Client Id: 77

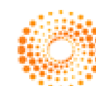
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

REL.L - Full Year 2014 Reed Elsevier PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 26, 2015 / 9:00AM GMT

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Anthony Habgood *Reed Elsevier PLC - Chairman*

Erik Engstrom *Reed Elsevier PLC - CEO*

Nick Luff *Reed Elsevier PLC - CFO*

CONFERENCE CALL PARTICIPANTS

Matthew Walker *Nomura - Analyst*

Vighnesh Padiachy *Goldman Sachs - Analyst*

Jonathan Helliwell *Panmure Gordon - Analyst*

Andrea Beneventi *Kepler Cheuvreux - Analyst*

Sami Kassab *Exane BNP Paribas - Analyst*

Nick Dempsey *Barclays Capital - Analyst*

Alex DeGroote *Peel Hunt - Analyst*

Ian Whittaker *Liberum Capital - Analyst*

Giasone Salati *Redburn Partners - Analyst*

Thomas Singlehurst *Citigroup - Analyst*

Steve Liechti *Investec - Analyst*

PRESENTATION

Anthony Habgood *- Reed Elsevier PLC - Chairman*

So thank you all for coming in this morning. And for those of you on our webcast, thank you for listening to us. If everything goes to plan, it will be our last results presentation as Reed Elsevier PLC and Reed Elsevier NV.

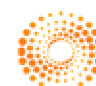
Today is an important step in the evolution of Reed Elsevier. 2014 was another good year with 3% underlying revenue growth and 10% constant currency earnings per share growth. And we are proposing to share dividends by 6% in PLC, 16% in NV, with the difference in growth rates of course reflecting the spot exchange rates at the relevant time. We also acquired businesses for a total of almost GBP400m and bought back shares worth GBP600m.

With Nick Luff in position as CFO, last year we embarked on an exercise to simplify our corporate structure. This has resulted in a proposal to simply the structure, clarify the economic interest of shareholders and increase the transparency of the share price of the two parent companies, and importantly also of their separate ADR listings in New York. This process along with the proposed name change will not be complete until approved by shareholders at our AGMs in April and subsequently implemented.

We believe it to be in the interest of all the shareholders of both parent companies to make Reed Elsevier into a more understandable group with greater transparency and with a more modern-sounding name. Again, this is evolutionary and designed to build on our history while reflecting the reality of what the Company is today.

Erik will now take you through our continuing strategy and the rationale for the changes we are proposing. Then Nick, who I should also welcome to his first results presentation, will present the financial results and timetable for approval and implementation of our proposed changes. To his great credit, Nick has settled in so well that it feels as if he's already been with us for a very long time. Eric will then sum up before we take your questions. Erik.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, thank you, Anthony. Good morning, everybody, and thank you for coming and for taking the time to be here today. As you've seen from our press release this morning, our positive financial performance continued throughout 2014 with underlying revenue and profit growth across all four business areas and further improvement in profitability. We also made further strategic and operational progress as we continue to transform our business primarily through organic development, building out our global platforms and adding broader datasets and more sophisticated analytics for our electronic decision tools.

We're now extending our efforts to modernize and simplify the Company to our corporate structure, our share listings and corporate entity names. We're announcing a set of changes that represent a significant simplification of our corporate structure and an increasing transparency without impacting the economic interest of our shareholders.

In terms of our financial performance, we maintained good momentum throughout 2014 across our four key financial metrics, underlying revenue growth excluding exhibition cycling effects was again 3%, underlying operating profit growth was 5%, earnings per share at constant currencies grew 10% and our return on invested capital increased by 0.7 percentage points to 12.8%.

All four business areas again delivered underlying revenue growth with almost half our revenues coming from business areas that are growing mid-single digits or above. And all four business areas again delivered underlying operating profit growth with, as you can see from this chart, over half of our operating profits coming from business areas that are growing their profits in the mid-single digits or above.

Let`s look at the full-year results for each business area. Our STM business grew 2% with several key business trends positive for the year. Primary research subscription revenue growth was around 0.5 percentage point higher than prior year and we saw double-digit growth in subscription journal article submissions and in usage.

We saw continued good growth in databases and tools and good electronic revenue growth across all segments. Print book and pharma promotion revenues continued to decline albeit at a slightly reduced rate. Going forward, our customer environment remains largely unchanged with last year's trends continuing into 2015. Overall, we expect another year of modest underlying revenue growth.

Risk and business information grew 6%. The strong underlying revenue growth was driven by volume growth, new product rollouts and adjacency expansion. Underlying profit growth broadly matched revenue growth reflecting our ongoing organic growth initiatives. Insurance saw strong growth driven by demand in the core US auto segment and good take up of new products in both core and adjacent segments.

Strong growth in business services was driven by identity and fraud solutions. The state and local government segment continued to see strong growth and federal government trends improved during the year. Major data services maintained strong growth and other magazines and services were stable.

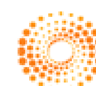
Going forward, the fundamental growth drivers remain strong and we expect underlying revenue growth trends to continue in 2015.

Legal grew 1% with underlying revenue trends unchanged. Continued growth in online revenues was largely offset by print declines. US and European markets remained subdued while other markets saw good growth. The rollout of new platform and product releases continued as planned with adoption and usage progressing well. Around 1 percentage point of the 270 basis point margin improvement was achieved through organic process innovation and infrastructure decommissioning with the balance primarily reflecting portfolio changes.

Going forward, trends in our major customer markets are unchanged limiting the scope for underlying revenue growth. We will maintain our focus on process innovation and expect further improvement in profitability over the medium term, albeit at a modest rate in 2015 following the sharp margin increase in 2014.

Exhibitions grew 7%, excluding cycling effects. Had the cycling effects been included, underlying growth would have been 9%. The US and Japan achieved strong growth, Europe saw modest growth overall with good growth in many international events partly offset by continued softness in

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

domestic events. China saw continued strong growth in certain sectors and moderate growth in others. Revenues in Brazil reflected the slowdown in the wider economy. Most other markets continued to grow strongly. We launched 36 new events and completed several small acquisitions and joint venture investments, primarily targeting high growth sectors and geographies. Going forward, we expect underlying revenue growth trends to continue with strong growth in the US and Japan and modest growth in Europe.

In other markets, the outlook remains strong, albeit slightly below the high levels achieved in recent years. We expect cycling out effects to reduce the overall revenue growth rate in 2015 by 3 to 4 percentage points.

Our strategic direction is unchanged. It's still to evolve the company -- devolve into a company that delivers improved outcomes to professional customers across industries to get there primarily through organic development, supplemented by selective portfolio reshaping and to drive an evolution of the business profile and improve the quality of our earnings.

The number one priority is still organic development. With electronic and face-to-face at 82% of our revenues, we're now primarily focused on driving the transition from electronic reference to electronic decision tools by adding broader datasets, embedding more sophisticated analytics and leveraging more powerful technology. That transformation from electronic reference to more sophisticated electronic decision tools is driving growth in the US and in Europe and we're continuing our efforts to build future leading positions in higher growth geographies.

And finally, our transition away from advertising and marketing services is now substantially complete.

After organic development, our second priority is the reshaping of our portfolio. In 2014, we continued to focus our acquisitions on targeted datasets and analytics and assets in high growth markets that support our organic growth strategies, completing 27 acquisitions for a total consideration of GBP385m, just slightly above our long-term average of around GBP300m.

Risk and business information again accounted for well over half of our total acquisition spend. And we also continued to dispose of assets across our business areas closing 17 small transactions for a total consideration of GBP74m.

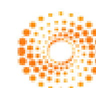
With a strong balance sheet and the inherently strong cash flow characteristics of our business, we continue to see the strategic priority order for using our cash as follows. First, organic development, to invest in the transformation of our business and to drive organic revenue growth; second, selective portfolio reshaping to support our organic growth strategies; third, to grow our dividends and to grow them predictably, broadly in line with EPS growth subject to currency considerations; fourth, to maintain our leverage in a range that's similar to where it has been over the past five years, a range that we're very comfortable with; and six, to use any remaining cash to buy back shares as a pragmatic approach to ensuring that the value compounding in our business translates into shareholder value. Nick will show you later what this means more specifically.

So as I mentioned earlier, we are now extending our efforts to modernize and simplify the Company to our corporate structure, our share listings and our corporate entity names. While corporate structure simplification is something we've looked at periodically in the past, this most recent effort was launched just over a year ago with the objectives to try to simplify the corporate structure, to increase share price transparency and to modernize our corporate entity names while remaining at least cost and profit neutral for the Company, without changing the economic interest of any shareholder and without affecting any customer-facing brands. And we believe that the changes that we're announcing today meet these objectives.

On the left of this chart, you can see our corporate structure as it was at the end of December last year and as you may be used to seeing it in our annual reports. In the middle, you can see the structure as it is today. As of yesterday, ownership of all Reed Elsevier businesses, subsidiaries and financing activities below the two listed parent companies has been transferred to one new single group entity for the first time. This newly formed single group entity is the result of the merger between Reed Elsevier Group PLC and Elsevier Reed Finance BV.

As you can see on the right, we proposed to further simplify the corporate structure on July 1, by eliminating the cross shareholding between the two parent companies and aligning their direct equity holdings in the new single group entity with their external shareholders' respective economic interest of 52.9% and 47.1%.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

We also propose to simplify our share listings and increase share price transparency, by moving the equalization ratio for all our share listings to 1 to 1 on July 1. Nick will describe our final structure and its implications in more detail later. He will also explain the specific steps that we will take between now and July.

Along with the simplification and modernization of our corporate structure and our share listings, we undertook a review of our corporate entity names. Following that review, we have decided to name the newly formed single group entity that holds all businesses, subsidiaries and financing activities RELX Group, or as we pronounce it RELX Group. We believe that this shorter and more modern name reflects the transformation of the company to a technology, content and analytics-driven business while maintaining the link with our proud heritage names.

We're proposing to align the parent company names with the name of the newly formed single group entity on July 1, to RELX PLC for the London-listed shareholding vehicle and RELX NV for the Amsterdam-listed shareholding vehicle.

It's important to emphasize that there will not be any brand or name changes for any customer-facing products or business units.

I will now hand over to Nick Luff, who joined us as our new CFO a few months ago and who has been a terrific addition to our team. He has already become a great contributor to the progress that we're making. He will talk you through our financial results as well as our structural changes in more detail, and I'll be back afterwards for a quick wrap-up and for our usual Q&A.

Nick Luff - *Reed Elsevier PLC - CFO*

Thank you, Erik. Morning, everyone. Let me start by repeating the financial highlights. Revenue momentum was sustained with underlying growth of 3%, excluding exhibition cycling. Coupled with tight cost control, that translates to 5% growth in underlying operating profit. Lower interest costs took the growth rate up to 7% at the profit before tax level. Constant currency growth in earnings per share is ahead of that at 10%, reflecting the impact of the share buyback program.

Cash conversion remains strong at 96% and return on invested capital improved further to 12.8%. Leverage remains within the range we have seen in recent years at 2.3x EBITDA including pensions and leases.

The equalized dividends are up 6% and 16%, an average of 11% growth, slightly ahead of constant-currency EPS growth. And on top of the dividend we also completed GBP600m of share buybacks last year.

Looking at the income statement, the 3% underlying revenue growth is then impacted by M&A and currency movements. Disposals, net of acquisitions and cycling, reduced revenues by 2%. The relative strength of the pound in 2014 reduced sterling reported revenues by 5%.

Adjusted operated profit reported in sterling was pretty much unchanged at GBP1.7b, with underlying growth of 5% offset by current movements. The margin increased to just over 30%.

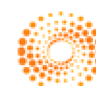
Refinancing of historic bond issues and favorable short-term rates continued to bring down our debt costs, reducing the interest charge by GBP30m. The tax rate on adjusted profit remained at 23.5% resulting in adjusted net profit of just over GBP1.2b.

The decline in reported profit is simply due to there being some one-off deterred tax credits in 2013 which weren't repeated in 2014.

This is the last time you'll have to worry about having two adjusted EPS figures; the simplification we are proposing will mean that there will only be one adjusted EPS in the future. I'll come and explain that later but here on the screen for the last time are the calculations to show how the profit figures translate into adjusted EPS for each of the two parent companies.

The relative strength of the pound during 2014 meant the sterling EPS at 56.3p was up 4% versus the 10% constant currency growth. The currency effects were less marked from a euro perspective with NV EPS up 8% to EUR1.07.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

As the Chairman mentioned earlier, because dividends are equalized at current FX rates they reflect the sharp fall in the euro in recent months, so we're proposing final dividends that will give 6% full-year growth for the sterling dividend, a little ahead of the EPS growth in sterling, and 16% full-year growth for the euro dividend, well ahead of the euro EPS growth. Dividend cover remains solid at 2 times on a combined basis.

Turning to the business areas, as Erik described, you can see how all four areas contributed to underlying revenue growth, with exhibition and risk and business information being particular strong. Disposals did reduce reported revenue for legal and for risk and business information, whereas exhibitions benefit from events cycling and from acquisitions. For all four areas, sterling-reported revenues were impacted by currency with all of them having significant revenues in dollars, euros or both.

You may have noticed that we're only quoting one figure for underlying revenue growth for exhibitions and for the total business. To make life easier we are now defining underlying growth to exclude the impacts of exhibition cycling. We will continue to tell you each year what the cycling effect is on exhibitions but the headline growth rates will always exclude it. If cycling had been included, underlying revenue growth in 2014 would have been 9% for exhibitions and 4% for the overall business.

At the operating profit level, sterling-reported results were similarly affected by currency, with 5% constant currency growth translating to a small decline when converted to sterling. The impact of acquisitions and disposals on operating profit growth netted out to nil.

Turning to cash flow, you can see that operating cash flow conversion was well over 90%. Legal CapEx remained at 10% of revenue as we continued to rollout the new Lexis platform. CapEx in STM was a little lower than normal due to the phasing of projects and we do expect it to pick back up in 2015. Cash interest payments were lower reflecting lower borrowing costs and the timing of interest payments while cash taxes were in line with the accounting charge giving us free cash flow of GBP1.15b, just ahead of 2013.

Here's how we used that free cash flow. As you can see, the major swing factor against the prior year was in M&A, fewer disposals in 2014 but a bigger year for acquisitions with deals having a total consideration of GBP385m. FircoSoft and Health Market Science, both in the risk and business information area were the two largest deals in the year.

Currency movements together with that M&A spend left net debt at just over GBP3.5b, up around GBP500m. Nevertheless, leverage remains comfortable at 1.7 times EBITDA or 2.3 times when you adjust for pensions and leases.

Erik talked about our strategic cash priorities and let me put some numbers to what he said. Our first priority is to invest to support organic growth. As I said earlier, CapEx was actually a little lower in 2014 but our average spend is around GBP300m per annum, about 5% of revenue.

Second, we look for value-enhancing acquisitions which support our organic growth strategy. Annual spend on M&A is averaging around GBP300m although it is opportunity-dependent of course and inevitably will vary from year to year.

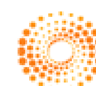
Next, we look to provide a reliable growing dividend, managing currency fluctuations as we do so. At current levels the dividend is using up around half of our free cash flow.

Leverage, measured on a conservative basis including pensions and leases, has varied between 2.1 and 2.5 times in recent years. Being in and around that range is consistent with our solid investment grade credit rating.

With that overall approach to utilization of cash and to leverage, we've been able to fund share buybacks of around GBP1.5b over the last three years, retiring about 8% of the combined total shares in issue. For 2015 we are planning to allocate a further GBP500m to buybacks with a GPB100m of that already having been deployed. The GBP500m is slightly below the GBP600m for 2014, reflecting the higher acquisition spend and lower disposal proceeds that we had last year. These numbers all exclude what we spend on purchases for the employee share schemes which averages around GBP35m per annum.

We now have close to $6b of gross debt. The maturity and currency profile of the debt is shown on the charts there. The effective interest rate on gross debt was 4.2% in 2014, down around half a percentage point against 2013. For this year, although the effective rate should come down a

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

little more, we do expect a higher total interest change, in part due to exchange movements and also due to the higher level of debt we start the year with.

As you know, the other side of the balance sheet consists mainly of goodwill and intangibles and we benefit from a negative working capital position. Overall, the balance sheet was very stable in 2014 but you can see in the middle there that the pension deficit did go up, now standing at GBP632m. The increase has added a tenth of a point to the adjusted leverage ratio, but the deficit remains entirely manageable within the context of the Group's overall finances.

I've talked about currency movements a fair bit as we've been going through this morning. Overall, we are mainly a US-dollar-earning business with substantial revenues also being generated in euros and other currencies. Today, the dollar is stronger than it was in 2014 against both the euro and the pound, with the euro having weakened significantly since the beginning of the year.

Although the impact is reduced by hedging, if FX rates were to stay at today's levels that will help euro-reported EPS this yea, by a high-single-digit percentage compared with constant currency EPS. From a sterling perspective, dollar strength would be offset by euro weakness at current rates, so sterling EPS would only be slightly ahead of constant currency EPS.

Finally from me, a bit more detail on the corporate structure simplification. As Erik showed you, this is what we're heading towards, a simple structure of a single company holding all the Group's activities, owned by the two parent companies in proportion to the percentage interest that their respective shareholders own in the combined businesses, 52.9% for the PLC shareholders, 47.1% for the NV shareholders. And with the shares in the two parents having 1 to 1 equivalence there will be one overall combined share count.

As promised earlier, this will then give us a single adjusted EPS figure. To get to that figure all you'll have to do is divide the adjusted earnings by the total number of shares in issue, aggregating the two shares in the two parent companies. Showing how that would have worked using the 2014 figures as a pro forma, just take the net profit of GBP1.2b, divide by 2.154b share in issue and you get 56.3p per share or EUR0.698 if you do it in euros. Notice there is no change in the EPS for the PLC, whilst the NV EPS adjusts for the bonus share issue.

I should point out that dividends will continue to be equalized at a gross level, including the tax credit in the UK in accordance with the governing agreement. So there will still be two different dividend-per-share figures even when expressed in the same currency.

Looking at the share prices, based on Tuesday's closes at of pro forma, you can see here how the NV price and the ADRs will be adjusted for the bonus share issue and the one-for-one alignment of the ADR multiples. Comparing the Amsterdam and London prices will simply be a matter of converting from euros to sterling, as circled at the right-hand end there. For the ADRs it will be even easier with the prices directly comparable in US dollars as circled on the bottom two rows.

In terms of timetable, we've already completed the internal steps required for the simplification. The new RELX Group has been formed and already owns all the Group's activities, both operating and finance.

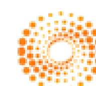
From here the next thing you'll see is the notices of the two shareholder meetings which will include details on the bonus share issue for the NV and the mechanics for eliminating the cross-shareholding, and notices are due to be published on March 10. The shareholders will then vote on the proposals at the AGMs in April and, assuming they give their approval, we will complete everything on July 1. So, from that day the shares will trade under their new names and the prices should adjust for the bonus share issue and for the change in ADR multiples.

With that I will hand you back to Erik.

Erik Engstrom - *Reed Elsevier PLC - CEO*

So just to summarize what we've covered this morning. In 2014 our positive financial performance continued throughout the year and we made further strategic and operational progress. We also extended our efforts to modernize and simplify the company to our corporate structure, our share listings and our corporate entity names.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Going forward, business trends in the early part of 2015 remain consistent with 2014 trends across our business and we are confident that by continuing to execute on our strategy we will deliver another year of underlying revenue, profit and earnings growth in 2015.

And with that I think we're ready to go to questions. Let's see, so why don't we start over here this time at the front.

QUESTIONS AND ANSWERS

Matthew Walker - *Nomura - Analyst*

Thank you. It's Matthew Walker from Nomura. A few questions please. The first one is the trends in the science subscriptions are a little bit better and the trends in the science books modestly better. Can you explain maybe why we didn't see a slightly better overall growth rate in STM?

In legal, can you tell us how much of legal is what you would call legal solutions? And why maybe that percentage is not slightly higher, why you're not investing more in what you call legal solutions rather than the online research piece, which seems to have only modest growth?

And lastly on working capital, can you explain the shift in working capital in this year, 2014, and say what you think working capital will be like in 2015, i.e. positive or negative?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, I'm going to end up giving the third question to Nick over there on working capital, but let me answer the first two before that. Yes, if you look at our different divisions, given that we do only give growth rates in full percent because we think that the broad issue is to look at our business with overall growth trends over time. You can look at some of them and say, how come certain things are happening but I don't see it coming through in the overall growth rate.

The way we look at STM, of course, is that there are few big portions of that pie and then there are several small slivers, and the big portions of our STM business primarily would be the primary research. The primary research subscription business is about half, or a little bit over half of that business. And the fundamental trends in that business I think are very important for what happened in the year as well as indicated in the future.

And if you look there at the fact that we saw incoming volumes growing up at double digits, we saw usage up at double digits and we saw the underlying subscription base, that's the revenue of subscription base growing and growing at half a point higher rate than it did the year before, that we think is a very meaningful indicator.

As you also pointed out, we have print books and print books are just below 15% of all of STM, and print book declines have continued for the last few years but gradually have started to moderate. And in the year you saw a moderation in the print book declines during the full year. That moderation in decline was significantly better in the first half than it was in the second but it was still an improvement in the decline, a moderation of the decline for the full year, which we also consider a very positive trend. So those are the ones you're referring to, you saw that in the half year we grew 3% -- or at the nine months and at the full year back to 2%.

So why is it not then rounding up so to speak this time? Well, there are also lots of other smaller slivers in the business that might continue to do well and some of them do a little better than the year before, some are a little worse, some have one-off sales, transactional sales, (inaudible)_one-off sales, and sometimes they're rounded up or down in a specific year.

Personally I don't focus too much on all the little things. What I focus on are the big blocks in that business and their underlying volume trends and underlying subscription revenue base and I think those are the indicators that I think are the important ones for STM.

Second, on the legal side, well, we don't actually use the words that you described about legal solutions versus online and other platforms and so on. We think of this as we are offering legal solutions to our customers and they include reference tools and we look at them as a long-term transition

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

and a long-term transformation. Many of our businesses have moved from research and reference tools, look up tools, that were separate and standalone, to then what I think of as integrated into the workflow research reference look up tools.

And then where we're heading now is to add to all our tools basically broader data sets, more sophisticated analytics and leveraging our new technology platforms and as we're doing that they're all becoming more sophisticated, more embedded, decision-making tools that are used for analytical solutions, if you want to call them that.

We don't put them into buckets and say one is growing and one is not. What we're investing in is the transformation from one to the other and you can see that happening across Reed Elsevier, you see the most dramatic and rapid transition has happened inside what we used to call RBI, which used to be all standalone print reference or print look up and advertising and we transitioned it to electronic reference and now it's really becoming more data analytics embedded decision-making tools. It's very parallel in legal but it's a broader research base that's already online and the transition happens more gradually, but that's the way we think of it.

I'll leave it to Nick for working capital.

Nick Luff - *Reed Elsevier PLC - CFO*

So you saw in the cash flow the GBP44m outflow for working capital and other items. In the context of our overall working capital position, GBP2.6b of receivables -- sorry GBP1.5b of receivables and GBP2.6b of payables, as a healthy net negative position GBP44m is, I would regard, I would take that as neutral.

There are no particular trends in working capital, I think we expect to maintain that strong negative position. It will no doubt move around depending on the exact timing of inflows, particularly at the yearend, but no particular trends.

Vighnesh Padiachy - *Goldman Sachs - Analyst*

Thank you, it's Paddy from Goldman Sachs. I've got a couple of questions. Firstly, on the corporate structure, if I remember rightly, one of the original reasons for the shareholding of the PLC and NV was a tax structure. How are you keeping the tax neutral when you're simplifying the structure? And can you give us guidance on the tax rate for next year is my first question.

The second question is on events. Can you elaborate on your comments on China on different growth rates and talk a little bit about the competitive landscape of events in China please.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay, I'm going to address the second one first, your competitive landscape, and then I'll do an introduction on the corporate structure and handover the specific tax thing to Nick at the end.

On events, you talked just specifically about China. What we're seeing in China is really a reflection of what's going on in the general economy in China which is that, as you say, see Xi Jinping taking over and establishing his new policies and putting them into place, that's having a different result in some sectors and segments and locations from others. And because we operate in several different industry segments we see that some of those are then being supported by some of the policies in the near term and some of them are seeing that certain policies that relate to certain industries are seeing a slowdown in the growth rate.

That's what we are seeing in general in China, which means that overall there has been a slight reduction but it differs by segment. That would be a different from what we see going on in Europe broadly, for example, where we have a large enough portfolio, we tend to move a bit with the overall economy or some other countries. But in China it's sort of sector specific, it's still growing well but you can see the different growth rates coming through.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And when you talk about specifically the competitive situation, we don't really think of ourselves as competing by countries, we see ourselves as competing by industry segments, by locations and show-by-show basis and we have not specifically seen any, what I consider, changes to the competitive dynamics in China that are material to us. I know that there are other players that sometimes talk about a big shift in their existing sub-segments but we don't see any of those.

When it comes to the corporate structure, just as introduction before I hand it over to Nick, that the corporate structure, as you said, that has been in place for many years served us very well for a very long period of time. And when we looked at this structure, periodically at least that I'm aware of over the last decade, there were sometimes different reasons that you couldn't actually simplify it without some kind of cost to the company, net cost to the parents of the company.

But what has happened over the last several years is there has been several changes to how we operate the company, our geographic footprint, our cash flow footprint, our financing footprint that have evolved over time. And also there have been several different regulatory changes between countries, how they deal with international treaties or exclusions and double-accounting and also some issues around relative tax rates on different types of incomes and deductions and they've gradually evolved.

So it's not any one of those that has really created this; it's basically we have now ended up in a place where right now, the way we look at the company today and going forward, we could actually do what I think is a relatively straightforward simplification end up with a pretty clean structure in the end without having any net impact on our corporate profitability before or after tax. So we can really do this in a profit-neutral fashion and therefore we think it was something we wanted to move forward with.

But I'll hand over to Nick specifically on the tax issue and the tax rate.

Nick Luff - *Reed Elsevier PLC - CFO*

Yes, so the jurisdictions that matter to us in this context are primarily to the UK, the Netherlands and the US and, as Erik said, the regulations in those countries are always evolving, the UK CFC rules are evolving, the Dutch participation exemption is changing. So in that context, with those changes we have been able to find a route through which we can do this restructuring that doesn't have a significant impact on the overall tax position of the Group.

So, with underlying trends being broadly the same as well, the 23.5% that we've been consistently at is a good number for now, clearly that could change but the restructuring itself shouldn't have any impact on that.

Jonathan Helliwell - *Panmure Gordon - Analyst*

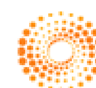
Thanks, it's Jonathan Helliwell at Panmure. Just a couple of things. First, could you just explain why the events cycling increases to 3% to 4% factor next year?

Second, just to come back on this legal growth rate stubbornly stuck at about 1%, I don't know if you saw but there was an FT article this morning saying that turnover in law firms in the UK was 8% growth in 2013, 6% expected for 2014, it was saying the market was picking up a bit. So why do you think there's this big disconnect between your 1% and that sort of a number? Is it because the US market is different? Is it a market share issue? Is it to do with the structural growth for research type products?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes, okay. Let me see here. So events, events cycling is an interesting mechanical thing, that we have our ongoing like-for-like shows that have the like-for-like organic growth, that's the 7% that you saw this year. What you have is the shows cycling in in one year, so the net cycling is a portfolio of shows, it's a mixture of shows that cycle in and out in the even years and they are in different geographies and in different segments growing at different rates.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Client Id: 77

Then in the odd years you have a completely different set of shows cycling in and a different mix, and a different set of shows cycling out. So it's not just that one show comes in and out, it's lots of different shows in different categories that cycle in and out. And some of those grow more or less over the two-year period so therefore the cycling in and cycling out is not necessarily just and in and out.

If we only had one cycling show, it would be the same, so to speak, but because there are portfolio shows and in different currencies and in different markets they are slightly different. And also, not to make this too complicated, there also are some triennial shows in there.

So that's why we have moved to a point of saying that we will show you the exact overall revenues and profits for exhibitions, we will tell you exactly what is like-for-like underlying growth excluding portfolio changes, excluding cycling, so you get a sense of the real comparable growth rate.

We will then tell you separately the effects of portfolio changes, the effects of cycling, so in any one given year we'll tell you in advance what we expect it to be, we'll tell you looking back what it was so you can do that. But I think it's simpler for all of us if we keep the underlying growth definition to the new definition which is one, simple, straightforward number.

Now legal. Yes, essentially I did not see the specific one you're looking at now but I think it's important to look at, the main market for us, of course, is the US which is about two-thirds of our business. The UK, yes we are in the UK and we're a big player in the UK but it's a small piece of our overall business.

In the US there is an enormous amount of data on the industry, none of which we generate, it's lots of different third party firms monitor the quarterly tracking of law firms, legal employment, legal revenues and so on. And if you look at those for the last four quarters or you look at it even over the last eight quarters, basically what it shows is that the US legal markets are stable but that they're just above flat on average quarter on quarter after each other. And if you look at total legal employment in the US at the end of 2014 it was almost identical to at the end of 2013.

So that's why our numbers look the way they do, that's our main market and those are the main growth rates and there are lots of independent analysts that cover it that way have the data sets.

Now, clearly what you would expect to happen over time is that as the general economic environment picks up more and more, that that will actually then work its way into the service providers that service those large corporations and that will ultimately then lift the law firms which would lift our revenues from law firms. And we're convinced that over time that will happen, we believe that there will be more lawyers in the US 25 years from now than there are today, the question is just exactly when the rate will start picking up and at what rate.

The way we think of it is that today, you ask me is it market share or anything like that, everything we can see from other large players that report their results if we compare country by country and growth rate by growth rate, some of which have come out in the last few weeks, we don't see any difference in what the market descriptions, market dynamics and market growth rates are, that we see versus others.

Right, so I think that was it, yes, thank you.

Let's come over this way and start in the front here please.

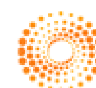
Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Thank you, Erik. Good morning. Andrea Beneventi from Kepler Cheuvreux. Three questions if I may. The first on STM, American federal budgets, well, the shortfall is narrowing and generally public budgets appear to be in better shape. You mentioned an unchanged customer environment in STM, so could you please develop a little bit on this gap.

Secondly, maybe on the sources of increase in profitability in legal for 2015 since revenue growth is still subdued.

And finally, on that side, you have $1.8b of debt maturing by 2017, how much room for savings on interest costs do you see from this please?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Erik Engstrom - *Reed Elsevier PLC - CEO*

Okay, so I think I'll give the last question there to Nick in the end. Let me start here, I'm not sure I fully understand your second question but let me start with the first. The STM, you're saying that some of the budget environments for research seem like they might be improving right? Yes.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Well, generally the federal funding shortfall is narrowing and the budgets --

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes, the way we look at it is that the general environment that we look at globally we think is fairly similar to what it was a year ago, and if you look at the work we've done so far in renewals and so on it's continuing along the trends we saw last year, which is broadly similar and, again, we think that the indicators, the key indicators in the business are in positive, heading in a positive sense.

But, you also have to remember that the bulk of that business is driven by multiyear contracts that are negotiated ahead of time and then come through slowly and the come across the world, North America is basically a third of the business, Europe a third, the rest of the world a third, broadly speaking. And therefore, you have the geographic spread as well as you have the sequencing, the timeline of multiyear contracts coming through, which means that any one change in any one geography will come through our revenue picture very slowly and gradually over time. And usually you see that when things slow down and you see that when things pick up.

But having said that, as you could see, we did see some strengthening of the underlying fundamentals of that business over the last 12 months and, I don't know exactly what those indicators will look like going forward but that's what we have seen up until today, so it wouldn't be inconsistent with your views.

So let me just sure though on the second question on legal that I, can you just rephrase your question please, repeat your question?

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Yes, if you could help us with some details on the sources of the further cost savings you see in 2015. You give us a detailed breakdown of the sources of cost savings in 2014 in legal.

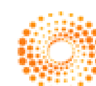
Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes, the way we think of legal, if you combine it to the question before about revenue growth, that we believe that this industry in the long run will pick up its revenue growth trajectory, we believe it will in the long term.

In the short term we are not focused on predicting that, we are focused on running our business as well as we can in the environment that we're in today and that means rolling out new platform releases, rolling out new products, improving the decision-making tool capability on the platform, and streamlining, combining and reducing the cost of our business operations, our back office systems and our structures.

As you know, we have over the last few years built up a whole new infrastructure in parallel with the old one and we're gradually in the process of turning off some of the old systems now and we've turned off probably a couple of dozen small systems now. We will continue to turn more systems off so as we do that costs come out, as well we're also in the process of dismantling some of the double organizational setups that we had for a period of time, so we will continue to do that over the next few years and it will take us a few more years to do that.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

And some of those steps will be taken in a smooth fashion and some will come in small steps and that's why it's not necessarily a straight line and it gets a little lumpier and that's why you could see the margin improvement this year was higher than we've seen in the last few years. The organic margin improvement we've seen is probably more like 50 or 70 basis points a year the last few years and this year we were well above that. That's why I'm saying you're likely to see a slightly smaller organic margin improvement in the upcoming year.

There are also some portfolio changes and joint venture spinoffs that create the absolute margin increase that you saw, that we separate out in our press release.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Thank you very much. Maybe my third question --

Erik Engstrom - *Reed Elsevier PLC - CEO*

Now, yes, I'm just going to hand over to Nick for your third question.

Nick Luff - *Reed Elsevier PLC - CFO*

So you're absolutely right, there is scope for the effective interest rate to come down. As I said in the presentation, though, it won't come down as much in 2015 where we don't have many maturities actually. But if you look over the next three or four years we have got further maturities which in the current, if interest rates stay where they are, you'll have the opportunity to get some savings.

Having said that of course, make your assumption on floating rates, about half the portfolio is at floating interest rates and if you believe forward curves, the floating rates are going to go up a bit, which you would expect to offset that at least to some extent.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you. Good morning, gentlemen. It's Sami at Exane BNP Paribas. Two questions please. For the last five years you've been working on improving the portfolio, reshaping it. You've been working on organic development, improving the organic trend and yet organic growth has remained at 3% for the last four years and is loosely guided to be 3% in 2015. My question is when are we going to see the improvement in topline growth? Or put it another way, what parts of the business have been slowing down offsetting the work you've been doing on reshaping and investing in organic performance?

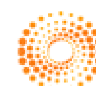
And secondly, historically you were talking about cost growth to be in line with revenue growth -- to be below revenue growth. Last year we heard you say cost growth to be in line with revenue growth for Elsevier and Risk. Is that still your view going forward i.e. that costs and revenue should grow equally at both Elsevier and Risk. Thank you, Erik.

Erik Engstrom - *Reed Elsevier PLC - CEO*

When you look at the portfolio reshaping and the organic transformation of our business, what we're doing to this business, as you might have seen, the profile from print to electronic, the profile from reference to decision tools and so on, is clearly creating over time a business profile that inherently will have more predictable revenues and a higher growth profile, as well as increasing returns on invested capital.

And that will happen naturally if we continue to pursue this over a few years, this will naturally happen and our overall organic revenue growth rate will improve over time, that's almost inevitable with the kind of structural changes we're making and the way we're driving the business and the print format declines reduce.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

So when exactly that will happen will depend to some extent on what we're doing to the company strategically and how we're reshaping it, but in any one specific year the actual revenue growth will depend on the markets that we operate in in our geographic footprint in that year

And on a short-term basis what's different this year from last year? Yes, our portfolio and our profile is a little different, but the environment can change more in any one year or can influence us more. Therefore we are focused on continuing that transformation and we will see increased growth rates over time. When exactly that will come? That depends more on our markets and the macroeconomic environment than what we do.

If you said, you say that some of these areas are improving and you can see the profile improving but you still say we're stuck at 3%, what's declining? Well, actually there aren't that many areas, as a matter of fact there aren't any big areas, and you can see that by our divisional numbers, where the growth rate has slowed. If you look at our multiyear charts by the four major areas you don't see any area where the growth rate has actually slowed. If you look at it there's a slight improvement in the risk and business information side but over three years the others are the same growth rate three years in a row.

So you could argue that 3% is around the number and there are good 3s and there are bad 3s and you see that this year we actually grew by 4% including cycling, you can figure out what the cycling effects were so you can figure out which side of 3% we are. It's not something we're going to disclose or are going to talk about because I don't think the issue for the company is the exact decimal point in any one single year

The investment case for the company is the long-term change and evolution of the business profile and therefore the long-term improvement in the quality of the earnings that includes a higher growth profile inherently in the business.

Second, the cost growth. Yes, we have historically said, and I continue to say, that we believe we should operate all our businesses at all times with a fundamental principle of saying, we're here to drive revenue growth as much as we can through increased value to the customers and increased volume growth. While we do that we are also here to have a large part of the company focused on improving our own processes, our own information tools, to make sure that we are more efficient every year so that we can keep our internal cost growth below our revenue growth. That's a principle that we operate all the time, this relentless pursuit of efficiencies all the time in all businesses.

Now, of course, that won't mean that it's the case in all businesses every year, but it should be the case in most businesses most years. and what I have said is that as we see the really high growth businesses having real future value creation potential, if you look at risk and business information for example, that's growing mid-to-high-single-digits, and already has margins in the high 30s in combination, the real value creation there in the future is to keep supporting that organic revenue growth for many years to come, a decade or more.

And in order to do that we have said that we are willing to let the cost growth in the business go up to or close to the organic revenue growth in the business and you can see that coming through this year in risk and business information, the margins are up a bit due to portfolio changes and other things and the cost growth is very close to the revenue growth, but not quite. You can see the same thing as you come in STM, the cost growth was very close to but not quite the underlying revenue growth.

So that's the way we think of it and, of course, in any one year it can be slightly different for one area, but the philosophy stays the same. Thank you.

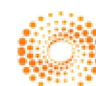
Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you.

Nick Dempsey - *Barclays Capital - Analyst*

Yes, it's Nick Dempsey from Barclays. I've got two more questions please. Maybe just to follow-up on Sami's question, you've talked in the last few years quite a lot about 3%, 5%, 7% as organic revenue growth, operating profit and pre-tax. You achieved that last year on the back of quite a big

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

jump in legal margins which it's probably unrealistic to ever think that will recur again. So should we not be thinking more like 3%, 4%, 6% when we're going forwards rather than 3%, 5%, 7%?

And my next question, just to follow up on Jonathan's question on legal. I understand that you're saying what you're saying about the underlying markets, don't you also see a change in how law firms look at their cost base, that they're becoming much more aggressive on their costs, and therefore the old link between the underlying market and your revenues might be breaking down?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, if you look at, your first question here, the 3%, 5%, 7% which is sort of the in cycling out years that's been our model, and then in cycling in years if you really looked at is slightly higher than that, if you see the profit and earnings growth has been slightly higher, in fact the cycle in at sort of 4%, 6%, 8% or something, this year 10%.

And the reason for that is that, the reason it looks a little funny this year is actually that some of the accounting that we do in legal for the spinoffs and so on, when we spin something out the revenues disappear but some of the profits stay in, so there's a bit of joint venture and disposal accounting, we have to follow the rules.

So if you really looked at it more like-for-like it is probably, this year probably looked more like 4%, 6%, 8% and then an extra couple of percent for interest to get to 10%. So I think that in the cycling out years it might have been 3%, 5%, 7%, in the cycling in years more like 4%, 6%, 8%, if you truly tried to normalize for accounting and you add a couple of percent for interest, that's really what you've seen.

So the idea that when you say shouldn't it be more like 3%, 4%, I think, is it possible any one year at some point could look slightly different from these models? Absolutely it can, you can't be absolutely focused on exactly a certain set of numbers in any one year, as you can see this year it was 10% for different reasons. So, it can be better and it can marginally worse.

But I think the fundamental principle that until we start growing faster, so our cycling outflow has been 3%, 5%, 7%, I don't see any reason to misinterpret that or to start to adjust it, I should say, to something else, as a starting point without telling you that that's what it's going to be in any one single year. So there's no principle or no change to the model that we talk about.

The second question is there is a legal evolution, there's an evolution of every industry that we serve all the time, all our industry segments at all times think differently about information use and decision-making tools. That's why we talk about, what I started with here, the whole thing about, it's not about being in one segment or the other, it's about consistently continuing to transform and evolve the company to make sure that we continue down the journey from a separate lookup reference tool to an embedded research reference tool, to a decision-making tool that actually helps you improve the economics of the law firm and the decision.

So if you keep creating tools that add more value you are actually going to be perceived as giving more value and ultimately then sell more and drive revenue growth. It's not just in legal or for law firms, it's for all our different customer sets across all segments and that's the philosophy that we try to operate and that's the continuing transformation of the Company towards embedded, sophisticated, electronic decision-making tools.

Alex DeGroote - *Peel Hunt - Analyst*

Thank you. Good morning. It's Alex DeGroote at Peel Hunt. Just on Slide 31, uses of cash priorities. I just wondered if we could have a few comments on why the buyback is still such a big priority. Or maybe the quantification of why the slight trim to the buyback to GBP500m from GBP600m, the point being that rating is now 20 times. We're hearing again and again here through the Q&A that the market is getting slightly concerned over topline growth, so why the buyback is such a priority for the company now given what we've seen in the share price and with such modest topline growth?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, the way I look at it is, you can look at it strategically and you can look at the specific number and how we chose the number relative to last year's cash flows and so on. I'll leave the second piece to Nick to talk through the numbers.

But philosophically, we think of the priority order for cash the way I put it on my slide there, which says the strategic priority is first to drive the organic transformation of the company; second, then to do the small plug-in add-ons that we can really see we are the natural owner and we can do good returns to support the organic growth strategy.

Then we say we do want to make sure that we have a predictable growing dividend and that's relatively straightforward for us to do, and we think that roughly this leverage range is good.

And then we have to be pragmatic about how it is that we turn the value that is compounding in the business inevitably every year, even if the growth rate has been stable for a few years, and it will pick up later in the future. We say while that is happening, regardless of the exact growth rate, we are compounding value in the company at a certain growth rate every year, how do we make sure that that goes to shareholders in a pragmatic way given your structure, and that's what comes out.

And the philosophy and the strategy around it is exactly the same as a year ago, is exactly the same as two years ago. The exact numbers have changed marginally, temporarily right now and they might change again slightly, but the exact number is not the issue, the philosophy is the one I think about.

Nick can explain how it is we arrived at this specific number this year.

Nick Luff - *Reed Elsevier PLC - CFO*

So if you look at what happened in 2014 obviously our M&A spend went up compared to 2013, our disposal proceeds came down. We don't know in advance, of course, what the M&A spend is going to be for a year, so you do get a lag effect. So if you take the buybacks as a pragmatic way of balancing the overall financial management of the balance sheet it has to reflect the previous year's M&A activity and not necessarily what you're expecting this year.

And if you just look at the cash flows for 2014, you saw net borrowings are up GBP500m, some of that's currency but even if you strip the currency out that's a GBP400m increase in net borrowing, so we're just reflecting the fact that with a heavier year for M&A in terms of spend but less for disposals in 2014, just adjusting that to make the overall model work and it's using the buyback as a pragmatic way of managing that overall balance sheet position.

Ian Whittaker - *Liberum Capital - Analyst*

Thanks. It's Ian Whittaker from Liberum. Three questions. First of all, if I could just follow-up from a question of Matthew's, so just on Elsevier. Obviously 2% can range anywhere from 1.5% to 2.4% so can you give us a little bit more detail as to what exactly the figure was and also as well for the nine months?

The second thing is a follow-up really from Nick's, is in terms of when you expect your legal topline growth to come back. Will it be more linked in with the growth of legal revenues or legal employment numbers? Because there is a sort of argument that seems to be brewing in the States that essentially law firms are looking to automate a lot more of their tasks, therefore requiring fewer lawyers.

And the third thing is just in terms of your organic revenue growth moving forward, so it's a bit of longer term question and so on. But when you look on a five-year view do you see any major new areas of investment that you will have to go into given the developments within your businesses?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Erik Engstrom - *Reed Elsevier PLC - CEO*

Now, let me do this. You say, on Elsevier, there is a reason that we only express growth rates in all our divisions in full percentages right, because we believe that the fundamental long-term trends in these businesses is what's important and what we're doing overall. The investment case, the kind of company we are, is not related to a decimal point in subdivision in any one year. So therefore we haven't tried to go into sub-decimal points and things like that in different divisions and I'm not going to start now.

We did cover that there are lots of different small pieces in Elsevier, as in all different divisions there are different small things, but we do try to communicate and express the large fundamental blocks and their drivers and their growth rate trends every year. I think we're going to stick with that philosophy.

The second thing you said, legal topline revenue growth for people serving the market. Again, we do not want to engage in market forecasting, we engage in servicing the market and we're going to do that regardless of whether the market grows very little or accelerates. We know what we're going to do in the near term, we're going to focus on improving migrating to more sophisticated decision tools, adding more value to the clients and then over time we will benefit from the market as well in our core.

You asked the question is the fundamental long term topline growth driven more by legal market revenue or legal market employment? I would say in the near term it's probably driven by both, in the long term I would add a third and that is how much it is that we migrate our sophisticated tools so that they add more value so that perhaps that can enable them to do more in a more economically viable way to them.

So the fact that in total information tools represent 1% or 2% of most of our customers' total cost structure, in legal, like all the other businesses, if we can make those 1% or 2% more effective, have more leverage, they can have a more positive impact on the economics of the other 99% and that is fundamentally the business we want to be in, not just in legal but across Reed Elsevier, that we are in the business of selling information tools that improve the economics of the other 99% and therefore increase the value to them and increase the value to us.

And that I think moves on to your last question, your third question, which is do you see any new areas? Well, we see the new so to speak as the migration of our current business in that direction. That is what we've been doing for the last few years; therefore, you could argue it's not new. But in any one customer when you're doing that in an improved fashion or you're moving into one new adjacency and you're starting to leverage what we have, the competences we have, the analytical tools we've built and the technology platforms into those areas, you can see the revenue growth pick up.

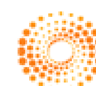
Now just to mention a few specific things, I've heard several times from you asking on the risk business, when will the risk business have an international revenue stream that is material and that will impact your overall revenue and your overall growth rate? And I said, in the near term you're not going to see it because it's too small and it's not growing to an extent that you can see that.

Well, just as an order of magnitude, we're now roughly, in the old original US risk business, you still can't see anything but from two or three year ago it was probably a couple of million, now we have an annual run rate of about $50m. We're growing well into double digits and that's the kind of run rate we have in international risk from the old US risk businesses.

If you take an example, we talk about adjacencies all the time and in the US we moved the risk business slightly into some of these other types of insurance and other segments and we talked about government services and government support and so on. Right now in the US, in our health adjacency, the health decision support helps fraud, waste and abuse business right now, again two or three years ago we had a couple of million in that basis, right now our annualized run rate is about $100m and is growing well into double digits.

So these kinds of adjacencies they are not big and new and separate areas, they are driven by organic transformation of the core, leveraging our platforms, leveraging what we have today and then just plugging in some additional data sets or some additional tools to help that customer set. And that's what we see as a massive value creation opportunity for our company and that's what we're going to continue to do over the next few years. Thanks.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Giasone Salati - *Redburn Partners - Analyst*

Good morning. It's Giasone Salati from Redburn. Two questions please. One is on CapEx, I think you mentioned a small increase in STM CapEx in 2015, could you give us a broader comment on CapEx overall, still 5% of revenues going forward.

And attached to that, is there any depreciation impact on a legal margin improvement?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Sorry, say --

Giasone Salati - *Redburn Partners - Analyst*

Is there any impact from depreciation falling off from assets which, as you said, have been written off as a result of restructuring.

Second question, or third really. Am I reading your comments on geographies and impact on organic revenue growth right if I conclude that we are looking at an acceleration to 4% organic revenue growth in the event that there is a European recovery?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, let me answer, yes, I'll answer all the three of these, I might hand over to Nick and cover a little bit on the CapEx, so I'll start from the bottom up here.

The European economic recovery and predicting future growth rates, we are not trying to be a leading indicating or a predictor of macroeconomic activity or the impacts of different political or economic moves on any one of our customer segments. We are a very predictable business, we are not particularly cyclical, we will vary a bit within the near term but for us to try and predict it I think would not be a good use of our time. So we spend our time trying to understand how it is that we can add value to our customers in the near term and do everything we can to create value for them so that we can create revenue growth for us.

And if at any given point in time we see a pickup in one area, we don't know what's happening to the others. So we're not giving you any guidance or prediction on revenue growth for the future.

Giasone Salati - *Redburn Partners - Analyst*

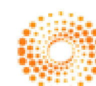
Sorry, just as a follow-up straight on this one, if there is a European recovery, do you agree that the organic revenue growth could increase from 3% to 4% regardless of your conviction on that?

Erik Engstrom - *Reed Elsevier PLC - CEO*

Well, I think that depends on lots of other things that happen at the time in our different segments in our other geographies, Europe is only 20% of our revenues. So if you look at it that way it depends more on the other 80% than it depends on the 20%, if you count Continental Europe is 21% as you can see on our charts.

So you talked about legal depreciation, of course, yes, it is going up, every single year it's a bit up and down and so on, but it is inevitably going up over a period of time as we introduce and bring online the new platforms and the new releases. So as we've spent more on capital the last few years that means that on an ongoing basis depreciation is moving up.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Now in any one year there are step functions and some old systems taken off at the same time and things are put up, so in any one year you might see a slight jumpiness or bumpiness in this one. But over time depreciation is coming up but were confident that even with a relatively flat market environment we can continue to drive our cost structure such that margins will be at least even every single year that we can squeeze out a little bit of a margin improvement effectively every year, including that effect.

Then you said on CapEx, on STM, I'll let Nick talk about it more broadly, but just in STM CapEx actually fluctuates a little bit year on year in STM historically, it goes up and down a little bit, it has done that for well over a decade depending on which projects we're working on or not working.

This past year, 2014, the CapEx in STM was a little lower than the year before so it's probably that 2014 was a little bit unusually low in STM and we're coming back up to normal going forward in STM, is probably what the guidance is supposed to say, rather than any type of future step up or increase, it's more a normalization again for averages.

Let me hand over to Nick.

Nick Luff - *Reed Elsevier PLC - CFO*

So if you look in the back of the pack, slides 47 and 48 give you a bit more detail on the CapEx and the depreciation. As Erik said on CapEx, it's more that STM was a little low in 2014 at 3% of revenue having been 4% and we'd expect that to pick up again.

And on the depreciation, whilst the legal depreciation came down in pounds million, that was largely currency so as a percentage of revenue it stayed the same, 7%, so it didn't particularly impact the margins in 2014.

Giasone Salati - *Redburn Partners - Analyst*

Thank you.

Thomas Singlehurst - *Citigroup - Analyst*

Morning, it's Tom here from Citigroup. Just one question, actually maybe two, on science. The main question is about consolidation, the merger between, or proposed merger between Springer and Macmillan. Does that make a big difference to you, either at a broad competitive level or within any of the particular verticals that you're particularly exposed to?

And then the second question, forgive me if you've already commented on this in the past, but is there an outstanding exposure to Swets and the sort administration process there? And I'm just wondering whether there's any link with the working capital move related that.

Erik Engstrom - *Reed Elsevier PLC - CEO*

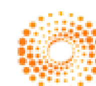
No, the way we look at the merger that you're talking about, we don't look at that as having any impact on us at all, it's a broad-based player combining with a high quality niche player and we believe that it's probably a logical move for them but we don't see it as having any impact on us, the way we compete in that marketplace.

The second questions, Swets, it's negligible, there is no material impact that you can notice anywhere or we can notice. It exists but it's very small.

Nick Luff - *Reed Elsevier PLC - CFO*

And the customers who were dealing with us through Swets we've successfully talked to them about dealing with us direct so it's not been a problem.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Unidentified Audience Member

Sorry, just a follow-up question, I'm probably just being stupid here, but just coming back to something you said, if 50% of your revenue is in North America, 20% are in Europe ex the UK, how is it that essentially the currency impact for the PLC is very marginal for 2015? Has it got to do with the extra interest costs?

Nick Luff - *Reed Elsevier PLC - CFO*

It's actually the hedging slows it all down. So you're right, fundamentally a strong dollar relative to the euro and the pound will be good for the reported results back in sterling and euros. But because we hedge those revenues, particularly in STM to some extent back into euros and sterling, the euro weakness, if you look at it from a pound point of view, and you saw from the charts and the euro's 10% down, so whatever is hedged into euros is working against us, whatever's working in dollars is going for us but at the moment they're broadly netting out.

There is fundamentally though some help there that will come through as the hedging unwinds.

Unidentified Audience Member

Okay, so more probably of a 2016 effect.

Nick Luff - *Reed Elsevier PLC - CFO*

Well we hedge over a three-year period so it will come through over time.

Erik Engstrom - *Reed Elsevier PLC - CEO*

I think it's important here to look and say, all the effects you're looking at will come through it's just in certain cases it's slightly delayed as we do phased out hedging, we don't take a market position it's just a slightly sort of rolling in slowly.

Let's go over here.

Steve Liechti - *Investec - Analyst*

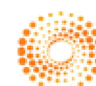
Hi, it's Steve Liechti from Investec. Just, you've talked exhaustively about probably all of the divisions really except risk and business and you've merged the two businesses in that vertical and I'm feeling slightly bereft of detail here. Could you maybe help me and give me a split between the old RBI and risk? Or even go down these different buckets, the four buckets that you've identified and give me some sort of scoping in terms of the relative growth rate against the actual one big number that you've given in terms of like-for-like growth. Just help me out a bit.

Erik Engstrom - *Reed Elsevier PLC - CEO*

Yes, it's actually very straightforward, our intent is not to reduce the amount of disclosure and if we look at, as you can see overall risk and business information is a major part of the business and it continues to drive a large part of the value creation and a large part of the adjacency opportunities we talk about.

The overall organic revenue growth was 6% for the full year, same as we had earlier in the year. If you look at it by the two old risk solutions versus business information, for the full year risk solutions was at 7% and business information at 5% ending up at 6% combined.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

If you look at it the way we look at it more nowadays it's more by the different segments, you'd say that our main, sort of high quality data services inside RBI are looking a lot more like the risk business and the growth rates are also more in the high-single-digits. So if you look at what is inside that, well, you say risk is growing 7% and you see that there are a couple of slower segments in there, smaller ones related to some government and [cred] things that are slightly smaller, but most of them are growing at about that level.

So if you think about the risk business, as most segments in risk growing about 7%, sometimes a little more, sometimes maybe a little behind in some sub-segments. Then you think of the data services business, the major data services in RBI, very similar to that, similar growth rate profiles on average. Then you still have a bit in RBI, the old RBI, where you have some of these major brands that operate, they're partly print and partly electronic and partly data services, they're growing little bit less, they're growing the low-to-mid-single-digits. And then we have a little bit of a left over on stable print assets at the bottom so-to-speak.

And that's really the way to think about it, is by asset type more than it is by what it used to be. But those are the growth numbers for how it used to be 7% and 5% made out to 6% and in the 5% there are lots of 7%, 8%, 9%, but there's also a bit of low-single-digits in there that's still in the portfolio.

Good okay. Well, thank you for joining us today and I'll look forward to seeing you again soon.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.