Company Name: Reed Elsevier	Market Cap: 9,882.64	Bloomberg Estimates - EPS
Company Ticker: REL LN	Current PX: 834.50	Current Quarter: N.A.
Date: 2013-07-25	YTD Change($): +192.50	Current Year: 0.544
Event Description: Q2 2013 Earnings Call	YTD Change(%): +29.984	Bloomberg Estimates - Sales
		Current Quarter: N.A.
		Current Year: 6238.190

Q2 2013 Earnings Call

Company Participants

- Anthony John Habgood
- Duncan J. Palmer
- Erik N. Engstrom

Other Participants

- Sami Kassab
- Mark P. Braley
- Ian R. Whittaker
- Nick M. Dempsey
- Robert L. Berg
- Vighnesh Padiachy
- Thomas A. Singlehurst
- Alex C. de Groote
- Claudio Aspesi
- Matthew J. Walker

MANAGEMENT DISCUSSION SECTION

Anthony John Habgood

So good morning everyone and welcome to our Interim Results. And thank you for coming, and for those of you on our webcast, thank you for listening in. Once again, I am pleased to say that we've made progress across the company and are on track to deliver our strategic and financial priorities. With underlying sales up 3%, that's of course excluding the cycling out this year and exhibitions and underlying profits up 6%. We're recommending an increase in the interim dividends of 11% for PLC and 2% for NV which is just about in line with the growth in adjusted earnings per share for the two parent companies at constant exchange rates.

Our business profile is continuing to improve primarily through organic development, combined with a small number of targeted acquisitions to support this organic growth. We also disposed of several businesses that no longer fit our strategy and have bought back shares for an amount which is just about the same as the gross disposal proceeds during the first half.

Furthermore, we announced today that we are going to increase this year's buybacks to a total of £600 million which is about £200 million more than our expected full year gross disposal proceeds because our cash flow remains strong and our balance sheet is, if anything, continuing to strengthen.

Duncan will now take you through the results in more detail and Erik will describe the progress of the company more generally. Thank you.

Duncan J. Palmer

Thank you, Tony and good morning everybody. I would like to start this morning with the financial highlights for the first half of 2013. Our primary measures of revenue and operating profit growth are on an underlying basis which

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exclude the effects of currency movements and all of the acquisitions and disposals which took place in 2012 and year-to-date.

In the first half of 2013, we have maintained the trends and financial performance delivered in 2012. Underlying revenue growth was 2% or 3% excluding the effects of biennial event cycling in our Exhibitions business. Underlying adjusted operating profit grew 6%.

Adjusted earnings per share growth was 7% in constant currency terms with a sterling denominated PLC-adjusted EPS up 9% and the euro denominated NV-adjusted EPS up 4%, reflecting a stronger euro in the first half of 2013.

Reported earnings per share were down 6% for PLC and down 9% for NV, mostly due to higher gains from disposals in the first half of 2012 within the first half of 2013. Interim dividends are up 11% to £0.0665 pence to PLC and up 2% to €0.132 for NV. The difference in growth rates reflects strengthening of the euro against sterling since last year.

Our financial position has continued to strengthen slightly. Net debt to 12 months trailing EBITDA after adjusting for the net pension deficit and capitalizing leases was 2.1 times compared to 2.3 times at the end of last June and 2.2 times at the end of 2012. On an adjusted basis – on an unadjusted basis, net debt to EBITDA was 1.7 times.

I will now go through the profit and loss statement in a little more detail. I will present the results in sterling and in the appendix you can find the equivalent euro denominated results. As we've discussed previously, the revised IAS19 relating to pension accounting came into effect from January 1, 2013. Accordingly, 2012 first half numbers have been recast on the new basis throughout the presentation. This accounting change had no impact on Reed Elsevier's balance sheet or on cash flows. A reconciliation from the numbers as reported last year to the recast numbers is provided in the appendix. From 2013, we include the net pension financing charge within reported net finance expenses. The charge is however, excluded from our adjusted earnings measures.

Revenues were £3 billion and adjusted operating profit was £870 million with the adjusted operating margin rising from 27.3% to 28.8%.

Net interest expense was £15 million lower at £92 million, primarily reflecting the impact of term debt refinancings at lower rates. The effective tax rate for the first half was 23.5%, in line with the prior year. The full year rate is also expected to be similar to last year. Adjusted net profit increased by 7% to £592 million with reported net profit down by 8% to £509 million.

Now I'll walk through our reconciliation of reported net profit to adjusted net profit. We presented 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. The reduction in the post-tax amortization charge compared to the first half of 2012 relates to a one-off deferred tax credit.

Net interest on pension schemes deficits of £6 million reflects the changes made as a result of IAS19. There were £14 million of acquisition-related costs in the period. In the first half of 2013, we recorded an overall pre-tax gain on disposals, including the screening business but this was offset by taxes paid.

Now let's focus on the financial results of our major business areas. Firstly, looking at revenue, you can see that once again all five business areas grew underlying revenues in the first half. Risk Solutions demonstrated strong underlying growth of 8%. The differences between underlying and constant currency growth rates reflect the impact of acquisitions and disposals in 2012 and the first half of 2013. There have been disposals in each of our businesses but the effect is most significant in Risk Solutions where we sold the pre-employment screening business at the end of February and in Business Information where we have made a number of disposals, including the sales of the Australian and French businesses in 2013.

The overall effect to disposals in the first half was to reduce revenues by 6%, partially offset by a 1% contributions from acquisitions. Disposals will continue to impact the reported revenues and operating profits in the second half of the year.

Looking at adjusted operating profit performance, we can see that underlying profit grew ahead of underlying revenue across all major business areas. This was most pronounced in Legal and Business Information. As for revenues, the differences between underlying and constant currency growth rates reflected the impact of acquisition and disposal activity, most notably within Business Information. Reported growth in Scientific, Technical & Medical profits included a £6 million benefit from the Elsevier hedging program and a similar benefit is expected in the second half of the year.

In the first half, we converted adjusted operating profit into operating cash flow of £739 million at cash conversion rate of 85% compared to 94% in the first half of 2012. CapEx was broadly in line with prior year period. Depreciation increased by £14 million, the majority of which related to amortization within the Legal business. The decline in cash conversion was driven by year-over-year differences and the timing of receivables invoicing and collection and the timing of the settlement of some payables at the end of the first half. We expect the timing effects to reverse in the second half and to show cash conversion for the full year in excess of 90%. Our EBITDA in the first half was £1 billion, up 6% from the first half of 2012.

Moving to free cash flow, cash interest was lower reflecting the reduction in the interest charge and cash taxes rose, a result of higher taxable profits predominantly in the U.S.

Moving to the uses of our free cash flow after dividends. In the first half, we deployed £85 million of cash on acquisitions. We realized £226 million of net disposal proceeds after related costs from the sale of non-strategic assets, most significantly in Risk Solutions and Business Information. We applied £300 million to buying back shares, partially mitigating the short-term earning solution associated with disposals. Other items primarily related to cash receipts from employee share option exercises.

The majority of our debt is denominated in dollars and the weakening of sterling against the dollar since the start of the year has resulted in higher net debt when translated at period-end rates.

As we discussed at the preliminary results, we remain focused on managing our debt-to-maturity profile on our overall cost of debt. Our debt is denominated in a number of currencies reflecting the global nature of our businesses. About 70% of our gross debt at the end of the first half was denominated in dollars, with the balance in euros and pounds sterling. For the purposes of this slide, I will talk in dollar terms.

At the end of June, we had net debt of $5.1 billion with gross debt of $5.8 billion, the difference representing cash and financial instruments. During the first half, we took a number of actions to address upcoming maturities, reduce our cost of debt and retain access to long term liquidity. We issued $282 million of Swiss Franc denominated notes. We also issued a further $389 million of U.S. dollar denominated 10-year notes in exchange for $309 million of high coupon 2019 debt.

In addition, in July, we have extended our existing $2 billion revolving credit facility until 2018 at lower cost. As a result of the actions we have taken over the last 12 months, the effective cost of our gross debt was 4.9% in the first half, down from 5.6% for full year 2012. Net interest expense was £92 million in the first half compared to £107 million in the first half of 2012 and we expect to incur a broadly similar interest expense in the second half.

This next chart shows the impact of our actions on the overall debt maturity profile. As a result of our refinancing activities, we have no further maturities in 2013 and we have reduced the amount of expensive 2019 maturities further. We are well-positioned to address upcoming debt maturities with $900 million maturing in 2014 and $300 million in 2015. We will finalize plans for the refinancing of 2014 maturities in the second half of the year.

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 the first half was £7.3 billion compared to £6.9 billion at the end of 2012. Most of our goodwill and acquired intangible assets are dollar-based. The £370 million increase was mainly driven by currency translation with the impact of acquisitions more than offset by amortization and disposals.

Internally developed intangibles increased resulting from organic investment in the business and currency translation. Assets held for sale decreased, reflecting a number of disposals completed in the first half. The net pension obligation

reduced largely as a result of asset returns. Reed Elsevier continues to maintain a negative net working capital position, driven by advanced receipts in our subscription and exhibition businesses.

Finally, I want to cover a few housekeeping matters that should help you with modeling our financials. I've set out the average and period-end exchange rates and numbers of shares for the first half. At 30 of June, we had 1.174 billion Reed Elsevier PLC and 719 million Reed Elsevier NV shares outstanding lower than at the end of 2012. This is the result of shares bought back in the first half, partly offset by share option exercises. The weighted average numbers of shares for the first half reflect the timing of buybacks and option exercises. That concludes our overview of the financial performance in the first half of 2013.

Now, I would like to hand over to Erik to talk through strategic and operational progress.

Erik N. Engstrom

Good morning everybody. Thank you for coming and for taking the time to be here today. As you've seen this morning, we maintained our positive operating momentum in the first half of the year and we continue to improve our business profile, primarily through organic development. In terms of our operating and financial momentum, you can see here that our underlying revenue growth, excluding biennial exhibition cycling, was 3%. Our underlying adjusted operating profits grew 6%.

Our earnings per share at constant currencies grew 7%. And we reduced our net debt to EBITDA ratio slightly to 2.1 times on a pension and lease adjusted basis, which means that we remain in a leverage range that we're very comfortable with.

All major business areas delivered underlying revenue growth as well as underlying operating profit growth. Our STM business grew 2% with strong growth in article submissions and usage across science and medical research. Revenue growth was driven by solid subscription renewals and new sales, particularly in emerging markets.

We also grew our author-pays or author's-funder-pays article volume strongly albeit from a small base. We saw continued good growth in databases and tools and in electronic clinical solutions. But declines continued in print book sales to individuals in educational markets and in pharma promotion. Overall, we are on track to deliver modest underlying revenue growth for the full year.

Risk Solutions grew 8% with positive underlying revenue growth momentum across all segments. Insurance achieved good volume growth, primarily from the continued rollout of new products and solutions. Business Services saw good growth in identity and fraud solutions and positive volume effects in financial services, some of which may prove to be temporary. Government achieved good growth driven by new sales across federal and state and local markets. For the rest of the year, we expect the good growth in insurance to continue while some uncertainty remains in financial services and government markets.

Business Information revenue growth improved slightly to 3% with strong growth in major data services, driven by BankersAccuity and ICIS. Leading brands and other magazines and services were stable despite weak print advertising markets. The margin expansion of 1.1 percentage points to a record 19.3% was driven by a combination of organic efficiencies and portfolio reshaping. For the full year, we expect continued good growth in major data services, stable leading brands and weak print advertising markets.

Now as you know, the majority of the value creation in this business comes from its data services which strongly resemble our Risk Solutions businesses. Therefore we announced in December that we were bringing Risk Solutions and Business Information more closely together in order to leverage Risk Solutions strength in data, analytics and technology in combination with RBI's broader geographic footprint and industry-specific databases.

We are now operating these businesses with one CEO, one Chief Technology Officer and one Global Head of Human Resources. At this point, we still have two separate finance departments and report the financial results separately.

But I thought it might be interesting for you to see what these two areas looked like together for the first half of the year. They represented just over 30% of Reed Elsevier's total operating profit with underlying revenue growth of 6%, underlying profit growth of 12%, and margins of 35%. Almost 90% of their revenues are electronic and face-to-face. 30% of their footprint is outside North America and they're driven by subscription and transactional revenues with only a small sliver of advertising.

Legal again grew 1%, reflecting subdued legal markets in the U.S. and in Europe. Across our global legal business, electronic revenue growth was largely offset by continued print declines. New platform and product rollouts continued as planned with 60% of our U.S. customers activated on the new Lexis platform. Margins expanded 0.6 percentage points as cost efficiencies and some initial decommissioning of old systems more than offset inflation and higher depreciation. For the full year, we expect legal customer markets to remain subdued limiting the scope for growth. But we will continue the rollout of our new products and maintain our focus on process efficiencies.

Exhibitions grew 7%, excluding biennial cycling, with strong revenue growth in the U.S., with Europe showing good growth in international events, but softness in domestic events and with good growth in Japan, strong growth in Brazil, China and emerging markets. We completed three small acquisitions and launched 16 new events, primarily in high growth geographies and sectors. For the full year, we continue to expect good growth in the U.S. and Japan, limited growth in Europe and strong growth in other markets.

During the first half, we also continued to make progress in the strategic direction that we laid out last year and that you can see here, towards becoming a company that delivers improved outcomes to professional customers across industries. We're getting there primarily through organic development supplemented by selective portfolio reshaping, driving and evolution of our business profile and improving the quality of our earnings.

In terms of organic development and organic growth rates, you can see here that electronic and face-to-face revenues are growing organically at or slightly above mid-single digits while the remaining print revenue streams are still declining mid-single digits or worse. 83% of our revenues are now in electronic and face-to-face formats.

Our North American revenues are growing at Reed Elsevier's average growth rate of 3%. Europe is growing slightly below our average and the rest of world is growing mid to high single-digits. Rest of world now represents 21% of our total revenues, exactly the same share as Continental Europe.

Subscription revenues represent over – just over a half of Reed Elsevier and are growing at slightly better than our average rate. Transactional revenues are a mixture of strong growth in risk and exhibitions and declining print sales. Advertising is still declining.

In terms of portfolio reshaping, we have again limited our acquisitions to targeted data and content assets and assets in high growth markets and geographies. In terms of disposals, we closed 11 transactions in the first half of the year disposing of assets across business areas that no longer fit our strategic direction.

With a strong balance sheet and strong cash flow characteristics and our average acquisition spend comfortably covered by free cash flow, we will take a pragmatic approach to ensuring that the value compounding in our business translates into shareholder value. As a part of this, we are going to increase the scale of this year's share buybacks to 600 million or approximately £200 million beyond our expected full year gross disposal proceeds. We deployed £300 million on share buybacks in the first half of the year and we plan to deploy a further £300 million in the second half.

So in summary, in the first half of the year, we maintained our positive underlying growth trends and we continued to improve our business profile. Going forward, the outlook for the macro-economic environment and its impact on our customer markets remains mixed and 2013 is a cycling out year for exhibition business. However, the operating momentum in our business remains positive as we enter the second half and we continue to expect full year 2013 to be another year of underlying revenue profit and earnings growth.

And with that, I think we're ready to go to questions. Let's just start over here. Thanks.

Q&A

<Q - Sami Kassab>: Thank you, Erik. Good morning ladies and gentlemen. This is Sami Kassab at Exane. Two questions if I may. The first one, do you expect the same level of margin expansion within the Legal & Professional division in the second half of this year, i.e., around 60 basis points? And given that you just started decommissioning all the platforms, should we expect the pace of margin expansion to accelerate assuming the top-line stays where it is?

And secondly, can you give us your thought on the outlook for the pharma promotion business in a context where ad agencies are taking a more positive look in their healthcare-related revenues? Thank you.

<A - Erik N. Engstrom>: Okay. On Legal margins, clearly – what we have done in the first half, we will continue to do in the second half and next year and going forward, now probably for a few years, meaning we'll work to drive operating efficiencies in the business and we will work to gradually decommission old systems one after the other. That will continue in the second half and in the future. What exactly the impact will be on margins in the second half specifically, very hard to tell, because it does also depend on how quickly we are able to do it and also a little bit on the revenue growth trajectory. So – but I think this is an indication what we've seen last year and what you've seen this year is probably an indication of the kinds of levels that we are able to accomplish with limited revenue growth.

When you look at going forward, you asked the question can it accelerate. I think within the current sort of revenue and market environment that we're in, this is what we're able to accomplish something in this range. And there is no automatic acceleration that happens because all of a sudden, you turn off and one big system may fall off a cliff on the costs or something, because the old infrastructure consisted of many, many systems, I mean in the hundreds, and there's not one big system you turn off one, so it's a gradual elimination of one after the other over several years. So you're not going to see anyone big step change.

When it comes to the pharma promotion markets, we are normally not the leading indicator of what pharma companies do and what they think about on advertising and how they do it with agencies then it comes to us afterwards. So we normally don't have any better insights than others do, if anything, probably worse. But what we've seen so far does not signal any significant changes in trends. But I think it's important to realize that at this point, this is down to – we are probably now approaching 5% of Elsevier's revenues in the pharma promotion segment. So this is a smaller and smaller piece of Elsevier and therefore on the scale of Reed Elsevier, of course, even less important. So...

<A - Anthony John Habgood>: Can we go across here?

<Q - Mark P. Braley>: Thanks. It's Mark Braley at Deutsche. Just two questions. Print books within Elsevier, are you seeing the kind of pace of decline there and the impact of structural changes that accelerating and how seasonal is that business, how much of that is an autumn enrollment-driven business?

And the other one is on the buyback, kind of cumulatively, the buyback is starting to add up to quite a big number if we look at what was done in previous years, what you're proposing for this year. Presumably, we're supposed to take away the idea that there might be something in the years beyond with the pragmatic approach? And when does it kind of become such a big number that you have to think about whether it's sufficient to be buying one expensive line of stock and one cheap line of stock rather than just – I'm thinking about the distinct structure in just buying the cheap line of stock?

<A - Erik N. Engstrom>: Okay. Let's see here, I am going to get back in the end to Duncan on the last piece, but let me start with the questions about print books in Elsevier. You asked, the way I understand it is, is the decline accelerating right now and how seasonal is it? Well, we have essentially – if I try to put them in two broad buckets the books in Elsevier, one are – what I could look at as reference type books, primarily institutionally-oriented. They look a lot like the reference version of some of our research businesses. Those are actually businesses that as a whole are holding up very well and are not that seasonal. They are sometimes converting faster to electronic, right, not as fast as the research, but they are converting to electronic and you have institutional agreements and sometime package these in different ways and that's a good business that's transitioning very orderly from print to electronic with growth in it. That's one part of it.

Then we have the larger piece, and particular in what used to be called our health areas, right, where you have the print book sales that are happening to individuals, primarily in educational environment. That one is slightly more seasonal,

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it relates a bit to educational cycles and so on. And they are going through a difficult transition with not just with print to electronic, but also with funding and with slow economic growth and book rentals and used books, et cetera, et cetera and that you're probably more familiar with than I am from some other companies that are larger in those segments.

So if I look at that still that is seasonal but I don't think we have seen anything I would say that is accelerating because that's been pretty bumpy now for a period of time. But again, it's hard for us from our little tiny segment and the way we operate in that to really call the market. I don't think we will be the right people to ask about the market situation. But the print book sales are clearly declining there and the transition to electronic is a little bumpier.

Buybacks, well, we are going as you see £200 million beyond our gross disposal proceeds which in a scale of Reed Elsevier, of course, and our total market cap for the combined company is not a large number. But we do think it's a pragmatic way to look at turning our business progress into shareholder value. When it comes to the question of the two listings and so on, I will let Duncan address that.

<A - Duncan J. Palmer>: Yeah. So as you know, what makes us a little different as a combined total is we have two parent companies essentially which have two therefore separate listings and they are separate companies, they came together under a merger agreement, a governance agreement. And as part of that, there is actually a defined ratio of how the overall equity of the two companies combined has to, the ratio of which listings have to be held. So as we buy back stock, we do so mindful of the fact that we need to maintain that ratio. So it's not something that's easy for us to do because it's not one company with two listings, it's two listed companies. And therefore under the terms of that agreement we maintain that average ratio over time.

<Q - Mark P. Braley>: That's my question, is there a point to which you need to look at the agreement, look at the equalization ratio and say it's actually in the interest of both sets of shareholders where we currently stand just to buy the Dutch line?

<A - Duncan J. Palmer>: Yeah. I mean we've thought and looked at that, I think two, three things there. I mean we really did come together and make that firm agreement over time and the materiality of our overall share buyback program in the context of our overall market cap of the two entities combined, it's not actually that material. So I don't think at this stage we have any plans to relook at the merger agreement.

<Q - Ian R. Whittaker>: Thanks. It's Ian Whittaker from Liberum. Two questions again please. First of all, just on scientific publishing, we had recently University of California canceled their contract with Informa and if that follows in a number of other U.S. universities threaten to cancel contracts. Are you seeing a more aggressive tone being adopted by universities in the States regarding your contracts in this area and particularly around pricing?

And the second thing is just really to come back and to a comment you made about risk and particularly the financial area. You talked about there being some potentially temporary effects in the first half of the year when there could be some weakening in financial in the second half. I think it was in risk. Can you talk about what exactly happened in the first half, sort of, why it strengthened and why you thought it was temporary and why you think there would be weakness in the second half?

<A - Erik N. Engstrom>: Well, the first question there you asked, are we seeing a more aggressive tone? I think we have a very broad set of customers in the scientific across the world and they're all in very different economic situations at any given point in time. And clearly with the turmoil the world has gone through over the last few years, there are several individual customers that are under more pressure during this time period than they have been in the past. But we've seen that now for several years and it varies significantly by location of institution, type of institution and the size of the institution and their specific funding base.

So for us, we've seen for many years that many institutions have been under pressure and we're trying to work with them to make sure that they get the right kind of content set, the right quality set, that they want the right tools and in a way that fits within their budget and the way it grows. And I am hopeful that we'll continue to do that going forward. Have we seen any material shift recently across the world? No. I would say today the situation is, broadly speaking, similar to where it was a year ago. But, of course, there are individual institutions, individual geographies that are in

worse shape today than they were a year ago. On the other hand, there are other institutions in the world that are in slightly better shape and are growing well compared to what they did a year ago.

So if you look at the risk, yeah, the way I would describe it, I wouldn't describe it as a weakening in the second half even though that may be how I came across. We saw in the risk business, acceleration in growth from last year's 6%, right, to the first half 8%. And in that growth acceleration, we believe that the majority of what we are doing here is to accelerate new product introductions, expand solution set, sell into customers, sell into adjacencies and expand our footprint risk and we think that is the main driver of the growth rate in that business.

However, we've also seen in financial services that, for example, in the second half last year, mortgage refinancing volumes coming through our processes came up and that may be because we are very good at introducing those solutions, or it might have something to do with the interest rate increase and the volumes in the market and therefore we're getting a part of that share. That came through in the second half of last year, continued in the first half this year. So as we then cycle into the second half of this year, we would say that the relative growth rate in that segment might not be the same as what we saw in the previous 12 months. That's really what I'm thinking about.

<Q - Ian R. Whittaker>: So it's just a comps issue more than anything else?

<A - Erik N. Engstrom>: Well, we also don't know. Clearly there are some cycles that we are selling into such as mortgage refinancing. They also depend on interest rates and you can't predict the interest rates and I can't predict them. The reality is it might be something else and therefore the volumes come up or down, that's what we are reflecting the uncertainty in economic environment that can impact financial services volumes in the second half and we think that's still somewhat uncertain. So that's really what we are thinking about.

<Q - Nick M. Dempsey>: Hi, it's Nick Dempsey from Barclays. Two questions please. Just while we are on risk, in terms of the federal government piece, if you are going to see any impact from sequestration, would we see that already or could there be a lag which we might have to bear in the second half or into next year? And the second question, on the interest rate of 4.9% blended rates, how much more work is there to be done on taking out that instruments at a high coupon? In other words, do you have levers to get that number lower for next year?

<A - Erik N. Engstrom>: Okay. Again, I'm going let Duncan answer the second question here. But the first one, when it comes to U.S. government, clearly a very small part of our business is directly into government – small part is directly into U.S. government, as you know in Risk, our total government segment is less than 10% of the Risk business. And I would say that yes, we have seen in some specific contract, in some specific agencies, the question of their budgets have changed, their budgets have been cut not just in risk but some individual situations here and there.

In the broader scale of our businesses, those are small and we have seen some come through and there have been some questions about what can we spend. And we've seen some individual reductions – could that – do I think that these are going to continue? I actually don't know. That would be just my personal prediction on government behavior which I am not going to attempt to do. But clearly this could continue. But again, these are small individual situations that could have a small effect here and there on our business. But if you look at overall as Risk – the whole Risk Solutions business or overall at Reed Elsevier, it's not a large amount. So, Duncan, you want to answer the one about interest rates?

<Q - Nick M. Dempsey>: On the interest rates.

<A - Duncan J. Palmer>: Yes. So as I said in 2012, the gross cost on sort of gross debt was about 5.6%. And so far this is about 4.9%. That has translated in about £92 million of interest rate expense. Now we'd expect that in the second half of the year to be about the same as the first half of the year. What's really been driving that is we have been refinancing actually over the last 12 months, previously issued debt as it's rolled off at rates which we've been refinancing new debt have been lower, right. So gradually that effect is accumulated and that's what you've seen in the first half of this year.

We've now completed refinancing of the debt that was due this year and there's some more debt obviously to refinance next year. And as we continue to do that, we continue obviously to issue in the current marketplace at whatever new

rates will be. But we haven't yet finalized plans for how we are going to refinance next year. Obviously, the interest rate environment obviously changes over time. I don't think I'd ascribe the majority of that change to the refinancing of 2019 debt, I see it more as an accumulation of just a refinancing of debt as it comes due.

<Q - Nick M. Dempsey>: Just a quick follow on. Do you know what the rate is that you are paying on the debt that gets refi-ed next year?

<A - Duncan J. Palmer>: Do I know what the rate is?

<Q - Nick M. Dempsey>: What rates are you paying on that amount that you need to refinance?

<A - Duncan J. Palmer>: Yeah. I mean it varies depending on whether it's been swapped or not swapped, I mean it's accumulation of different things and obviously historically it's generally speaking been issued in the past and generally quite a few years ago. So it's going to reflect rates of that sort of time which generally speaking were higher than today's rates. But interest rates change and evolve over time. I wouldn't want to call what I think interest rate is going to be next year unless you have a sort of crystal ball on that. But generally speaking, we are looking to refinance most efficient rates we can in the marketplace looking at the overall mix of debt, in which countries – currencies to issue it in and whether to make it fixed or floating, we'll continue to be efficient in that and drive efficiencies to the greatest extent that we can.

<A - Anthony John Habgood>: Just keep going back this way.

<A - Erik N. Engstrom>: Just behind you there.

<Q - Robert L. Berg>: Hi. Yes, it's Robert Berg from Berenberg. Just staying on risk, I just want to try and get a gauge of how much of RBI should still be sold and effectively how much still doesn't fit within the Risk Solutions business?

<A - Erik N. Engstrom>: Well, the way we look at RBI, the way we have looked at RBI is to look literally at every single asset and try to figure out what the business profile is, what assets it contain, what data it has, what customers it's serving and how we can transform that business, how we can migrate that business is a type of business we want to be in. So the first attempt on every RBI asset is to try to migrate into the type of business we want it to be. In some places, we've done that very successfully and we can declare that it has happened such as BankersAccuity or ICIS, for example. In other places we can say we are well on the way and we are confident this is going to happen, for example, in Flightglobal and Flight Ascend. In other places we are still attempting and it may transform successfully or we may end up selling them if it doesn't work, right. So there are some assets that are still in that third category that we are working on.

So, yes, we will continue to sell off assets across Reed Elsevier not just in RBI. They are likely to be of the scale that you have seen over the past 18 months, excluding the two really big ones of screening and risk solutions and total jobs if you look at those. So we have sold many, many others and we'll continue to sell several others but there are likely to be more in that value range of the others.

So exactly what piece is left of RBI to sell is hard to tell, because it depends on which ones we can transform successfully and therefore which ones we sell, but there will be some more to come on the smaller scale . Yes, keep going back half way. Yeah, okay.

<Q - Vighnesh Padiachy>: Hi, it's Vighnesh Padiachy from Goldman Sachs. I've got a couple of questions on Legal actually. Can you give us a bit of color on the organic growth within Legal? And from a customer's perspective, which areas are doing well, which areas are showing signs of recovery or even geographically, so just a bit more color on the trends?

And secondly on Legal, are there things you can do with the portfolio, are there some European assets you can sell to rejuvenate the growth there?

<A - Erik N. Engstrom>: Yeah. If you look at the different segments I think what is probably not a secret to anybody who watches the legal industry is that the larger law firms in big cities relating to corporate M&A activity and other things have been – have had a difficult time over the last few years. Those are the headlines that most people read about when they read about law firms, right, I think. So that's probably a segment we hear about the most, talk about the most, see the most and they have had a difficult time, they are still having a difficult time. Some are going to stabilize and some are still going through changes. But if I take a broader look at what you're talking about, let's say, across customer segments and so on, it's remarkable actually at this point that the patterns are pretty similar.

You are seeing that when it comes to fundamental electronic solution sets that people do rely on to go into court tomorrow that helps them do their jobs well, they continue to want to have those, continue to use those and continue to grow there because they need to continue to support to their business. On the other hand, old print reference continues to decline and those patterns you can see across markets, across customer channels and across geographies. The patterns in Europe are not that different from the patterns in the U.S. and clearly on the plus note, are there assets we should be looking at there, we are doing the same thing in Legal as we are doing everywhere else. And we have sold small assets here and there and we will continue to do that across all of Reed Elsevier, including Legal to see if there are assets we don't think are going to head in the direction we want them to be or if we don't see material value creation over time, we are likely to look at exiting assets in Legal just like in every other division.

<A - Anthony John Habgood>: Okay. Yeah. Back there.

<Q - Thomas A. Singlehurst>: Good morning. It's Tom Singlehurst from Citigroup. This is probably a bit unfair but it feels from the outside that you guys are not beginning to multi-tasking. You seem to be doing one thing at a time. First stage, obviously, balance sheet repair and products reinvestment, we go through a process of disposals. I know there are few acquisitions in the mix but primarily sort of disposal-focused, portfolio restructure. Should we interpret the proactive buyback as the beginning of the sort of Golden Age of sort of proactive cash usage and in particular should we see an acceleration in bolt-on deals?

<A - Erik N. Engstrom>: I'm sorry. Can we get that last piece again?

<Q - Thomas A. Singlehurst>: Should we expect an acceleration in the number of bolt-on deals that you are doing?

<A - Erik N. Engstrom>: Okay. I'm not going to comment on the multi-tasking thing here. But you said, are we going to see an acceleration in bolt-ons or are we going to continue down this path? The strategy that we have outlined we're going to continue down the same path which is primarily organic growth driven, primarily organic investment could transform into profile of the business, improving the business profile that [ph] Paul here is (46:29) making more predictable over time higher growth and improving returns. Because we are now at a balance sheet level that we are very comfortable with. I said we were very comfortable at 2.3 times, I said we are very comfortable at 2.2 times, I'll say we are very comfortable today at 2.1 times. We're in a leverage range that we are comfortable with. And therefore we believe that with our strong cash flow and our average acquisition spend comfortably covered by our free cash flow on average – on average, therefore we can use the cash that is generated in our business to buy back shares beyond the gross disposal. So we are roughly remaining in this leverage range.

So the answer to that is, do I see inherently a strategic acceleration in bolt-on deals? No, I don't. I see our strategic direction being the same, the kind of strategy we're pursuing the same, the kind of deals we'll look at as the same. But the availability and the timing of it, can of course change. If you look at what we bought over the last three years, we have bought many different companies every single year. They have averaged £300 million a year in total. But we've only bought one that was in a hundreds of millions, that was Accuity, all other deals have been in the tens of millions. So by the time you add it up, it averages one number but of course it can fluctuate within a year, is it possible we find two Accuitys in one calendar year? Yeah that's possible. Is it possible we have none for a year or two? Yes, possible. Could there be a company out there at some point in the future that's large, it could be, but we are not looking for any major transformational deals and we are not looking to pump up the pipeline in any way beyond the strategy we've already outlined.

Okay. Does that answer your question? Okay, thanks.

Let's keep going forward here. Can you take it in the back?

<Q - Alex C. de Groote>: Thanks. It's Alex de Groote, Panmure Gordon here. Just want to follow up to Tom's question on buybacks.

<A - Erik N. Engstrom>: Yeah.

<Q - Alex C. de Groote>: So just to be clear the increment that you've announced today which I think is £200 million. Should we embed that into our numbers going forward FY 2014, FY 2015, will it go higher or lower?

<A - Erik N. Engstrom>: Well, we have not at this point made any decisions as to what we would be looking at for next year's cash flow or buybacks. And of course, it does depend on the question we just discussed which is what exactly are we buying at any given point in time. But I think you should see today not as an indication of what a number would be or what we will be doing exactly in terms of numbers but rather as an illustration of what we think is a pragmatic approach to the cash availability in the company and being comfortable in the current leverage range.

Okay, can we now go forward here, over there? Yeah.

<Q - Claudio Aspesi>: Claudio Aspesi, Sanford Bernstein, two questions please. Bloomberg Law's sales force continues to say that they are going to target particularly the LexisNexis pool of money as they try to grow their share of the U.S legal market. Can you give us a flavor for what kind of actions you are taking to protect the current share?

And the second question refers back to something you mentioned earlier about the growth of author-pay articles. In the past you had a policy of returning to your customers the revenues from author-pay so that you will not affectively double-dip as the industry calls it. Can you please tell us whether that policy is going to continue and if so what mechanisms do you have in place to ensure that you hand the money back?

<A - Erik N. Engstrom>: Yeah. The first question here Bloomberg Law, since I mean as you know we – Bloomberg is a very large successful company, has been very successful over many years and we have watched them very closely since they first entered the legal business about a decade ago. And we've watched them, continue to watch them closely since the acquisition of BNA. And what we have seen in the marketplace is since the acquisition of BNA and the re-branding of BNA the brand has become significantly more visible in the marketplace and with certain customer audiences. But that was primarily in a segment that is not a direct competitive segment to our segment.

The broad-based legal research and litigation platform business was really our big core business. We have not seen any material change in competitive behavior or competitive dynamics in the recent past. And clearly what are we doing? Well, as you know, we're spending a very large amount of time, effort and money rebuilding not just our platform of new Lexis, but also the content sets, the search tools, the workflow tools beyond it. So content, a complete re-platforming of the technology, a complete rebuild of the back-office infrastructure, supporting infrastructure, expanding the content as well as continue to launch lots of different tools and solutions on top that we think are gradually improving our relative positioning in the market. So that's the legal side.

When it comes to author-pays, yeah you're correctly describing the situation in the past for most publishers which is that if you have one journal and you have a sponsored article, we maybe call it, inside an existing subscriber journal. How do you avoid the so-called double-dip, you charge for the article for one side and you charge for the same type of form in that specific journal? The policy we have had and continue to have is that we charge subscribers for the subscription article volume and the subscription articles that the author-pays articles come on the site so that you don't include in your prices and in your price setting and in your revenue stream the author-pays articles that are affiliated with that brand.

So that's the mechanism that it has existed for many years and continues to exist. Of course, what is happening today when you have author-pays articles or sponsored articles or open access articles, whatever word you to like to use, what's happening is that some of the volume is coming into our existing journals and many, even in the industry, many more of them are coming in separate brands, separate journals that are being started or spun out so that there is a fair amount of volume that's happening in the separate sort of author-paid world that is not impacting the subscription journals volume, it's not growing, it is not shrinking, right.

So these are really partly and a smaller part of the industry would be inside an existing journal where there is a direct offset, right, meaning you don't actually count them for the subscription business and separately you have the author-pays volume and author-pays journals. So, sort of, full open at here, where the volume is growing and you don't know where it's coming from but it's growing volume that you gain revenue from. And therefore, if it's not revenue you had before, it's therefore incremental revenue in that segment. But inside the journal, there is the offset, we have a mechanism, we've had a mechanism, we continue to operate that mechanism. So there is no perceived double-dipping inside any subscription journal.

<Q - Matthew J. Walker>: Thanks. Hi, it's Matthew from Nomura. I've got a couple of questions please. The first one is could you aggregate what is the organic growth of the eight acquisitions that you have made, if you aggregated them? Same question for the 11 disposals that you made. Second question is on Legal. We've seen an improvement in the U.S. economy for some time. I think your position really is that the Legal business will follow GDP with a lag, i.e., that there isn't really any sort of significant structural change to the legal market per se. When do you think we might see an improvement in the U.S. legal business to follow the improvement in U.S. GDP?

<A - Erik N. Engstrom>: Okay. If you start with the, make sure I understand what you said: what is the organic growth of the acquisitions made this year, the eight that add up to the £100 million? I haven't calculated that number, so I can't tell you the number. But on average, the businesses that we buy are higher growth than the businesses we have of course, right. That's to be expected on average. Not every single asset we buy would have that directly affiliated with it because sometimes we do buy an asset base, the content, the database or something and it doesn't, we fold it in and therefore drives accelerated growth in our core business. But it's not that that asset by itself would have a growing separate revenue stream because sometimes we buy small assets like that and incorporate them in our platforms. But what exactly that number is is hard for me to say. Depends on the profile of what you are buying at any one time period. This year, of course, we bought some exhibitions in Mexico and we've done some higher growth assets. So it should be materially higher but it's a very, very small piece, of course, when you spend the £100 million on it.

The second question on disposals, depends on which time period you pick, if you say again the ones we disposed of this year, if you say the ones we disposed during the first half this year, well, the biggest one we disposed of was screening and you saw how that was doing in the second half of last year and first half of last year or the magnitude it was growing probably just below mid-single digits, right? Or in that kind of range. And you've seen that we've disposed that separately for the last couple of years. You know the growth profile of the screening business. The smaller ones we've sold this year have mostly been local RBI operations in different countries that would fall into the category of what we called in RBI typically is other business magazines and services which had been essentially stable or in most countries you'd expect that those would have been flat. So if you average out all of these, where do you end up? Not sure what the average is but that gives you the profile. Last year, of course, this whole Totaljobs is going well into double-digit, it's a very high growth business. But it depends on what falls in which time period.

<Q - Matthew J. Walker>: [inaudible] (57:20)

<A - Erik N. Engstrom>: Sorry, I forgot. Sorry. I am sorry. I apologize. What was that about multi-tasking? So U.S. legal. Yeah, we don't believe that we are a good indicator of sort of leading indicator of economic activity. We think that many of the industries we serve are in particular legal industry, they are serving a customer set. So our customers have their customers. So when their customers circle of activity picks up then our customers start to do that and then it comes to us afterwards. We're normally more of a lagging corporation both going into economic downturns and coming out of economic downturns. Now, the history would indicate that that's the traditional pattern. So therefore if you look at sign for U.S. legal industry picking up, we're probably not the right people to ask.

Even though at this point I have to say, if you look at what other people are doing today, documenting what's going on in the legal industry, legal industry hiring, billings and so on, from what we've seen that's available, it fluctuates quarter-to-quarter the growth rates but we have not seen any sustained trend change at this point that we can talk about. And to me, it looks like very similar to last year or two in the U.S., which is what you are talking about. Okay.

<Q>: Thank you. It's [indiscernible] (58:47) from Kepler. I have actually four questions left in my list but they are all short, so I will try to ask the four. How much of the 2 points of growth of Elsevier come from emerging markets? We don't talk a lot about it but could you may, talk to any important component.

The second is the share of Elsevier revenues coming from open access, early callers on phones, could you update on this one? Third is on journal subscriptions, is revenue still growing by something like 4%, I have that in mind for last year? And finally, the share of legal revenues from solo lawyers, any progress in addressing this segment please?

<A - Erik N. Engstrom>: Okay. I want to make sure I really understood your first question. Emerging markets revenue growth, you are talking about, what?

<Q>: For Elsevier.

<A - Erik N. Engstrom>: I'm sorry. Yeah. Emerging markets revenue growth for Elsevier was the question.

<Q>: Yeah. I mean within this 2 points of organic growth of – underlying growth of Elsevier, how much of that comes from new contracts in emerging markets?

<A - Erik N. Engstrom>: Okay. I think you have to look at Elsevier in a slightly different fashion. I think you have to say that if you look at the whole thing we have declines in Elsevier in print book sales to individuals in educational markets and we have declines in pharma promotion. The rest is growing therefore higher because those declines are mid to high single digits as you know. So therefore you take the rest therefore on average going higher, so you need to divide out because those two segments are behaving slightly differently in the emerging market.

So if you take the emerging markets growth, you'd say Elsevier is almost entirely a third North America, a third Europe, a third the rest of the world. Your definition of emerging markets might be different from mine and different from what they call themselves. But if you assume just broadly speaking that rest of world is half emerging which is what most people tend to think for our businesses. You could say that on that kind of categorization, you are not taking to half of the third that you might call emerging. And typically the growth rates in those could be on average in the high-single digits. So if you can then do your math yourself and figure out which part falls where.

But that's roughly where it is. And you have to – the way we look at is that these emerging markets they are clearly growing faster and you can look at their GDP growth and so on and that comes through into our business as well. But we want to make sure that we have a sustainable share of that growth and that we can continue to grow with them over many years. So that's the...

<Q>: So what is more important out of two?

<A - Erik N. Engstrom>: I'm sorry.

<Q>: What is more important out of two?

<A - Erik N. Engstrom>: I am not sure I understand how would you do that math. If you took half of the third and then say that, that growth in the mid to high single-digits as opposed to where the rest would be excluding the education and pharma, I am not sure I get to that big a number if I did the math, I think I get to a smaller difference than that to be honest because...Yeah. So you said open access revenues, how much is it in total. Is that what you said?

<Q>: Yes.

<A - Erik N. Engstrom>: Yeah. In total, broadly speaking order of magnitude for Elsevier's research business, broadly speaking, this is order of magnitude 1% of the volume, 1% of the revenue order of magnitude, right. What exactly it is on half year versus before, it's up significantly from last year but it is order of magnitude as a percent, right. This is not a big piece.

You talked about the journals business, how is that growing broadly speaking, is it growing similar to last year? Yes, the trends are broadly speaking very similar to a year ago if you add it all up across the whole world on the ongoing like-for-like subscription-based revenues which I think is what you are asking, it's very similar to a year ago even

though the individual difference is by customer and by geography.

Last one solo lawyers, you said specifically. Solo lawyers are not big consumers of legal information tools. They are users and they're interesting and we are very happy to serve them. But as a share of the total spend, they are very small portion. We have tools for them and we sell them and we launched it. It was the one of the earlier segments that we targeted with the new Lexis platform. And we have made good progress and we are very pleased with how it's going. But if you look at it again in the scale of LexisNexis or even legal U.S., U.S. legal, it is not something that you are going to able to track or say that this has the significant impact on the revenue profile.

<Q>: Thank you.

Erik N. Engstrom

Okay. Well, thank you very much for joining us. And I look forward to see you again soon.

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