tax rate for the year was 23.6%, marginally higher than 2011, allowing for the geographic mix of profits. Adjusted net profit increased by 7% to GBP1.14b, with reported net profits up by 41% to GBP1.07b.

Now I would like to show a reconciliation of reported net profit to adjusted net profit. We present adjusted financial performance metrics to aid the understanding of underlying operational performance and to facilitate period-over-period comparability. We consistently exclude the amortization of intangible assets which result from acquisitions such as brands, customer lists, content and software.

Acquisition related costs were lower than in recent years and there were no exceptional restructuring costs in 2012. Our continuing disposal of non-strategic assets yielded after-tax profits on disposals and other non-operating items of GBP103m. A significant gain on the sale of Totaljobs in Reed Business Information was partially offset by other gains and losses on disposals and other disposal related items.

In 2012, we had an exceptional non-cash tax credit of GBP96m resulting from the resolution of a number of prior-year tax matters. The deferred tax credits are movements in deferred tax liabilities relating to acquired intangibles which we are required to recognize under IFRS but we exclude from adjusted profits as they are not expected to crystallize in the near (technical difficulty) year-on-year tax rate.

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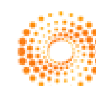

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Turning to earnings per share and dividends. Adjusted earnings per share increased by 7% for PLC and 14% for NV, the higher growth for NV reflecting a weaker euro on average in 2012 compared to 2011. Our dividend policy is to grow dividends, subject to currency considerations, broadly in line with earnings per share, while maintaining dividend cover of at least 2 times over the longer term. We are proposing equalized final dividends that deliver a 7% increase in both the PLC and NV full-year dividends, resulting in cover of 2.2 times and 2.0 times, respectively, consistent with our policy.

Now let's focus on the financial results of our business areas. Turning first to revenue by business, you can see that all five business areas grew underlying revenues in 2012. The differences between underlying and constant currency growth rates reflect the impact of acquisitions and disposals in 2011 and 2012.

The lower levels of constant currency growth in Risk Solutions and Business Information reflect net disposals in those businesses in 2011 and 2012. And in Exhibitions we made a number of acquisitions, most significantly in 2012, resulting in higher total constant currency growth. Exhibitions' underlying growth benefited from an 8% net cycling impact.

Looking at adjusted operating performance, we can see that underlying operating profit grew in line with or faster than the rate of underlying revenue growth across all business areas. Both Business Information and Exhibitions grew underlying profits at double-digit rates.

We converted adjusted operating profit into operating cash flow of GBP1.6b, a cash conversion rate of 94%. This reflects capital expenditure less depreciation and the change in working capital. Our average cash conversion over the last decade has been 96%. Our EBITDA was GBP1.9b in 2012, up 6% from GBP1.8b in 2011.

You see that overall capital investment expressed as a percentage of revenues has remained in the 5.5% to 6% range. Legal CapEx was 10% of revenues, compared to 12% in 2011. Depreciation as a percentage of sales increased slightly in 2012. A breakdown of depreciation by business is shown in the appendix.

Moving to free cash flow, higher profits, lower cash interest expense and reduced restructuring and acquisition related costs were partially offset by higher cash taxes, growing free cash flow to GBP1.1b before dividends. In 2012, we paid out 48% of free cash flow to shareholders in the form of dividends, delivering free cash flow after dividends of GBP554m.

Moving to the uses of our free cash flow after dividends, in 2012 we deployed GBP323m of cash in acquisitions. We realized GBP242m of gross proceeds from the sale of non-strategic assets. We applied GBP250m to buy back shares, partially mitigating the short-term earnings dilution associated with the disposals. After these actions and the impact of favorable currency translation, we reduced net debt by GBP306m to GBP3.1b.

We remain focused on the management of our multi-year debt profile and our overall cost of debt. Our debt is denominated in a number of currencies, reflecting the global nature of our businesses. About half of our gross debt at yearend was denominated in dollars, with the balance in euros and pounds sterling. For the purposes of this slide and the next, I will talk in dollar terms.

At the end of 2012, we had net debt of $5.1b. This was made up of gross debt of $6.3b, offset by cash and financial instruments of $1.2b. During 2012, we issued $1.3b of debt at favorable interest rates, retiring $300m of high coupon 2014 and 2019 maturities, prefunding $700m of notes that mature in April 2013 and reducing commercial paper outstanding.

We are well positioned to address upcoming debt maturities. In addition to the $1b of cash on hand at the yearend, we have capacity of $1.8b in our committed bank facility and full access to a range of diversified funding options, including commercial paper and debt capital markets in various currencies.

Now we show the impact of our actions on our debt maturity profile. The chart represents a 10-year view of the term debt maturity profile in US dollars. The $1.3b of new debt issued in 2012 matures in 2020 and 2022. We have already pre-financed the majority of the $935m of maturities in 2013.

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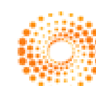

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Now I'll summarize how we see our continued refinancing plans over the next two years. In 2013, we expect to issue new term debt to complete the refinancing of the remaining 2013 maturities and prefund some of the debt due in 2014. For the remainder of the 2014 maturities, we will likely refinance using a mixture of cash flow, commercial paper and new term debt. We will take advantage of market opportunities to achieve this over the balance of 2013 and early 2014. In the current market environment, we would expect to be refinancing at lower rates than the existing maturities.

Turning to the balance sheet, the majority of our capital employed is goodwill and intangible assets associated with historical acquisition activity. Net capital employed at the end of 2012 was GBP6.9b, compared to GBP7.4b in 2011. GBP450m of the decline in 2012 related to a reduction in goodwill and intangibles, which was the result of amortization of acquired intangibles, disposals and currency translation, partially offset by acquisitions during the year.

Internally developed intangibles typically comprise software and systems development. This increased, reflecting net organic investment in the business. Assets held for sale increased, reflecting ongoing disposal activities recorded in the balance sheet at yearend. The net pension obligation increased, primarily the result of lower actuarial discount rates applied to our future pension liabilities.

Reed Elsevier overall maintains a negative net working capital position, driven by advance receipts in our subscription and exhibition businesses. Invested capital at 2012 average exchange rates, adding back accumulative amortization and adjusting for currency and deferred tax effects, was GBP10.9b, slightly lower than 2011.

Return on invested capital is a key metric for us. In 2012, return on invested capital increased by a creditable 0.7 percentage points to 11.9%, the highest level since 2008, as we grew profitability while average invested capital was down slightly.

Finally, I want to cover a few housekeeping matters that should help you with modeling our financials. Firstly, the impact of our hedging program. In Elsevier, we hedge certain of our future revenues to smooth the year-on-year variation in revenues and profits. Because of the hedges, weaker sterling exchange rates in recent years have flowed gradually into our margins, and in 2012 the year-on-year change in hedge rates contributed GBP24m to Elsevier profits. For 2013, we expect the benefit to be less but still slightly positive.

The average interest rate on gross debt was 5.6% in 2012, and with the actions taken and in the current interest rate environment we would expect to see that rate decline this year. The adjusted effective tax rate will likely see a marginal increase in 2013.

As we have discussed previously, in line with the revised IAS 19, from 2013 we will no longer record within operating profit the net pension financing credit arising from the expected return on pension scheme assets. From 2013, we will include the net pension financing charge within net finance expenses. The annual charge will be excluded from our adjusted earnings measures. This accounting change will have no impact on Reed Elsevier's balance sheet or on our cash flows. The pro forma effect of this change, if it had applied in 2012, is set out in the appendix.

And lastly, I have set out the relevant exchange rates for 2012 and the average number of shares in the year.

And now I would like to hand over to Erik.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Good morning, everybody. Thank you for coming and for taking the time to be here today.

As you've seen this morning, 2012 was another year of improving financial performance and continuing transformation of our asset base and its earnings quality, primarily through organic development but also through portfolio reshaping, towards more predictable revenues, higher underlying revenue growth and improving returns.

In terms of operating performance, our underlying revenue growth reached 4% on an underlying as-reported basis. And excluding the effects of biennial exhibition cycling, like-for-like underlying revenue growth was 3%. Underlying operating profit growth reached 6% and earnings per share growth at constant currencies reached 8%.

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And despite the continued organic investments in our business and the completion of a few acquisitions, our return on invested capital increased by another 70 basis points to 11.9%. And we reduced our net-debt-to-EBITDA ratio further, to 2.2 times on a pension and lease adjusted basis, a leverage range that we're very comfortable with.

All five major business areas delivered underlying revenue growth for the full year and all five delivered underlying profit growth as well as margin progression for the full year. Let's take a brief look at each one of them.

Elsevier grew 2%, with good volume growth across science and medical research. We achieved double-digit growth in article submissions and usage, with particularly strong growth in emerging markets. So-called "author pays" or "author's funder pays" article volumes also increased during the year, albeit from a small base. A sponsored article option is now available in 1,500 of our journals and we operate about 30 standalone journals under this payment model. We saw strong revenue growth in databases and tools and in electronic revenues across all segments, but declines continued in print books and pharma promotion revenues.

For 2013, the customer environment is similar to a year ago and we expect another year of modest underlying revenue growth for Elsevier.

Risk Solutions grew 6%, with 7% growth in Insurance, driven by product extensions across insurance carriers' workflows. Business Services also grew 7%, driven by financial services, anti-money laundering, fraud detection, as well as some temporary mortgage refinancing effects. The return to growth in Government markets was driven by state and local and fraud waste and abuse solutions.

For 2013, we expect continued good growth in Insurance and Business Services, while the outlook for the Government segment is still mixed.

Reed Business Information grew 2%, with strong growth in most Major Data Services. We saw modest growth in Leading Brands and Marketing Services and moderating declines in Other Magazines & Services. We achieved a record full-year margin of 18%, driven by both organic efficiencies and by portfolio reshaping.

For 2013, we expect continued good growth in Data Services, stable Leading Brands, continued weak print and advertising revenues and further benefits from portfolio reshaping.

Now, we announced in December that we're bringing LexisNexis Risk Solutions and Reed Business Information more closely together going forward. Five years after the ChoicePoint acquisition, our Risk Solutions business continues to generate strong organic revenue, with high contribution margins. It has a high active pipeline -- a highly active pipeline of new solutions and has started to grow its presence in adjacent risk market segments. RBI has gone through a dramatic transformation by building out its global data services organically and through acquisition and by exiting many of its print magazines and marketing services businesses.

We're now bringing these two businesses more closely together, in order to leverage Risk Solutions' strengths in data, analytics and technology, in combination with RBI's broader geographic footprint and its industry specific databases.

LexisNexis Legal & Professional grew 1%, reflecting subdued legal markets in the US and in Europe. Across our global Legal business, electronic revenue growth was largely offset by print decline, reflecting continued format migration. New platform and product releases continued as planned and have been well received. Margins recovered slightly, as process efficiencies more than offset continued spend on product development.

In 2013, we expect Legal customer markets to remain subdued, limiting the scope for revenue and profit growth.

Reed Exhibitions had another good year, as revenues grew 15% on an underlying basis or 7% excluding biennial show cycling, with strong growth in the US and Japan, double-digit growth in emerging markets and moderate growth in Europe. We continued to drive organic growth through new launches, primarily in high-growth markets and geographies, leveraging global sector groups and technology platforms. And we completed several targeted acquisitions and joint ventures.

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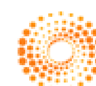

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In 2013, we expect continued good growth in the US and Japan, limited growth in Europe and strong growth in other markets. Biennial cycling will reduce underlying revenue growth by 5 to 6 percentage points.

Now, during 2012, we also continued to make progress in the strategic direction that we laid out last year towards becoming a true professional information solutions provider, a company that delivers improved outcomes to professional customers across industries to help them make better decisions, get better results and be more productive.

Now, we aim to do (technical difficulty) deep customer understanding, to combine content and data with analytics and technology in global platforms to build solutions that often cost about 1% of our customer's total cost base but can have a significant positive impact on the remaining 99%.

We seek to build leading positions in long-term global growth markets by leveraging our institutional skills, assets and resources across Reed Elsevier, both to build solutions for our customers and to pursue cost efficiencies.

We're continuing to systematically migrate towards this type of business across all of Reed Elsevier, primarily through organic investments, supplemented by selective acquisitions only where we are the natural owner and through continued divestments. And during 2012 we made progress both on our organic transformation and on reshaping our portfolio.

You can see here that almost 80% of our revenues are now our preferred formats of electronic and face to face. And you can see that as a result of our investment in product development and new launches, our electronic and face-to-face revenue streams are growing organically on a like-for-like basis at or slightly above mid-single digits, while our print revenue streams are still declining mid-single digits.

In terms of portfolio reshaping, we again limited our acquisitions in 2012 to targeted data and content assets across business areas and to assets in high-growth markets and high-growth geographies. Over the past three years, our average acquisition spend has been around GBP300m a year, just over half our typical free cash flow after dividends. Only one acquisition has been in the hundreds of millions of pounds, and that was Accuity, right in the intersection of Risk Solutions and RBI's data services. All other individual transactions have required cash spend in the single-digit millions or tens of millions of pounds.

And you can see on this chart what we have spent our money on. It has been focused on electronic and face-to-face formats. Less than 10% of the revenue that we acquired was still in print format. It's been heavily weighted towards higher-growth markets and geographies. Only about 10% of the acquired revenue was in Europe, and virtually none of it was advertising.

In terms of disposals, we increased our activity level somewhat in the past 12 months and we have exited businesses that are not likely to transform into the type of business that we want to be in or where we do not see significant future value creation for us. Many of our local language print based advertising-driven businesses that we have exited fall into these categories.

But we've also exited businesses where we have made a decision, a decision not to invest further to pursue a global leadership position, even though we have driven a successful transformation. An example of this would be the systematic exit from all recruiting and pre-employment services.

Despite the very successful creation and build-out of the Totaljobs online recruitment business in RBI UK over the past decade and a significantly improved trajectory in revenue and profit growth at our US employment screening business in Risk Solutions, we made a decision that we would not pursue an investment strategy to become a global leader in recruiting and pre-employment services and therefore decided to dispose of both those businesses.

Sorry, I'm going to go back to that one. You can see here that we've exited businesses with total revenues of about GBP600m over the last three years. That's equivalent to about $1b. As you would expect, we've exited a significant amount of print revenues and a significant amount in Europe, and also a large amount of advertising revenues. But you may be surprised to see that just over half of what we've sold is actually in electronic

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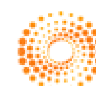

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format. But more than half of that electronic revenue was really in the recruiting services segment that I just spoke about, and the remainder is essentially online advertising and some infrastructure enterprise software businesses we exited a couple of years ago.

But what does this mean for Reed Elsevier's business profile? Well, as I said before, it means that we're improving the quality of our earnings. In the near term, our business will continue to be influenced by the macroeconomic environment and its impact on our customer markets.

But since we're focusing on evolving the fundamentals of our business, we believe that over time we'll improve its business profile throughout economic cycles and deliver more predictable revenues through better revenue mix and better geographic balance, a higher-growth profile by expanding in higher-growth markets, exiting structurally challenged businesses and gradually reducing the drag from print declines and, last but not least, improving returns by focusing on organic development with strong cash generation and limiting acquisitions to assets where we are the natural owner.

Overall, I believe that Reed Elsevier has a better business profile today than it had three years ago, and it's our objective to make sure that it has a better business profile three years from now than it has today.

Now, you've seen the implications of this for our use of cash, and that is that with a strong balance sheet and strong cash flow generation and with average acquisition spend comfortably covered by free cash flow, we're going to continue to use the gross cash proceeds from disposals to buy back shares. You already know that we deployed GBP250m of share buybacks in 2012 and that we completed an additional GBP100m of buybacks year to date, but we're also announcing today that we plan to deploy a further GBP300m in the remainder of 2013.

So, in summary, in 2012 we continued to make good progress on our strategy to systematically transform our business and we saw improved financial results. In 2013, we'll remain focused on the systematic transformation of our business and on improving the quality of our earnings. While the outlook for the macroeconomic environment and its impact on our customer markets is mixed, and 2013 will be a cycling out year for our Exhibitions business, we have entered the year with positive momentum and expect 2013 to be another year of underlying revenue, profit and earnings growth.

And with that, I think we're ready to go to questions. Start right here in the front. Sorry, Sami.

QUESTIONS AND ANSWERS

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you very much. It's Sami at Exane BNP Paribas. I have three questions, if I may, again today. The first one is could you comment on the cost benefits and cost savings one could expect from the closer integration of RBI and the Risk Solutions Division, please?

Secondly, could you comment on the outlook for the L&P profit margin development into 2013, in the context probably of rising DNA but also cost savings? Shall we expect L&P operating profit margins to continue to grow in 2013?

And lastly, if I'm not mistaken, the Risk Solutions Division has recently entered the healthcare industry or expanded in the healthcare industry. Can you comment on the opportunity you see in that market and whether in, say, five years or more it could increase to a point where it matches the Insurance Division in terms of revenues? Thank you, Erik.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. Let me make sure -- I'll take them one at a time here. You said, first one, that you're talking about us bringing RBI and Risk Solutions more closely together. We are -- and are there any major costings.

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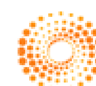

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There are no material cost reasons for us to do this. This is driven by the long-term growth strategy, where we want to leverage the assets, resources and skills we have in Risk Solutions, in data, analytics and technology, in leading technology, and we want to combine that with the broader geographic footprint of RBI and its industry specific databases so we can leverage those across to drive growth over time from a medium- to long-term perspective. This is not a cost consolidation or restructuring driven merger. I don't expect any one-off exceptional restructuring costs in any way and I would not think that there are any material cost differences. It's a growth driven strategy.

The second question, I want to make sure I really understood what you meant. I think you asked about what should we expect for LexisNexis Legal and Professional cost and margin progression for 2013.

Sami Kassab - *Exane BNP Paribas - Analyst*

Especially the margin progression.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. Clearly, you saw that this year we saw slight margin progression due to the fact that we managed to rework our processes and drive efficiencies that just slightly more than offset the increase in costs related to product development and others, so that the cost growth was just marginally below revenue growth. And with the market environment we're in, which is a very subdued market and low growth, not just for us but for our customers and other service providers, it is very difficult to move the margins up in any material way. So I would say that we will continue to work hard to keep our cost growth beneath our revenue growth, but I would -- the upside for margin growth is very limited in the near term.

Second -- sorry, third question, yes, our Risk Solutions business have done -- as I said, I think, when I talked about Risk Solutions, they have started to leverage some of what they're doing into adjacent risk market segments. One of those is when you go into healthcare, health insurance, health benefits. And we're primarily entering in that direction, looking at fraud detection and waste and abuse solutions, similar to the way we have taken our skill set and our databases to go into state and local fraud waste and abuse solutions when it comes to taxes, when it comes to social security benefits and other things.

So this is a natural, small step-by-step expansion of our Risk Solutions' assets into adjacent risk markets. And I expect that will continue, not just in healthcare but in others. But it is not a signal, a major step or some major transition of what they are. It's a leverage of the skill sets they have into adjacent markets, which I expect will continue for many, many years to come.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you, Erik.

Ian Whittaker - *Liberum Capital Limited - Analyst*

Thanks. It's Ian Whittaker from Liberum. Three questions, and some of them follow on from what Sami asked. First of all, you did in all divisions in '12 operating margin growth and underlying revenue growth. Would you expect the same result in '13 across all divisions?

The other two questions are more, I guess, legal risk focused. The second one is just on the integration of Risk and RBI. So you talk about the revenue opportunities. One of the things you've talked about in the past is that Risk and LexisNexis shared a lot of the infrastructure. Will the closer integration that you've got between RBI and Risk lesson some of that overlapping on the infrastructure?

And then the third thing is just interested in your views on the legal market in general. Some of the commentary that I've heard back suggests that in the US and UK there is a growing view that the legal industry is in structural decline, there's too many lawyers, there's essentially the -- particularly at the smaller and medium part of the legal market, that that is due to go -- rapid change over the next couple of years. Obviously that would

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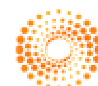

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impact your legal professional business, so I'm just wondering how you think about things and your overall view on the legal market moving forwards.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. Let's see here. First question, do we expect specifically in 2013 to see revenue, profit and margin growth in every business. I would say you cannot expect that every business every year will grow all three. We are doing specific growth initiatives at different times. And what's important to us is the medium-term trajectory in every one of them. And in any one year, in any one business segment, we might actually grow more or less or invest more or invest less. So I wouldn't draw that conclusion for every year and every business all the time, no.

Second question, Risk and RBI, you say the fact that we're bringing those more closely together, does it mean that we lessen link with others. As a matter of fact, it's no. We're actually using the Risk Solutions technology. The advanced technology in Risk Solutions is actually integrated more deeply now in legal and professional than it was a year ago, and will be more deeply integrated a year from now than it is today.

I would expect that you will see continued deeper integration across all of the businesses sharing more technology also a year from now than you do today because we're doing more today than we did a year ago across the other businesses. So I think it's a continued gradual step. And which market is currently working with which other market-facing unit the most is actually not the driver of how we leverage infrastructure or technology.

Legal industry, I think you're accurately pointing out that in several countries, the legal services industry itself is going through structural change. But near-term structural change in some countries, depending on the dynamics in that country, does not mean, in my opinion, that the legal industry is going to be in permanent decline, which is the extrapolation I would not do.

I think in the long run the drivers for the legal services industry relate to increasing regulation and legislation, also increasing volume of litigation, in particular in the US that has been a permanent trend for a very long time, as well as the relation to economic activity business transaction. And clearly, right now -- and the first one is not cyclical, maybe even countercyclical. The second one is a little bit cyclical. The third one is definitely cyclical. And we're going through a slow period in the economic environment in some countries. But I do not think it's an industry that is in permanent decline, if that's your question. Okay?

Let's go back this way.

Vighnesh Padiachy - *Goldman Sachs - Analyst*

Hi. It's Padi from Goldman Sachs. I've only got one question, really, and that's on the medical division, underlying growth flat again. Can you give us an idea how much of it is print? And in your strategic review of businesses to be disposed, did any of those businesses fit into that category?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. First your question, how much of that is print, you said. In what we used to call the health sciences part of Elsevier, roughly half is still in print, and that is print books and print pharma promotion, really, that are the ones that are in decline. We also have some print left in medical research, but that's going through an organized transition, just like we've seen before. So that's the reason that it nets out to essentially flat.

And clearly, what we're going through in all businesses, and the health segments are not exempt from that, is looking at every small asset, asset by asset, to see if this is an asset we can transform into the kind of business we want to be in, or if not, is this an asset that we should get rid of. So they're not exempt from that, but at this point we don't have any major asset block in there that we're looking at and saying this one is different. But we're working through all the assets inside that business, just the way we work through all the others.

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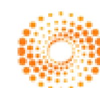

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Vighnesh Padiachy - *Goldman Sachs - Analyst*

And can it return to growth in '13?

Erik Engstrom - *Reed Elsevier PLC - CEO*

It's always very hard to point out in the short term, because you have the impact of print format declines in books, which is across all markets, and they have a significant number of print books. Some of those are related to reference and education, which is going through, in the US, a decline. That's not just format migration, but also state funding as well as private school funding. And then you have the pharma promotion declines, which is also more structural. So it's very hard to say what will happen in any one year, so I can't tell you about 2013 specifically.

Patrick Wellington - *Morgan Stanley - Analyst*

It's Patrick Wellington at Morgan Stanley. Also just one question. You gave a very good example, in the sale of Totaljobs and your recruitment services, that that should be taken as an indicator that you weren't after a global position in those markets. Now, you sold LexisNexis Germany about 18 months ago. So, should we interpret from that that you don't aspire to be a global leader in the legal markets long term?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, that's a short answer. The answer to that is no, you should not infer that. All of our businesses have a global component to them as a business that we want to be in, meaning they leverage global platforms and global content or global skill sets in some way. But also, many of them have a local component where in order to be successful in one country, one specific country and a specific business, you actually need to have a position or be able to build a position that puts you in a strong position that you can create value from over time.

And if you can't figure out how to maneuver that in the short term, you might as well step away and work on it in the long run in a different way at some other point in time. So this -- you should see the LexisNexis Germany exit as more of a tactical one-country position issue, not as a long-term strategic question about the global business.

Steve Liechti - *Investec Securities - Analyst*

Morning. Steve Liechti from Investec. Can you just give me your view in terms of the recent news flow from the US in terms of open access and public funding there? And equally, if we did go to the sort of situation for a year delay or embargo, can you give us any sort of reference points in terms of how much of the business is dependent on new product as opposed to catalog product, just give us some sort of feel of the potential effect of that?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, you can look at it this way. Last week the White House, OSTP, as they call the Office of Science & Technology Policy, issued a memorandum, policy memorandum, on access to research. And our view of that one is that it's very balanced. It recognizes the value that the publishing industry brings to the table explicitly and it recommends a collaborative approach, private/public partnerships. And as a result, the publishing industry, especially in a public statement last week from the Association of American Publishers, welcomed the findings and the suggestions.

It may be important to note that if you look at all the research that's funded by the federal agencies that this memo covers, of all those, the largest is the NIH, representing more than half of the research that's covered in this whole thing. And you may know that Elsevier has been working with the NIH in a collaborative approach to post approved manuscripts on repositories at 12 months after publication. And we've been doing this systematically since 2005 with the NIH, predating any government mandate to do so. So that gives you an indication of the scale and what we have already done that follows this kind of policy, literally now for approaching eight years. So we think this is a reasonable and balanced approach.

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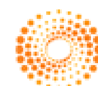

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Steve Liechti - *Investec Securities - Analyst*

And the fact that your medical like-for-like revenues have been below the Science has nothing to do with that?

Erik Engstrom - *Reed Elsevier PLC - CEO*

No, it has nothing to do with that. Actually, the medical research business has metrics that grows almost identical to the research in other disciplines. When you refer to the old health science definition, the declining pieces of that are print books and print pharma promotion that are completely unrelated to the research segment in terms of revenue growth. It's not unrelated in terms of our knowledge base or skill set, but it's unrelated in terms of growth rates. Yes.

So let's keep going back this way, please.

Mark Braley - *Deutsche Bank - Analyst*

Thanks. It's Mark Braley at Deutsche. Two questions. First one, just to come back to Sami's question around Lexis margins, you still have roughly a prospective 5-percentage-point drag from the gap between CapEx and depreciation in that division. If I look out, say, three or five years, can we think about the margin in Lexis being up from where we currently are, in light of that depreciation issue that you have to get through?

The second question is just a clarification. This Risk/RBI cooperation, there's no intention to start reporting that as one single line? Obviously the Risk margin is now extremely high, particularly post taking screening out, so I just want to clarify we're not collapsing the two divisions from a reporting perspective.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. The first one here, is that -- first one, LexisNexis margins, you're specifically looking at the CapEx depreciation issue. Clearly, we're now going through a bit of a hump in terms of CapEx, and you can see it coming down a little bit this year, but we said it will stay at similar levels. But you would expect over a period of time that as CapEx comes down a little bit in a few years, and you said five years out or I can't remember what you said. Was that what you said?

Mark Braley - *Deutsche Bank - Analyst*

Three to five.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Three to five, yes. But if you look at it several years out, then clearly the CapEx will come in line with -- or depreciation will come in line with CapEx, on average, and that gap will shrink. But the reason we're doing all these things is, one, to get -- renew our products to our customers, but also to completely rebuild our infrastructure and our processes. And that means that as you're doing this and the depreciation comes in, you're actually going to operate with different processes and ultimately lower operating costs in those processes.

So if you take the long-term approach, yes, we expect CapEx to, in several years, be slightly lower; yes, we expect depreciation to be slightly higher. But the depreciation is going to be depreciating in new infrastructures more efficient than the current. So, by itself, this should not have a material effect.

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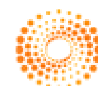

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The second question was reporting. We have no intent right now to collapse, to collapse the reporting today. The way we look at reporting is the following, that when we look at how to move our market-facing units, how to put them together or pull them apart, which we've done, we do that because of how we believe our management will focus best on serving our customers and ultimately drive innovation and revenue growth in our markets. That's what we're focused on for organization.

If that leads us to reorganize or combine or recombine some units, and that becomes how we operate and how we then create all of that, over time we may then have to align the reporting to the way our business is actually run, but we start with customer market facing priorities, then we align management around it. And if we then have done that, we would align reporting to suit that.

But at this point, we don't have those plans outlined or any such plans. If we at some point collapse something or put something together, regroup there, we would first start there and then we'd try to be as helpful as we can with the reporting. I'm not sure what that would look like or when we would do something.

Let's come around this way. Let's start in the front here. Yes.

Andrea Beneventi - *Cheuvreux - Analyst*

Thank you. It's Andrea Beneventi from Cheuvreux. Three questions, if I may also from my side, all three on legal. The first one is on the ongoing projects from the US government to lower the Bar eligibility requirements. Is this debate well advanced? Have you seen any significant change? And would you see it as a positive?

Second question is -- I ask it every time -- what's the share of customers of LexisNexis that have moved or using some features of Lexis Advance, please?

And the third one, again on the margins of the legal and professional business. Obviously your margins are going up. Is it the case for both the US business and the non-US business, or are we seeing different trends there?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. The first one I'm not sure that I can comment on in any way, and I don't think I know enough to have an informed view on whether that would impact us in any way. So I think I'm going to avoid answering that one.

The second question, the share of our customers in the US who have some usage -- some activation and usage of Lexis Advance, it's now up to about 45%.

And the third question, you said the impact, any difference between the US versus international margins. These businesses, because of the way we now operate these businesses, the way we're driving the new global platform and the infrastructure rollout, the distinction is actually starting to become meaningless, because, as you might have heard in our seminars, essentially 80% of the infrastructure and the functionality that we're building out is basically global, right? And then content sets and some specialty tools are local. So therefore, we don't really look at it as a distinction between the two on the trends. It's the same trends.

Andrea Beneventi - *Cheuvreux - Analyst*

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Erik Engstrom - *Reed Elsevier PLC - CEO*

Let's keep going backwards here. Want to go behind? Yes.

Alex DeGroote - *Panmure Gordon - Analyst*

Thanks, everybody. It's Alex DeGroote at Panmure. Just in terms of the outlook and also the dividend that you've announced today, you say that you're growing the dividend at 7% to reflect confidence in the outlook, but actually the divi is growing in line with earnings or much lower in terms of the NV. So I just wondered what sort of statement of confidence that is.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, we think that -- we have stated in the past that we have a general policy of roughly growing the dividend in line with earnings per share growth at constant currencies. And if you look at the earnings per share growth we had last year and dividend growth, earnings per share growth this year in constant currencies, we believe that this level of growth rate is something that indicates we're confident we will continue to grow. We think that is a balanced policy. And you look at our dividend payout ratios, they seem pretty balanced.

I would like to ask Duncan, actually, who's come in to look at this, to say if there is something that you'd like to add to that.

Duncan Palmer - *Reed Elsevier PLC - CFO*

Yes. I think, generally speaking, our policy is pretty clear, and we've certainly adopted that policy for quite a long time now. Our payout ratios we said also are going to be about 50%, and that generally this year I think is very, very consistent with that. Sometimes the currencies move around a little bit, so it's going to kind of -- individual years can be a little different. But fundamentally I think our policy stays intact, and this year is very consistent with our policy.

Alex DeGroote - *Panmure Gordon - Analyst*

Is the buyback a sort of -- does this remain an offset to the dilution or is that also implicitly also a call on a slightly bigger cash distribution to shareholders, in recognition of a relatively mean dividend payout?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, I'll let the judgment on what kind of dividend it is be yours. But the way we see on the buybacks, the way we see that is the following. We have a strong balance sheet, we have strong cash flow, and we have our acquisition spend comfortably covered by free cash flow after dividends. Therefore, we will continue to use the gross proceeds from disposals that we expect to buy back shares. And you could say that, by itself, that we're taking the gross proceeds, that that is a sign of confidence in our cash generation and the fact that we are pleased with the level of leverage we have and the cash earnings.

So it is a sign of confidence and it is a sign of how we view our cash flow and balance sheet situation. But it is linked to the disposals, the estimated expected disposals, and the cash flow from them.

Matthew Walker - *Nomura - Analyst*

Thanks. Hi. Can you hear me? Yes. Hi.

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Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes.

Matthew Walker - *Nomura - Analyst*

It's Matthew Walker from Nomura. Two questions, please, one on Risk and one on Science. The first thing is on Risk, on international. You mentioned you're pushing into international. It's been done in a relatively small way. Could you say what is the opportunity for Risk internationally? If you look at a business like Experian, they've got a massive position in international for database style businesses.

Second question is on Science and going back to the US. You mentioned the White House initiative. Just wondering what you thought of the faster legislation which has been introduced into Congress and whether you think that's going to be passed with a six-month embargo, and also what you have to say about the push towards not just publishing the article but also providing the underlying data and digital data sets so people can get better value from the work that's being done by the scientists, if that's going to make any difference to the business.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. First, Risk international. As I've said before, we have several different initiatives going on around the world that are early stage; some are investigation, some are pilot, some are early-stage trials. In the near term, they're going well. We talked last year about the fact that we had launched things in the UK. We have additional product sets and feature sets that are being rolled out to specific customers this year. So we are enthusiastic about those in the small things we're doing now.

In the near term, the impact of this on our revenue growth in Risk is immaterial, right? In the near term, you'll see no sign of this in our revenue growth this year or next year or anything like that. But we believe that this is the kind of thing that if you sit here in 10 or 15 years, you're going to say we're really happy we started down that path, and that you'll see material future value creation from the international expansion of our Risk business.

We think the long-term opportunity is very large, is very significant. But what we're dealing with here for us is a much more sophisticated data, analytics and technology setup than we have in -- than what you were referring to, the consumer credit, the basic consumer credit information businesses. Right? So you can see those existing in parallel in the US, which is the most mature market, but one grew first and matured and then the other one has become a more sophisticated, much larger data set that's adjacent and on top.

We believe that you could see similar types of developments, but that they're not going to be quick. They're very difficult to build. These businesses require a lot of skills and understanding, as well as data and technology, and they take a long time. That's why when you get them right, they operate with such high margins that we talked about before. So I think there's a significant long-term value-creation potential and we're actively working on it, but it's not material in the near term to our overall revenue perspective. But I think it's a long-term value creator that's significant. Right?

Second question, you said Science. You talked about the faster efforts, yes, faster [releases], formerly been known under other terms such as [FERP] and other things. This is a type of bill that has been introduced, I think we're now on the fourth or fifth time it's introduced over several years. Now, over the last decade, it's the same type of bill introduced by similar type of people, proposing something else. It's essentially a proposal doing something very similar to what the OSTP came up with, but with a different point of view and coming from a different place.

These have not made it to the floor before or made it through any governmental process before. So I expect that the focus will be, instead of the White House OSTP policy, the one that we talked about before, and you heard what I said about that one.

The second part of that was the underlying data, the raw data behind scientific experiments and so on, and the real push and the drive to make that more openly accessible. We think that is terrific. That is something we have been pushing for and asking for, for a very long time. We think that is great. The more you can make available the underlying research results, the underlying data, the scientific material in the world, the more

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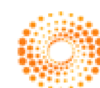

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scientists can do to advance science, the more they can see and investigate what's been going on, the more they can eliminate duplication, be more productive, be more efficient, and the more data sets we can work on to include in information solutions, that we can package and provide to our customers so that they get more value.

So we think that's a very good initiative. We're very supportive of it and actively working to make it happen. Okay?

Nick Dempsey - *Barclays Capital - Analyst*

Yes. Hi. It's Nick Dempsey from Barclays. Two questions left, please. First of all, on Exhibitions, I guess I was slightly surprised that at this stage in the year you were confident enough to talk about growth, albeit small, in European businesses, especially considering you've got a big chunk of France in there. I just wondered, what gives you the confidence at this point to say that?

And the second question, just going back to uses of cash, should we think about the proportionate level of bolt-on acquisitions that you did in 2012 as sensible for '13? I'm bearing in mind that you're hoping to grow as well. That's what I mean by proportional. And what is the environment like out there in terms of prices for bolt-ons?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. Let me start with the first one here. You said Exhibitions, you said Europe, right? The fact that we'll see -- at this point, what we're seeing in Europe is limited growth. There has been a slowdown. If you look at compared to where we were a year ago, some countries in Europe were already slowing, but if you say a year ago, you mentioned specifically France, is in a macroeconomic environment, France is slower today, or however you want to call it, than it was 12 months ago in most indicators. And that clearly will have an impact on our business there and that's a material part of our European business.

But if you look at what's happening today, today we are seeing limited growth across Europe. I'm not using this as an economic forecast for our industries or as a macroeconomic forecast on what will happen in the rest of the year. But at this point, that is what we are seeing. We're seeing today limited growth in Europe as a whole.

Second thing, you said -- let me make sure I understood what exactly you said. Bolt-on acquisitions, similar amounts, you said first? Is that --?

Nick Dempsey - *Barclays Capital - Analyst*

Similar amounts or at least proportionately similar.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. The way we think of our acquisition, smaller acquisitions or whatever, is that we are likely to continue to do most of them in the tens of millions of pounds, right? That's likely to happen. And once in a while, as you've seen over the last few years, we will find an asset that can be in the hundreds of millions of pounds. In the last four years we had one of those. That could happen again. But there's no specific plan or budget or schedule for acquisitions for the year.

We think that we can continue to pursue the strategy we have for acquisitions in the next year or two, and we can comfortably cover that from our operating cash flow and from our balance sheet, the kind of strategy that we're pursuing.

And you said anything about prices. It's very hard to judge on an overall basis, because it's very industry specific, asset specific and location specific, and I'm not sure I can discern any trend that I could average or broaden up. Okay?

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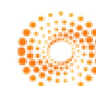

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Want to go up there, just in front.

Giasone Salati - *Banco Espirito Santo - Analyst*

Good morning. It's Giasone Salati from Espirito. Just to close on acquisitions and disposals, is it about 1 times EV sales, the average disposal multiple you're getting? And that compares quite poorly with 3 times the stock is trading on. Do you have a number of other businesses or how do you look at disposals going forward? That's clearly improving, having a beneficial impact on organic revenue growth and margins, but it's up for grab, whether that's value accretion in this current environment.

Secondly, maybe one for Duncan, looking at cash conversion and maybe margins, what is the kind of headwind on one and tailwind on the other one that we should factor in from the flow of CapEx and depreciation over the next year or two or three years, please?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay. I'll let Duncan take the second, but I'll start with the first here. I'm not sure exactly where you get your math from, to be honest, when you say it's 1 times. That's not exactly what I think the numbers are. I think you might be taking the average over the last -- or total over the last three years by combining it with what we're saying we're going to do and mixing them a little bit.

Giasone Salati - *Banco Espirito Santo - Analyst*

The GBP600m disposals over the last three years in revenues with what we have seen in the cash flow coming in as the proceeds from disposals. I'm sure it's a rough number. You probably have a much better one.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. I think it's slightly different, but it doesn't matter. Your question is what is the multiple, if I take it, what is the multiple of the disposal revenue and what is our acquisition. We have disposed of assets where you have gotten -- where you have a small, shrinking local print advertising asset with zero margins, and we sell those for significantly less than 1 times revenues. We have also sold assets that are growing well into double digits, well into double digits, with very high inherent margins and very good market position, where we sell for multiples of the revenue when we're selling them. And we had a mixture of those.

Clearly, we have exited more of the businesses that have what we consider the local print advertising based businesses that we don't want to be in. So you mix them up, it's very possible that over a period of time you'll get exactly the multiple you mentioned, or over another period of time you get a higher one, over -- and you might get a lower one.

But what we're looking at is not the revenue multiple. It's strategically do we want to be in it, and by holding it are we creating any value for shareholders. So it's not about what the value has been. It's about what is the value today and can we grow it in the future for Reed Elsevier, and if we can't why should we own it. That's the decision on a disposal. Right? Do we see value creation? Is it on our strategy? If not, why don't we give it to somebody else who's a more natural owner?

When it comes to -- those are disposals. When it comes to acquisitions, we look at it completely differently and separately. At any given point in time, we say what's the value to us. What's the value to us in the future, the way we are going to operate it? And we judge the value from there. But as you can see, we have come up with a total amount of acquisitions that are fairly limited in the scale of the Company and in the scale of our cash flow.

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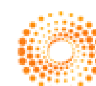

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Giasone Salati - *Banco Espirito Santo - Analyst*

And just on disposals, the pruning process, if we can call it so, should be finishing in 2013 or it's going to be an ongoing process?

Erik Engstrom - *Reed Elsevier PLC - CEO*

No. I don't see this as a project. I see it as what you exactly said, which is a process. It's an ongoing process. It's a systematic strategic transformation of Reed Elsevier that's going to continue step by step. And I think what I mentioned is this idea that we're going to work to systematically transform each asset into the type of business we want it to be. And sometimes those transformations are very successful, and you can see Bankers' Almanac that we talked about at a seminar last year or Flightglobal is halfway through one of those.

But sometimes they don't work. And if they don't work, we might stand up and say this is never going to be the business we want it to be, even though it's a very good business and a good brand. For example, Variety, very good business, good brand and good position, but it's not going to be the kind of business we want it to be. Right? Then you have another example where you say we make this transformation systematic and successful, but the industry developed in a way, we say, we don't want to continue to invest to build to do that, like pre-employment services.

So I don't think that you can, at any given point in time say that that's going to be the end of that process, as you said. I think the process will continue, but it may be higher or lower amounts in any given year.

Duncan Palmer - *Reed Elsevier PLC - CFO*

I'll take the points on cash conversion and margin, right, which was really about the difference between CapEx and depreciation. And I think what I said in my prepared remarks was that over the last decade we've converted cash at essentially about 96%, and last year it was at 94%. I think you can see a pretty consistent kind of pattern there. We've said in the past that we target above 90%, and I see no reason why we wouldn't continue to do that and achieve that. If you think about what the elements of that are, it's CapEx less depreciation, and then there's working capital. So there's not a lot of elements moving around there.

Working capital, I think we're reasonably efficient. Obviously we have a lot of negative working capital, which is a pretty nice thing to have in any business. Some businesses have positive working capital and some businesses, because they're more subscription in nature, have advance receipts and may have negative working capital. So it's a bit difficult to forecast the trend in working capital overall. But generally speaking, given that we've been about 96%, 94% last year, a lot of that is driven by the fact that depreciation at the moment is a little less than CapEx, right?

And we would expect that over time, as Erik was talking about with respect to legal, we'd probably expect the same phenomenon overall for the business, for depreciation and CapEx to catch up over the longer term. It's going to take a few years, but eventually you'll get there.

Then if you think about that and think about our business, what we're really doing, I think Erik pointed this out thematically for legal but it really goes across all our businesses, we're making investments not just in new products but also investment in our platforms, our infrastructure. And so when you think about the overall cost base, while depreciation is a cost element and relatively small actual cost element to our overall business, it's maybe going to increase a little bit. That will be offset by the fact that we are also improving the overall efficiency and process efficiency of our businesses.

And so when you wrap all that into our cost philosophy, which is our cost growth, if you like, or the -- we're trying to keep it a little lower over time than our revenue growth, that it should mean that overall we wouldn't see some specific degradation in margin just due to that factor.

Giasone Salati - *Banco Espirito Santo - Analyst*

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Erik Engstrom - *Reed Elsevier PLC - CEO*

Let's continue to move backwards here. You want to go here? Yes.

Tom Singlehurst - *Citigroup - Analyst*

Morning. It's Tom Singlehurst from Citigroup. I had two questions. The first one was on Exhibitions, and that is obviously you lost the agri show to Informa. Now, I understand that the direct impact of that is going to de minimis within the context of the Group, but I wanted to understand how these things come up and what are the parameters that you would have been judged on and seen as second best relative to Informa. And just more broadly, what percent of your exhibitions are done on a contract basis and how much -- how many of them are owned outright? That's the first question.

The second question, it's a difficult one to ask without sounding unkind to our Holland based colleagues, but what's the point of the second listing at this stage? There's a big gap. Alex is pointing out you're being a bit stingy on the dividend. Potentially, one way to be quite generous in a way that costs you nothing would just be to make the two lines fungible. I know it's not quite as easy as that, but can you just revisit the rationale for having the two listings and if it's really worth it at this stage?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes. Okay. I'm going to actually ask Duncan to cover the second question, but I'll start with the first.

The agri show you're talking about in Brazil was a management services contract. It's an excellent show. It's an excellent show and we were happy to be servicing it for a while. But this is a show that was in the joint venture that we bought out in Brazil, and having in 2012 taken full ownership of the leading exhibition organizer in Brazil, with full ownership of that, our strategy in Brazil as the leader is to continue to build out organically shows that we own, shows that we can own and build and have residual value. And to have services contracts for existing shows is not on that strategic path.

So we made a decision, together with them, of course, that we'd be happy to let them take it back and reassign to somebody else, and we will continue to invest and grow fully owned shows that we can continue to build from a fully owned subsidiary now that is the leading organizer in Brazil, not just in that region or that industry, but all regions and several different industry segments. So that was a mutually agreed decision. That's a strategy that we're pursuing.

You asked the question what percent of our overall shows are management services contracts, which as you pointed out are generally lower margin and lower value in many ways, even though they're sometimes very important strategically in a country or in a location and certainly a certain point in time. They can be important and excellent shows, but that's the economic model.

For us, they're a single-digit percent of Reed Exhibitions' total revenues, on the revenue side. And you'll understand that the profit picture is also slightly different. So it's not a material number. Okay?

Duncan Palmer - *Reed Elsevier PLC - CFO*

So I'll talk about dual listing. So that's a good one for a new CFO coming in to take a look at. And I just spent a long time working somewhere in the past for a dual-listed company, so it's not a new question.

I think if you take a look at it from the point of view -- one thing to notice, it's two companies, right? There are two companies that together own an economic interest in an overall operating entity which fundamentally is unified. But there are two distinct companies, and each of them actually have two listings, one in the US and one in their home market. So you've got to remember those two companies have a history and a merger

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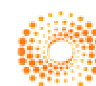

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agreement and an agreement between them as to how they conduct business. It's a little different than having one company that just happens to have two listings. It's really -- it's quite distinct from that.

The current structure, just in terms of actually how it affects us, has really served us quite well. It really has some advantages. It doesn't really fundamentally get in the way of how we run our operations. It's not really costing us anything from that point of view. And generally speaking, there are no material constraints on us from that. So there really isn't a compelling reason to undertake any kind of collapse of it really at this stage, although we do take a look at it from time to time and make sure where there are issues that could impact that and how it might change over time. But fundamentally, there are two companies.

If you think about dividends, the actual dividend, it's prescribed how the dividend is equalized between the two companies. It's actually going to the agreements. It's not that there are two distinct kind of things there. There's actually an equalization agreement between them. And therefore, over time, because they own an economic interest in the same operating entity and have equalized dividends between the two, fundamentally it creates a predictability about how that's going to operate over time. And really, at this stage, no material reason to change that.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay? Well, thank you very much, and thank you for joining us today.

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