

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-13456

Reuters Group PLC

(Exact name of Registrant as specified in its charter)

England

(Jurisdiction of incorporation or organization)

85 Fleet Street, London EC4P 4AJ, England

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: NONE.

Securities registered or to be registered pursuant to Section 12(g) of the Act: ORDINARY SHARES OF 25P EACH.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 25p each..... 1,421,600,759  
Founders Share of (pound)1..... 1

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow

Item 17  Item 18

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\* The registrant has responded to Item 18 in lieu of responding to this Item.

The Consolidated Financial Statements of Reuters Group PLC ("Reuters" or "Reuters Group") incorporated herein by reference from Reuters 1998 Annual Report to Shareholders (the "1998 Annual Report to Shareholders") are presented in pounds sterling ("pound"). On December 31, 1998, the noon buying rate in New York City for cable transfers in foreign currencies as announced for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") was \$1.66 per (pound) 1; on February 12, 1999 the Noon Buying Rate was \$1.63 per (pound) 1. For additional information on exchange rates between the pound sterling and the US dollar, see "Exchange Rates" in Item 8 of this Report.

Reuters Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"). UK GAAP differ in certain respects from accounting principles generally accepted in the United States ("US GAAP"). The principal differences between UK GAAP and US GAAP relevant to Reuters are explained in "Summary of Differences Between UK and US Generally Accepted Accounting Principles" included in the Consolidated Financial Statements referred to above.

On February 18, 1998 Reuters Holdings PLC ("Reuters Holdings") consummated a court approved capital reorganization (the "Capital Reorganization") in which shares of Reuters Holdings were exchanged for a combination of cash and shares of Reuters Group. As a result, Reuters Holdings became a subsidiary of Reuters Group. In all other respects the business and assets of the Reuters group of companies were not affected. For additional information concerning the Capital Reorganization, see Note 1 of Notes on the Consolidated Profit and Loss Account, incorporated herein by reference from the 1998 Annual Report to Shareholders.

As used in this Report, "Reuters" refers collectively to Reuters Group and its consolidated subsidiaries except as the context otherwise requires.

PART I  
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ITEM 1. DESCRIPTION OF BUSINESS  
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Reuters supplies the global financial markets and the news media with a wide range of information and news products including real-time financial data, collective investment data, numerical, textual, historical and graphical databases plus news, graphics, news video, and news pictures. Reuters designs and installs enterprise-wide information management and risk management systems for the financial markets as well as providing equity and foreign exchange transaction systems. It extensively uses Internet technologies for wider distribution of information and news.

Information is obtained from 267 exchanges and over-the-counter markets, from some 4,900 subscribers who contribute data directly to Reuters, and from a network of 2,072 journalists, photographers and camera operators. There are some 498,500 user accesses for Reuters products located in approximately 57,900 locations around the world, including accesses by clients using equipment not owned by Reuters.

INFORMATION SOURCES  
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Reuters gathers exchange and over-the-counter trading data, contributed data, reference data and general, financial and business news.

Reuters obtains current trading information for securities, commodities, options and futures from organized exchanges and over-the-counter markets. The information is normally transmitted electronically to Reuters databases by a direct feed from the computerized reporting system maintained by an exchange. Dealers and brokers in foreign exchange and other financial markets contribute their latest quotations to Reuters databases using Reuters terminals or their own computer systems. Data contributed by one contributor is available to all other subscribers to the same product except those the contributor directs should be precluded. Reuters also has a number of long-term agreements with certain brokers and specialist data vendors for the supply of key market data.

Other numeric data such as corporate and economic statistics and textual historical information is obtained from a wide range of publications and other third party sources, including annual reports. Data is gathered in either electronic or hard copy form and is edited by specialized Reuters staff.

Reuters staff also report and edit general and specialized news for business and media subscribers in textual, video and audio form. At December 31, 1998, Reuters journalists, photographers and camera operators were based in reporting bureaus located in 182 cities in 108 countries. Reuters reporting staff are supported by part-time staff in almost every country. Many Reuters text journalists are financial or other market specialists.

As it is received, data is automatically processed and stored on a continually updated basis so that subscribers can retrieve it within seconds. Reuters information databases range from real-time to over ten years old.

#### PRINCIPAL PRODUCTS

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Effective January 1, 1999 Reuters restructured its operations from a horizontal business managed by area and country units to a vertical business managed on a product line basis. The two main business divisions are Reuters Information and Reuters Trading Systems. Reuters electronic equities broker Instinet Corporation ("Instinet"), and TIBCO Software Inc. ("TIBCO Software"), will continue to operate as autonomous subsidiaries. Reuters geographical units have been brought together in the Global Sales and Operations ("GSO") group responsible for the sale, installation, delivery and support of the Information and Trading Systems divisions' products. An analysis of revenue by product category under the previous structure is provided under the heading "Operating and Financial Review" incorporated herein by reference from the 1998 Annual Report to Shareholders. The external reporting of financial performance will be revised with effect from the 1999 interim announcement to reflect the new organizational structure.

#### REUTERS INFORMATION

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Reuters information products include real-time information and historical information databases. These products are delivered to subscribers through personal computer-based Reuters Terminals ("RTs"), through Reuters-supplied or third-party information management systems or, in the case of real-time data, via datafeeds. Reuters databases carry around two million individual instruments. Reuters also supplies a software-only version of its standard RT, which allows Reuters information products to be distributed over a subscriber's own local area network and hardware. Reuters corporate and media information business and the editorial function also form part of Reuters Information division.

Reuters Information division focuses on four main markets: foreign exchange and money; commodities (including energy); fixed income; and equities. Reuters foreign exchange and money market products were its greatest source of revenue in each of the last three years.

During 1998 Reuters continued the rollout of its new generation "3000" range of information products. By year end approximately 48,000 accesses had been installed. Reuters 3000 products combine the real-time features of its existing "2000" series (described below) with access to historical data, a range of analytics and graphing capabilities, textual and television news and Reuters Mail, an electronic messaging facility. Subscribers to the 3000 series also receive a continuous flow of market related news items as well as background economic data and analyses. Non-real-time components of the 3000 series are delivered to subscribers over a high speed proprietary network using industry standard Internet protocols.

Reuters 2000 series of real-time international products and most domestic services are carried on its Integrated Data Network ("IDN"). These products are formed from a series of content "building blocks", each containing relevant real-time prices and related data on a particular market. The 2000 range may be supplemented with news stories and analytics. Both the 3000 series and the 2000 series of products are grouped in different combinations to allow subscribers to select the product or products specific to their needs.

In addition to the international products described above, Reuters offers many domestic information products focused on the needs of individual countries. In May 1998 Reuters launched Reuters Plus, an advanced equities trading and analytics tool for US equities which includes real-time and historical data, time and sales, charting and Reuters news. A range of optional products produced by third parties to augment Reuters news and market data is also available to subscribers. Reuters is increasingly using web technology and offers several information products for password-protected Internet and intranet delivery.

Reuters recently acquired a number of businesses in the funds information, shareholder and benchmarking analysis sector, including Harwick Stafford Wright Limited in 1997; Lipper Analytical Services, Inc. ("Lipper"), BOPP ISB and Citywatch in 1998; and CAMRA Consulting and the investment trust data business of BT Alex. Brown in 1999. These businesses, which have been combined under the Lipper brand, track 65,000 funds domiciled in 44 countries with assets in excess of US\$7.6 trillion. Historical performance data goes back to 1959 and includes open-ended (mutual) funds, closed-ended funds and variable annuity (unit-linked) funds.

Corporate and Media Information. Reuters corporate and media information business includes textual news services for print media, broadcast and on-line clients. These services cover politics, general news, finance, economics and sports. Reuters supplies its news pictures and news graphics services to the traditional and new media. Reuters news is supplied to most of the major portals on the Internet. Reuters is also using the Internet to provide information about Reuters itself, and its products, to existing and potential customers at its website "<http://www.reuters.com>".

Reuters operates one of the world's largest international television news agencies, Reuters Television News, which supplies unedited coverage to broadcasters. It holds minority interests in Independent Television News (ITN) in the UK and ANI in India, and has shareholdings in ventures operating 24-hour radio networks in the UK and Switzerland.

In addition, Reuters provides a range of near real-time and historical financial information news products and related technology to the corporate and professional markets. Reuters Business Briefing, the principal product range in this market, provides access to 10 years' business information from one of the world's most comprehensive databases.

Editorial. The news content of all Reuters products is gathered by Reuters editorial operations. Reuters delivers financial and media news worldwide, producing more than 10,000 news reports a day in over twenty languages. In addition to its textual news, Reuters provides television and news pictures coverage and operates a global financial television news channel (RTV) for its clients in the financial markets.

#### REUTERS TRADING SYSTEMS

Reuters Trading Systems division groups together Reuters management systems, transaction products (excluding Instinet), risk management products and other applications. The primary purpose of the division is to supply an enterprise-wide open framework with transactional and risk management facilities of choice. The division is divided into several major sectors:

Financial Enterprise Systems. This area principally focuses on the design, installation and maintenance of digital and video information management systems. These systems allow access to Reuters real-time information, information databases and transaction products, products of other data suppliers and the customer's own in-house computer facilities. Reuters two main products in this sector, Triarch 2000 and TIBCO Information Bus ("TIB"), are digital systems offering a choice of operating systems and platforms using local area networks to distribute the data.

TIB is the principal product of TIBCO Finance Technology Inc. ("TIBCO Finance", formerly TIBCO Inc.), a US company acquired in 1994. In 1997 the business of TIBCO Inc. was restructured. A new company, TIBCO Software, was formed and is being managed as a non-integrated subsidiary (see below). TIBCO Finance continues to focus on the financial sector in and beyond the trading room.

Risk Management Systems. Reuters offers a number of risk management products which encompass front-end trading systems (deal capture, position keeping, decision support tools, tactical risk management), local and global credit and limit management, and firmwide risk analysis. These systems cover cash and derivatives financial instruments in the areas of money and foreign exchange, fixed income and equities and interest rates related markets.

Money and Foreign Exchange Transaction Systems. Reuters delivers desktop software, specialized networks and customer support to enable dealers to trade in the money and foreign exchange markets.

Dealing 2000-1 enables fast electronic communication among dealers to negotiate and conclude trades in foreign exchange and other instruments. Dealing 2000-1 has become a leading conversational-based trading system for dealers specializing in the interbank foreign exchange and deposits markets.

Through its UK subsidiary Reuters Transaction Services Limited ("RTSL"), a regulated wholesale money market institution, Reuters operates Dealing 2000-2, an electronic brokerage service for interbank spot and forward foreign exchange dealers. This automatic, anonymous service matches bid and offer orders using a central computer, verifying that the counterparties have sufficient and mutually acceptable credit. During 1999 Reuters expects to commence the progressive upgrade of customers to the next generation, Dealing 3000, platform.

Securities Transactions Systems. This is a new area which Reuters proposes to develop, building from its present capability and adding new elements as required, to accomplish a fully integrated package of order routing, order management and execution capabilities for the securities markets. In 1998 Reuters acquired Liberty SA ("Liberty"), which provides securities order routing and order management facilities on a global basis and will form the platform for further product development. Reuters also owns a 34.2% interest in GL Trade, a French company that provides order execution and exchange gateways for direct connection to electronic exchanges.

#### NON-INTEGRATED SUBSIDIARIES

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#### INSTINET

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Through Instinet, a registered US securities broker, Reuters operates an equity securities market information and trading system for investment professionals (the "Instinet System"). The Instinet System provides anonymous two-way computerized transactional capability and continuously updated market information with respect to equity securities traded on US national and regional stock exchanges and NASDAQ and with respect to certain non-US equity securities.

In addition to enabling customers to negotiate trades directly with each other, the Instinet System automatically executes clients' matching buy and sell orders. Instinet also offers a number of "crossing" services which operate outside regular trading hours in the markets for the relevant securities, and a research and analytics product which allows traders and portfolio managers to monitor and analyze real-time and historical stock price data via traditional, proprietary and customized technical indicators.

In February 1999 Instinet announced a new initiative to explore an extension of its business into the fixed income market.

Affiliates of Instinet are members of the American Stock Exchange, the Boston Stock Exchange, the Cincinnati Stock Exchange, the Chicago Stock Exchange, the Philadelphia Stock Exchange, the Pacific Stock Exchange, the Chicago Board Options Exchange, the Toronto Stock Exchange, the London Stock Exchange, Tradepoint Stock Exchange, the Frankfurt Stock Exchange, the XETRA, the SBF Paris Bourse, the Swiss Exchange, the Hong Kong Stock Exchange, the Stockholm Stock Exchange and the Amsterdam Exchanges N.V. An Instinet affiliate has a license from the Ministry of Finance in Japan to operate as a foreign securities firm with a Tokyo branch.

TIBCO Software was formed in 1997 to pursue opportunities for applying TIBCO technology to sectors outside finance, including the Internet. At December 31, 1998, options amounting to 30% of the issued share capital of TIBCO Software (on a fully diluted basis) had been granted to employees of TIBCO Finance and TIBCO Software; of these, options representing 5% of the issued share capital had vested and been exercised. In addition, TIBCO Software has issued convertible preferred shares to two outside investors, CISCO Systems, Inc. and Mayfield Venture Capital Fund, which at the end of 1998 owned 7% and 5%, respectively, of the fully diluted share capital of TIBCO Software. TIBCO Software's main product offering is the Active Enterprise suite which provides the ability to integrate applications across an enterprise.

DATA AND COMMUNICATIONS NETWORKS

Reuters operates a number of communications networks, employing various technologies, for distribution of its products. Reuters is making increasing use of Internet technology which is being incorporated into the Reuters Web communications network.

Reuters has two global technical centers, two main technical centers and a number of smaller local data centers. Reuters data centers are linked by dedicated international communications circuits which rely on satellite links, optical fiber cables and coaxial cables. These circuits are leased from various governmental and private telecommunications operators.

Communications between data centers and Reuters subscribers are usually by dedicated terrestrial circuits which are leased from telecommunications operators and are supplemented by a variety of other transmission systems. These include satellite-based networks for delivery of services to small dish receivers on customer premises as an alternative to terrestrial lines.

PRINCIPAL GEOGRAPHIC MARKETS

Reuters products are distributed to 157 countries. Prior to the January 1999 restructuring, operations were divided for financial reporting purposes into three principal geographical areas: Europe, Middle East and Africa, Asia/Pacific, and the Americas, with the world-wide operations of Instinet and the TIBCO companies reported separately. An analysis of revenue, costs, contribution and assets by these markets is provided under the heading "Operating and Financial Review" and in Notes 2 and 15 of Notes on the Consolidated Financial Statements, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

In connection with the 1999 restructuring, the GSO group was organized to manage worldwide sales, customer support and technical operations for divisional products.

SUBSCRIBERS AND MARKETING

Reuters information products are billed by number of user accesses. User accesses include terminals, accesses to datafeeds, slave screens, portable data screens and pagers. The number of user accesses at the end of each of the last three years (broken down into the product categories in effect under the previous organizational structure) is set forth below.

	At December 31,		
	1998	1997	1996
Information Products .....	444,900	386,000	321,000
Transaction Products .....	40,500	38,000	33,500
Professional Products .....	13,100	11,000	7,500
Total .....	498,500	435,000	362,000

Information relating to user accesses and an analysis of subscribers by type are provided under the heading "Operating and Financial Review" and in Note 14 of Notes on the Consolidated Cash Flow Statement, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

The majority of Reuters revenue is recurring and generally covered by contracts of indefinite period, terminable on one or two years' notice. Individual services within a contract may be cancelled on twelve, six or three months' notice. Charges are based upon the particular products purchased by a subscriber and the number of user accesses. Payment terms are generally in advance. Charges for certain other Reuters products vary according to volume of use. These include the Instinet System, Dealing 2000-2 and certain information database products.

Under its agreements with Dealing 2000-2 subscribers, RTSL accepts liability for direct net loss incurred by subscribers solely as a result of a transmission or processing fault that is shown to be caused by the negligence or wilful misconduct of Reuters. RTSL only accepts this liability in full for trades with a value of up to \$15 million; for trades above \$15 million, RTSL agreements with Dealing 2000-2 subscribers provide that RTSL's liability is limited on a pro rata basis.

#### DEVELOPMENT ACTIVITIES

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Expenditures for development, which exclude costs associated with the Millennium Programme, aggregated (pound) 200 million in 1998, (pound) 235 million in 1997 and (pound) 202 million in 1996. These expenditures principally related to information products and transaction products (as defined under the previous organizational structure), which respectively accounted for (pound) 131 million (1997 - (pound) 162 million) and (pound) 51 million (1997 - (pound) 60 million) of the total. Activities during 1998 included continuing the development of the 3000 series products, development of domestic products such as Reuters Plus for the US market, improvements to data collection systems, further development by Instinet and of other transaction products and development relating to TIBCO Software and Internet products.

During 1998, efforts to address the transition to the Euro as part of European Monetary Union integration and issues associated with Millennium deadlines necessitated diversion of development effort to upgrade certain products and phase out others. For information relating to Reuters European Monetary Union and Millennium Programmes see the discussion included in the "Operating and Financial Review" incorporated herein by reference from the 1998 Annual Report to Shareholders.

Greenhouse Fund. Reuters has a number of small targeted investments in high technology and selected content companies to which Reuters can bring expertise and a diverse global customer base. In return Reuters gains access to entrepreneurs who generate new ideas, technologies and products.

#### EQUIPMENT SUPPLY AND SERVICING

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Reuters central computers are presently supplied by Compaq Computer Corporation, with a smaller number of computers from International Business Machines Corporation, NCR Corporation, Sun Microsystems Corporation and other manufacturers. Reuters central computers are installed and normally maintained by the supplier. Operation is carried out by Reuters personnel.

Reuters installs and provides first level maintenance for client site equipment either directly or in some countries via sub-contractors. These installations are usually based on equipment supplied either by Intel Corporation or more recently by International Business Machines Corporation. Some clients specify and supply such equipment themselves and may be responsible for its maintenance. All Reuters application software on central computers and client site systems is maintained by Reuters.

#### COMPETITION

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Reuters faces competition in all market sectors and geographical areas. Some rival vendors compete across a range of markets and in most major financial centers. Other vendors are more specialized, either in markets or location.



REUTERS INFORMATION

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Competitors in the provision of information for the financial markets include Bloomberg L.P. ("Bloomberg"); Bridge Information Systems ("Bridge"), including the newly-acquired Telerate Inc. (formerly known as Dow Jones Markets) and the ADP front office business of Automatic Data Processing Inc.; ICV Datastream International Ltd. ("Datastream"), a subsidiary of Primark Corporation; Quick Corporation of Japan; and Telekurs A.G. of Switzerland. Competition to the Lipper funds information business comes from Morningstar, the Standard & Poor's Micropal unit, Value Line and Thomson Corporation's CDA Weisenberger.

Competition for the supply of news to the media comes from Associated Press, Agence France Presse, Dow Jones Newswires and a number of other news agencies and national newspapers which syndicate their news. Competition for the supply of news pictures comes mainly from Associated Press, Agence France Presse and the European Press Agency. The main competitor to Reuters Television is Associated Press Television News.

The principal competitors for the supply of corporate products are LEXIS-NEXIS, Financial Times Electronic Publishing, The Dialog Corporation and Dow Jones News Retrieval.

REUTERS TRADING SYSTEMS

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The Electronic Broking Service ("EBS") competes with the foreign exchange spot matching service provided by Reuters Dealing 2000-2 and, to a lesser degree, with Dealing 2000-1. The EBS partnership comprises a number of leading European, US and Japanese banks. Reuters money and foreign exchange transaction products also compete with voice brokers in the relevant markets.

Competitors in the supply of financial enterprise systems include Misys plc ("Misys"), British Telecommunications plc, CSK Software, a subsidiary of CSK Corporation, Bridge and a large number of other vendors. In the provision of risk management systems on a global basis Reuters competes with SunGard Data Systems, Inc., Misys and Algorithmics, Inc. Many other vendors offer these systems locally.

INSTINET

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In the provision of equity transaction products, Instinet competes with, among others, the SelectNet System of the National Association of Securities Dealers, Inc. (the "NASD"), which enables NASD members to trade electronically in OTC stocks, and other so-called "electronic communications networks" ("ECNs"), including Bloomberg Tradebook L.L.C., a subsidiary of Bloomberg, and the Island System. In addition, the NASD is considering a number of changes to the NASDAQ marketplace, some of which could put the NASD in direct competition with Instinet (see "Operating and Financial Review - Cautionary Statements - NASD Initiatives", incorporated herein by reference from the 1998 Annual Report to Shareholders). In its capacity as a broker-dealer, Instinet competes with other broker-dealers (including many of its own customers) for institutional order flow. In addition, the securities exchanges (including the Tradepoint Stock Exchange in the UK) and other broker-dealers offer competing crossing services.

GOVERNMENT REGULATIONS

REUTERS INFORMATION

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Reuters Limited is regulated as a service company by the UK Financial Services Authority ("FSA") (the successor regulatory body to the UK Securities and Investments Board) under the Financial Services Act 1986.

The use of communications links is subject to government regulation and/or licensing in every country.

REUTERS TRADING SYSTEMS

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RTSL is subject to regulation by the FSA equivalent to that applied to broking participants in the London foreign exchange market, including capital adequacy requirements; this regulatory role was

transferred from the Bank of England to the FSA on June 1, 1998. The operations of RTSL's Singapore branch are regulated by the Monetary Authority of Singapore, and on June 9, 1998 RTSL was approved as a money broker by the Hong Kong Monetary Authority.

Liberty is regulated as a service company by the FSA under the Financial Services Act 1986 and by the Luxembourg Monetary Institute.

INSTINET  
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As registered broker-dealers and members of the NASD and various other self-regulatory organizations in the US and other countries in which they operate, Instinet and Instinet affiliates using the Instinet System are subject to substantial regulation under the US securities laws and their equivalents in other countries, including net capital requirements.

In December 1998 the US Securities and Exchange Commission ("SEC") promulgated new rules overhauling the regulation of certain "alternative trading systems". The rules expand the SEC's interpretation of the definition of "exchange" under the US securities laws to encompass a broad range of electronic brokerage activities, including those conducted by Instinet. The SEC has also implemented rules governing market-maker and exchange specialist usage of Instinet and other ECNs. See the discussion under the headings "Operating and Financial Review - Cautionary Statements - SEC Rules for Alternative Trading Systems" and "- SEC Rules on ECN Usage" incorporated herein by reference from the 1998 Annual Report to Shareholders.

ITEM 2. DESCRIPTION OF PROPERTY  
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Reuters principal properties are its corporate headquarters in London, its two global technical centers in London and Geneva and its two other main technical centers in New York and Singapore. The London and New York properties are situated on land owned by Reuters, whereas the buildings in Geneva and Singapore were built by Reuters on leased land. The leases, including periods covered by options to extend, expire in 2095 and 2050, respectively.

For information concerning a joint venture to develop a building in the Times Square section of New York City see "Operating and Financial Review" and Note 18 of Notes on the Consolidated Balance Sheet, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

ITEM 3. LEGAL PROCEEDINGS  
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For information concerning a grand jury investigation regarding Reuters Analytics Inc., a US subsidiary based in Stamford, Connecticut, see "Operating and Financial Review - Cautionary Statements - Reuters Analytics" and Note 29 of Notes on the Consolidated Balance Sheet, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

Reuters and its subsidiaries are parties to legal proceedings that are considered to be either ordinary routine litigation incidental to their business or not material to Reuters consolidated financial position.

ITEM 4. CONTROL OF REGISTRANT  
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The Memorandum and Articles of Association of Reuters Group (the "Articles") contain two sets of restrictions relating to the ownership of Reuters Group's shares that are intended to ensure continued compliance with the following principles (the "Reuter Trust Principles") in a manner appropriate for a public company:

- I. that Reuters shall at no time pass into the hands of any one interest, group or faction;
- II. that the integrity, independence and freedom from bias of Reuters shall at all times be fully preserved;

- III. that Reuters shall supply unbiased and reliable news services to newspapers, news agencies, broadcasters and other media subscribers and to businesses, governments, institutions, individuals, and others with whom Reuters has or may have contracts;
- IV. that Reuters shall pay due regard to the many interests which it serves in addition to those of the media; and
- V. that no effort shall be spared to expand, develop and adapt the news and other services and products of Reuters so as to maintain its leading position in the international news and information business.

For purposes of the Reuter Trust Principles, the term "Reuters" means Reuters Group and every subsidiary of Reuters Group from time to time supplying news services. Reuters believes that the observance of the Reuter Trust Principles is compatible with its ability to achieve its financial objectives and to operate its business in the interest of its shareholders generally.

The first set of restrictions contained in the Articles applies to persons that become "interested" in 15% or more of Reuters Ordinary Shares of 25p each ("Ordinary Shares") outstanding at any time. The term "interested" is defined in the Articles by reference to provisions of the Companies Act 1985 of Great Britain, as amended (the "Companies Act"), which require persons to disclose to public companies interests in voting shares in excess of a prescribed percentage. (At present, material interests of 3% of the class and other interests of 10% of the class must be disclosed.) Subject to certain exceptions, all shares held by a person who reaches the 15% limit will be disenfranchised. Moreover, Reuters Group is empowered to effect an involuntary disposition of the number of shares by which a person exceeds the 15% limit if that person fails to do so on demand (which involuntary disposition may be made, if appropriate, by means of an instruction to effect an electronic transfer of uncertificated shares).

Second, Reuters Group share capital includes the Founders Share which is held by the Reuters Founders Share Company Limited (the "Founders Share Company"), a company limited by guarantee consisting of individuals (the "Reuter Trustees") who constitute both its members and directors. The Founders Share empowers the Founders Share Company to cast such number of votes as will pass any resolution supported by, and defeat any resolution opposed by, the Founders Share Company if it believes that any person or persons have obtained, or are seeking to obtain, control of Reuters. Control for these purposes is defined as the ability to control the exercise of 30% or more of the votes that may be cast on a poll at general meetings. The Founders Share also empowers the Founders Share Company to cast such number of votes as will defeat any resolution opposed by it that would alter any provision of the Articles relating to the Reuter Trust Principles or to the rights of the Founders Share. See "Principal Shareholders - The Founders Share" below.

The restrictions on "interests" in Ordinary Shares and the extraordinary voting rights of the Founders Share may be characterized as "anti-takeover" provisions to the extent they are intended to prevent a bid for control of Reuters. Tender offers or other non-market acquisitions of shares are usually made at prices above the prevailing market price of a company's shares. Acquisitions of shares by persons attempting to acquire control through market purchases may support the price of shares at market levels higher than otherwise would be the case. The "anti-takeover" provisions applicable to Reuters may be expected to preclude such offers.

PRINCIPAL SHAREHOLDERS  
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ORDINARY SHARES  
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As of February 12, 1999, there were 1,410,099,869 Ordinary Shares outstanding, excluding 12,275,400 Ordinary Shares owned by certain Employee Share Ownership Trusts. See Note 18 of Notes on the Consolidated Balance Sheet, incorporated herein by reference from the 1998 Annual Report to Shareholders. Reuters has received notice from The Capital Group Companies, Inc. under section 198 of the Companies Act, that on February 12, 1999 it and its affiliates together held in their capacity as investment

managers 75,504,136 Ordinary Shares (representing 5.31% of Reuters share capital). On that date, to Reuters knowledge, all directors and officers of Reuters as a group (17 persons) had an interest in an aggregate of 1,196,068 Ordinary Shares, representing approximately 0.1% of the total outstanding, excluding an aggregate of 1,168,849 Ordinary Shares that may be acquired by directors and officers pursuant to the share option and restricted share and share rights schemes referred to in Item 12 of this Report.

THE FOUNDERS SHARE  
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Reuter Trustees are nominated by a Nomination Committee which includes certain serving Reuter Trustees, one person nominated by each of four news associations and two persons appointed by the Chairman of Reuters. Reuter Trustees may not be directors or employees of Reuters.

The Reuter Trustees currently in office are as follows:

	Trustee Since -----
Leonard Terry Berkowitz .....	1998
The Right Hon. the Lord Browne-Wilkinson .....	1989
Sir Michael Checkland .....	1994
Claude Neville David Cole CBE, .....	1984
John Elliott Christopher Dicks OBE .....	1984
Pehr Gustaf Gyllenhammar .....	1997
Sir Christopher Mallaby GCMG, GCVO .....	1998
Dame Sheila Masters .....	1998
Kenneth Morgan OBE .....	1984
Sir William Purves CBE, DSO .....	1998
J. Michael Robson .....	1998
Sir Frank Jarvis Rogers (Chairman) .....	1989
Arthur Ochs Sulzberger .....	1994
Ernest James Lyle Turnbull AO .....	1993
Richard John Winfrey .....	1987

Each Reuter Trustee is normally required to retire at the Annual General Meeting ("AGM") of the Founders Share Company following the fifth anniversary of his or her nomination or last renomination and will be eligible for renomination (unless he or she has reached the age of 75).

ITEM 5. NATURE OF TRADING MARKET  
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The Ordinary Shares are traded on the London Stock Exchange and American Depositary Shares ("ADSs"), each representing six Ordinary Shares, are included for trading in the NASDAQ National Market System. The ADSs are evidenced by American Depositary Receipts ("ADRs") issued by Morgan Guaranty Trust Company of New York, as Depositary under a Deposit Agreement, dated as of February 18, 1998 (the "Deposit Agreement"), among Reuters Group, the Depositary and the holders from time to time of ADRs.

The table below sets forth, for the periods indicated, (i) the reported high and low sales prices for the Ordinary Shares based on the Daily Official List of the London Stock Exchange and (ii) the reported high and low sales prices of the ADSs on NASDAQ, except that the price information included for periods prior to the Capital Reorganization (January 1, 1997 to February 18, 1998) is for the ordinary shares of 2.5p each of Reuters Holdings and the American Depositary Shares which represented them. The number of Ordinary Shares and American Depositary Shares delivered in the Capital Reorganization was set to, among other things, facilitate comparability of share price with the Reuters Holdings shares and ADSs, respectively. Accordingly, the prices for prior periods have not been restated. However, see Note (1) to the table of Consolidated Income Statement Data, Amounts in Accordance with US GAAP in Item 8 of this Report, with respect to the US GAAP treatment of the Capital Reorganization and its retroactive effect on the number of shares outstanding and per share amounts.

	The London Stock Exchange		NASDAQ	
	Pounds Per Share		US Dollars per ADS	
	High	Low	High	Low
1997				
First Quarter.....	7.57	5.98	76-3/4	58
Second Quarter.....	7.07	5.73	69-1/2	56
Third Quarter.....	7.40	5.55	71-1/2	56-3/4
Fourth Quarter.....	7.82	5.90	75-5/8	60
1998				
First Quarter .....	6.94	5.18	67-1/8	50-1/4
Second Quarter.....	7.70	6.15	74-3/4	61-5/8
Third Quarter.....	6.93	4.22	68-3/4	43-7/8
Fourth Quarter.....	6.54	4.12	63-15/16	42-1/8
1999				
First Quarter (to February 12).....	9.71	6.13	94-3/8	62-1/16

As of February 12, 1999, 459,518 Ordinary Shares and ADRs evidencing 31,944,534 ADSs (representing 191,667,204 Ordinary Shares) were held of record in the US. These Ordinary Shares and ADRs were held by 106 record holders and 2,767 record holders, respectively, and represented 0.03% or evidenced ADSs representing 13.5%, respectively, of the total number of Ordinary Shares outstanding. Since certain of these Ordinary Shares and ADRs were held by brokers or other nominees, the number of record holders in the US may not be representative of the number of beneficial holders or of where the beneficial holders are resident.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are currently no UK foreign exchange control restrictions on remittances of dividends on Ordinary Shares or on the conduct of Reuters operations.

Under English Law and Reuters Articles persons who are neither residents nor nationals of the UK may freely hold, vote and transfer their Ordinary Shares in the same manner as UK residents or nationals.

ITEM 7. TAXATION

The following discussion of taxation is intended only as a descriptive summary and does not purport to be a complete technical analysis or listing of all potential tax effects relevant to the Ordinary Shares or ADRs. The statements of UK and US tax laws set forth below are based on the laws and the UK Inland Revenue practice in force as of the date of this Report. The statements herein are subject to any changes in UK or US law, and in any double taxation convention between the US and the UK, occurring after the date of this Report.

UK TAXATION OF DIVIDENDS - REFUND OF TAX CREDITS

POSITION BEFORE APRIL 6, 1999

General. When paying a dividend on Ordinary Shares before April 6, 1999, Reuters will be liable to pay to the UK Inland Revenue advance corporation tax ("ACT") currently at a rate equal to 25% of the cash dividend paid. UK resident individual shareholders are entitled to a tax credit equal to the ACT paid against such individual shareholder's total income tax liability or, in appropriate cases, a cash refund of the ACT paid.

Under the terms of the UK/US Double Taxation Convention 1975 (the "Treaty"), which is being renegotiated, a US resident individual or corporate portfolio holder of an Ordinary Share or ADR who is not also resident in the UK for UK tax purposes (an "eligible US holder") generally will be entitled to receive from

the UK Inland Revenue payment of a refund ("Refund") of the tax credit available to UK resident shareholders currently at a rate equal to 25% of the cash dividend. A 15% withholding tax will be imposed on the sum of the dividend plus the Refund (the "Gross Dividend"). For example, at current rates, an (pound) 80 dividend results in a (pound) 20 Refund. The Gross Dividend of (pound) 100 ((pound) 80 plus (pound) 20) is subject to a UK withholding tax of (pound) 15. Thus, the eligible US holder receives (pound) 85.

These provisions do not apply (i) to shareholders whose holding of Ordinary Shares or ADRs is effectively connected with a permanent establishment or fixed place of business in the UK, (ii) under certain circumstances, to an investment or holding company, 25% or more of the capital of which is owned, directly or indirectly, by persons that are neither individual residents nor citizens of the US and (iii) under certain circumstances, to a corporation which, alone or together with one or more associated corporations controls, directly or indirectly, 10% or more of the voting stock of Reuters.

Arrangements for Payment of Refund. Subject to certain exceptions, the Refund will (subject to the 15% withholding tax on the Gross Dividend) be paid by Reuters to an eligible US holder together with the associated dividend. To establish its entitlement to the Refund, the eligible US holder must complete the declaration on the reverse of the dividend check and present the check for payment within three months from the date of its issue. In the case of ADRs or Ordinary Shares held through The Depository Trust Company ("DTC"), a declaration as to the conditions entitling the beneficial eligible US holder to the Refund should be completed by the broker-dealer or bank member of DTC which holds the Ordinary Shares or ADRs on behalf of such eligible holder. These arrangements can be terminated without notice by the UK Inland Revenue.

An eligible US holder who does not come within these arrangements may obtain the Refund by filing a claim for refund directly with the UK Inland Revenue, in the manner and at the time described in US Revenue Procedure 80-18, 1980-1 C.B. 623 and US Revenue Procedure 81-58, 1981-2 C.B. 678, summarized below. Claims for payment must be made within six years of the UK year of assessment (generally, the 12-month period ending April 5 in each year) in which the related dividend was paid. The first claim by an eligible US holder for a Refund must be made by sending the appropriate UK form in duplicate to the Director of the US Internal Revenue Service Center with which the shareholder's last federal income tax return was filed. Forms may be obtained by writing to the US Internal Revenue Service, Assistant Commissioner International, 950 L'Enfant Plaza South, S.W., Washington, D.C. 20024, Attention: Taxpayers Service Division. Because a Refund claim is not considered made until the UK tax authorities receive the appropriate form from the US Internal Revenue Service, forms should be sent to the US Internal Revenue Service well before the end of the applicable limitation period. Any subsequent claims by an eligible US holder for payment of a Refund should be filed directly with the UK Financial Intermediaries and Claims Office, Fitz Roy House, PO Box 46, Nottingham NG2 1BD, England.

Certain provisions of the UK Income and Corporation Taxes Act 1988 empower the UK Government to deny the payment of tax credits in circumstances where (i) a corporate shareholder which, either alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of the UK company and (ii) such shareholder or an associated company has a qualifying presence in a jurisdiction which operates a unitary system of corporate taxation. These provisions are only triggered if the UK Treasury so determines by Statutory Instrument and no such Instrument has yet been made. However, the UK Chancellor of the Exchequer announced in 1994 that the UK will be retaining its retaliatory powers against the possibility of harm to the interests of UK-owned companies in the future.

POSITION ON AND AFTER APRIL 6, 1999

Under provisions introduced in the UK Finance Act 1998 ACT will be abolished with effect from April 6, 1999, so that no ACT will be payable by Reuters on payment of a cash dividend on or after that date. The proposal, however, envisages a system of "shadow ACT" to govern the rate at which companies can utilise surplus ACT that they have on April 6, 1999 against their corporation tax liability in later years.

On and after April 6, 1999, the tax credit on cash dividends paid by Reuters on Ordinary Shares will be reduced to one-ninth of the cash dividend (or 10% of the Gross Dividend). The tax credit may be set off against a UK resident individual shareholder's total income tax liability, but no cash refund will be available.

Accordingly, an eligible US holder will effectively cease to be entitled to any Refund in respect of dividends, as the 15% withholding tax under the Treaty will exceed (but will be limited to) the tax credit to which the Treaty otherwise entitles him. Hence, using the example set out above, an (pound) 80 cash dividend would result in an eligible US holder receiving (pound) 80 after deduction of withholding tax of (pound) 8.89 (being equal to the tax credit on the cash dividend).

#### US TAXATION CONSEQUENCES

The following is a summary of certain US federal income tax consequences of the ownership of Ordinary Shares or ADRs by a US holder that holds the Ordinary Shares or ADRs as capital assets, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. In addition, the summary is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

For purposes of this discussion, a "US holder" is any beneficial owner of Ordinary Shares or ADRs that is (i) a citizen or resident of the US, (ii) a corporation organized under the laws of the US or any State, (iii) an estate the income of which is subject to US federal income tax without regard to its source, or (iv) a trust if a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

#### TAXATION OF DIVIDENDS

Subject to the passive foreign investment company ("PFIC") rules discussed below, the Gross Dividend generally will be treated as dividend income for US federal income tax purposes. Such dividend will not be eligible for the 70% dividends received deduction allowed to US corporations. The amount of the dividend distribution includible in income of a US holder will be the US dollar value of the pound sterling payments made, determined at the spot pound sterling/US dollar rate on the date such dividend distribution is includible in the income of the US holder, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into US dollars will be treated as ordinary income or loss. Such gain or loss will generally be income from sources within the US for foreign tax credit limitation purposes.

The withholding tax will be eligible, subject to certain limitations, for credit against the US holder's US federal income tax. However, a US holder will be denied a foreign tax credit (and instead allowed a deduction) for foreign taxes imposed on a dividend if the US holder has not held the Ordinary Shares or ADRs for at least 16 days in the 30-day holding period beginning 15 days before the ex-dividend date. Any days during which a US holder has substantially diminished its risk of loss on the Ordinary Shares or ADRs are not counted toward meeting the 16-day holding period required by the statute. A US holder that is under an obligation to make related payments with respect to the Ordinary Shares or ADRs (or substantially similar or related property) also is not entitled to claim a foreign tax credit with respect to a foreign tax imposed on a dividend. For foreign tax credit limitation purposes, the dividend will be income from sources outside the US, but generally will be treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income"). US holders should consult their tax advisors as to the application of the foreign tax credit rules in their own circumstances.

#### TAXATION OF CAPITAL GAINS

The following categories of persons may be liable for both UK and US tax in respect of a gain on the sale of Ordinary Shares or ADRs: (i) US citizens ordinarily resident in the UK, (ii) US corporations resident in the UK by reason of their business being managed or controlled in the UK, and (iii) US citizens or corporations

which are trading or carrying on a profession or vocation in the UK through a branch or agency which constitutes a permanent establishment or fixed base and which have used, held or acquired the Ordinary Shares or ADRs for the purposes of such trade, profession or vocation or such branch or agency. However, subject to applicable limitations, such persons may be entitled to a tax credit against their US federal income tax liability for the amount of UK capital gains tax or UK corporation tax on chargeable gains (as the case may be) which is paid in respect of such gain.

Subject to the PFIC rules discussed below, upon a sale or other disposition of Ordinary Shares or ADRs, a US holder will recognize gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realized and the US holder's tax basis (determined in US dollars) in such Ordinary Shares or ADRs. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if the US holder's holding period for such Ordinary Shares or ADRs exceeds one year and any such gain and loss generally will be income from sources within the US for foreign tax credit limitation purposes. Long-term capital gain of a non-corporate US holder is generally subject to a maximum tax rate of 20%.

PFIC  
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Reuters believes that its Ordinary Shares and ADRs should not be treated as stock of a PFIC for US federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change. If Reuters were to be treated as a PFIC, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the Ordinary Shares or ADRs, a gain realized on the sale or other disposition of Ordinary Shares or ADRs would, in general, not be treated as capital gain, and a US holder would be treated as if such holder had realized such gain and certain "excess distributions" ratably over the holder's holding period for the Ordinary Shares or ADRs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year.

INFORMATION REPORTING AND BACKUP WITHHOLDING  
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Payment of dividends and other proceeds with respect to the Ordinary Shares or ADRs by a US paying agent or other US intermediary will be reported to the US Internal Revenue Service and to the US holder as required under applicable regulations. A US holder will not be subject to US backup withholding tax at the rate of 31% with respect to dividends received or the proceeds of a sale, exchange or redemption of such Ordinary Shares or ADRs if such holder (i) is a corporation or other exempt recipient or (ii) the holder provides a US taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with any applicable backup withholding requirements.

UK INHERITANCE TAX  
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An individual who is domiciled in the US for the purposes of the UK/US estate and gift tax convention and who is not a national of the UK for the purposes of that convention generally will not be subject to UK inheritance tax in respect of the Ordinary Shares or ADRs on the individual's death or on a gift of the Ordinary Shares or ADRs during the individual's lifetime. However, the individual will be subject to UK inheritance tax if the Ordinary Shares or ADRs are part of the business property of a permanent establishment of the individual in the UK or pertain to a fixed base in the UK of an individual who performs independent personal services. Special rules apply to Ordinary Shares or ADRs held in trust. In the exceptional case where the disposition is subject both to UK inheritance tax and to US federal gift or estate tax, the convention generally provides for any tax paid in the UK to be credited against tax liable to be paid in the US.

UK STAMP DUTY AND STAMP DUTY RESERVE TAX  
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No UK stamp duty will be payable on the transfer of an ADR provided that the instrument of transfer is executed and remains outside the UK and does not relate to any matter or thing done or to be done in the UK, nor will UK stamp duty reserve tax ("SDRT") be imposed in respect of any agreement for such a transfer of ADRs.



Ad valorem stamp duty will be charged and payable by the purchaser on conveyances or transfers of Ordinary Shares at the rate of 50p per (pound) 100 (or part thereof) of the consideration, if any, for the transfer.

SDRT will be imposed, at the rate of 0.5% of the consideration for the transfer, if an agreement is made for the sale of Ordinary Shares, unless an instrument of transfer of the Ordinary Shares in favor of the purchaser or its nominee is executed and duly stamped within six years of the day that the agreement is made (or, in a case where the agreement is conditional, the day that the condition is satisfied) in which case the charge to SDRT will be repaid or cancelled. SDRT is in general payable by the purchaser of Ordinary Shares, but there are regulations which provide for collection from other persons in certain circumstances.

Ad valorem stamp duty or SDRT will be imposed on any instrument transferring Ordinary Shares to a nominee or agent for a depository which issues depository receipts (such as the ADRs). In these circumstances, stamp duty or SDRT will be charged at the higher rate of 1.5% of the consideration for a sale or, otherwise, 1.5% of the market value of the security transferred. This rate of duty can be reduced to 1% in the case of certain transfers effected by a qualified dealer in securities (as defined in the UK Finance Act 1986). Clearance services may elect, under certain conditions, for the normal rates of stamp duty or SDRT to apply to transfers into or transactions within the service instead of the higher rate applying to an issue or transfer into the clearance service. The UK Finance Act 1997 contains provisions which will remove this reduced rate of duty from the 'appointed day' (yet to be determined).

A transfer of Ordinary Shares from a depository or its agent or nominee to a transferee which results in the cancellation of the ADR, which cancellation is liable to stamp duty as a "conveyance or transfer on sale" because it completes a sale of such Ordinary Shares, will be liable to ad valorem stamp duty, payable by the transferee, at the rate of 50p per (pound) 100 (or part thereof) of the consideration, if any, for the transfer. A transfer of Ordinary Shares from a depository or its agent or nominee to the ADR holder which results in cancellation of the ADR but where there is no transfer of beneficial ownership is not liable to duty as a "conveyance or transfer on sale", but will be liable to a fixed stamp duty of 50p.

ITEM 8. SELECTED FINANCIAL DATA  
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The selected financial information set forth below is derived, in part, from the Consolidated Financial Statements incorporated by reference from the 1998 Annual Report to Shareholders, which is filed as an exhibit to this Report. The selected data should be read in conjunction with the financial statements and related notes, as well as the Operating and Financial Review incorporated herein by reference from the 1998 Annual Report to Shareholders.

The Consolidated Financial Statements are prepared in accordance with UK GAAP, which differ in certain respects from US GAAP. A summary of the principal differences between UK and US GAAP, a reconciliation to US GAAP and a condensed US GAAP balance sheet are set forth in the Consolidated Financial Statements, appearing on pages 79 to 81 of the 1998 Annual Report to Shareholders, and are incorporated herein by reference.

CONSOLIDATED INCOME STATEMENT DATA:

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
AMOUNTS IN ACCORDANCE WITH UK GAAP:					
Revenue .....	(pound) 3,032	(pound) 2,882	(pound) 2,914	(pound) 2,703	(pound) 2,309
Operating profit before interest .....	550	541	592	510	432
Profit on ordinary activities before taxation ....	580	626	652	558	481
Profit on ordinary activities after taxation ....	384	390	442	373	319
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS .....	384	390	442	373	318
BASIC EARNINGS PER ORDINARY SHARE .....	26.7p	24.0p	27.3p	23.2p	19.9p
FULLY DILUTED EARNINGS PER ORDINARY SHARE .....	26.6p	23.8p	27.0p	22.9p	19.6p
BASIC EARNINGS PER ADS .....	160.3p	144.2p	164.0p	139.3p	119.4p
FULLY DILUTED EARNINGS PER ADS .....	159.7p	143.1p	161.7p	137.3p	117.7p
Dividends declared per ordinary share (including UK tax credit) .....	16.5p	16.3p	14.7p	12.3p	10.0p
Dividends declared per ADS (including UK tax credit) .....	98.8p	97.5p	88.1p	73.5p	60.0p
Weighted average number of ordinary shares (in millions) .....	1,438	1,623	1,616	1,605	1,602

CONSOLIDATED INCOME STATEMENT DATA (CONTINUED):

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
AMOUNTS IN ACCORDANCE WITH US GAAP					
Revenue .....	(pound) 3,032	(pound) 2,882	(pound) 2,914	(pound) 2,703	(pound) 2,309
Income before taxes on income .....	572	618	645	544	463
NET INCOME .....	392	386	440	366	303
BASIC EARNINGS PER ORDINARY SHARE(1) .....	27.8p	27.4p	31.4p	26.3p	21.8p
Diluted earnings per ordinary share(1) .....	27.7p	27.2p	31.0p	25.9p	21.5p
BASIC EARNINGS PER ADS(1) .....	166.6p	164.5p	188.3p	158.0p	130.8p
Diluted earnings per ADS(1) .....	166.0p	163.4p	185.8p	155.4p	128.7p
Dividends paid per ordinary share (including UK tax credit)(1) .....	121.2p	17.5p	14.8p	12.1p	9.9p
Dividends paid per ADS (including UK tax credit)(1) .....	727.5p	104.7p	88.7p	72.7p	59.3p
Weighted average number of ordinary shares (in millions)(1) .....	1,411	1,407	1,401	1,391	1,388

(1) On February 18, 1998 Reuters Holdings consummated a court approved Capital Reorganization in which shares of Reuters Holdings were exchanged for a combination of shares of Reuters Group and approximately (pound) 1.5 billion in cash. (See Note 1 of Notes on Consolidated Profit and Loss Account incorporated herein by reference from the 1998 Annual Report to Shareholders.) Under US GAAP this transaction was deemed a share consolidation combined with a special dividend and, accordingly, earnings per share and per ADS and dividends per share and per ADS amounts have been retroactively restated. Under UK GAAP no restatement was deemed appropriate as the cash payment was considered a repurchase of shares and the number of new shares in Reuters Group was set to facilitate comparability of per share amounts with those of Reuters Holdings.

CONSOLIDATED BALANCE STATEMENT DATA:

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
AMOUNTS IN ACCORDANCE WITH UK GAAP:					
Total assets .....	(pound) 2,705	(pound) 2,913	(pound) 2,575	(pound) 2,369	(pound) 1,882
Long-term debt and provisions for charges .....	52	65	71	162	109
Capital employed before minority interest .....	372	1,661	1,458	1,211	973
AMOUNTS IN ACCORDANCE WITH US GAAP:					
Total assets .....	2,722	2,907	2,562	2,288	1,828
Long-term debt .....	75	86	84	105	68
Shareholders' equity .....	504	1,754	1,561	1,299	1,048

DIVIDENDS

The table below sets forth the amounts of interim, final and total dividends (excluding any associated UK tax credit discussed in Item 7 of this Report) paid in respect of each fiscal year indicated. Pound sterling amounts per share have been translated into US cents per ADS (each representing six Ordinary Shares) at the Noon Buying Rate on each of the respective payment dates for such interim and final dividends. The first section of the table shows the dividends paid as reported under UK GAAP. The second section of the table gives the amounts restated for the Capital Reorganization and as reported under US GAAP. See Note (1) to the table of Consolidated Income Statement Data, Amounts in Accordance with US GAAP, above.

FISCAL YEAR ENDED DECEMBER 31,	PENCE PER SHARE			CENTS PER ADS		
	INTERIM	FINAL	TOTAL	INTERIM	FINAL	TOTAL
DIVIDENDS IN ACCORDANCE WITH UK GAAP:						
1994 .....	1.90	6.10	8.00	17.80	58.56	76.36
1995 .....	2.30	7.50	9.80	21.39	67.92	89.31
1996 .....	2.75	9.00	11.75	25.71	87.56	113.27
1997 .....	3.10	9.90	13.00	29.92	99.05	128.97
1998(1) .....	3.40	11.00	14.40	34.22		
DIVIDENDS RETROACTIVELY STATED IN ACCORDANCE WITH US GAAP:						
1994 .....	2.19	7.04	9.23	20.54	67.57	88.11
1995 .....	2.65	8.65	11.30	24.68	78.37	103.05
1996 .....	3.17	10.38	13.55	29.67	101.03	130.70
1997 .....	3.58	9.90	13.48	34.52	99.05	133.57
1998(1)(2) .....	108.02	11.00	119.02	1,063.32		

(1) The final dividend in respect of 1998 is payable on April 26, 1999 to holders of Ordinary Shares on the register at March 19, 1999 and on April 30, 1999 to holders of ADSs on the register at March 19, 1999, and will be converted into US dollars from sterling at the rate prevailing on April 26, 1999.

(2) The 1998 interim dividend amount in accordance with US GAAP consists of the interim dividend of 3.40p per share (34.22 cents per ADS) paid in September 1998 and the amount recorded as a dividend under the terms of the Capital Reorganization consummated on February 18, 1998 of 104.62p per share (1,029.10 cents per ADS).

Any future dividends will be declared consistent with Reuters policy of retaining a substantial portion of its earnings for use in its business, and will be dependent upon Reuters earnings, financial condition and other factors.

EXCHANGE RATES  
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The following table sets forth, for the periods and dates indicated, the average, high, low and end of period Noon Buying Rates for pounds sterling in US dollars per (pound) 1.

FISCAL YEAR ENDED DECEMBER 31, -----	AVERAGE*	HIGH	LOW	PERIOD END -----
1994 .....	1.54	1.64	1.46	1.57
1995 .....	1.58	1.64	1.53	1.55
1996 .....	1.57	1.71	1.49	1.71
1997 .....	1.65	1.70	1.58	1.64
1998.....	1.66	1.72	1.61	1.66
1999 (through February 12, 1999) ...	1.64	1.66	1.62	1.63

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\* The average of the exchange rates on the last trading day of each calendar month during the period.

On February 12, 1999 the Noon Buying Rate was \$1.63 per (pound) 1.

Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar amounts received by holders of the ADSs upon conversion by the Depository of cash dividends paid in pounds sterling on the Ordinary Shares represented by the ADSs and may affect the relative market prices of the ADSs in the US and the Ordinary Shares in the UK.

For the effect on Reuters results of operations of fluctuations in the exchange rates between the pound sterling and the other major currencies (including the US dollar) in which revenues are received and expenditures are made by Reuters, see "Operating and Financial Review" incorporated herein by reference from the 1998 Annual Report to Shareholders, which is filed as an exhibit to this Annual Report on Form 20-F.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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RESULTS OF OPERATIONS  
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Reuters discussion and analysis of financial condition and results of operations appears on pages 35 to 49 of Reuters 1998 Annual Report to Shareholders under the heading "Operating and Financial Review", incorporated herein by reference from the 1998 Annual Report to Shareholders. The discussion is designed to comply with both the requirements of this Item 9 and the recommendations of the July 1993 Statement, "Operating and Financial Review", issued by the UK Accounting Standards Board.

The focus of Reuters discussion is on the financial statements included in the 1998 Annual Report to Shareholders, which are prepared in accordance with UK GAAP. A summary of differences between UK GAAP and US GAAP, a reconciliation to US GAAP and a condensed US GAAP balance sheet are set forth in the Consolidated Financial Statements, appearing on pages 79 to 81 of the 1998 Annual Report to Shareholders, and are incorporated herein by reference.

CAUTIONARY STATEMENTS  
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All statements other than statements of historical fact included in this Report and the 1998 Annual Report to Shareholders incorporated by reference herein are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 31E of the Securities Exchange Act of 1934. Certain important factors that could cause actual results to differ materially from those discussed in such forward-looking statements are described under "Cautionary Statements" and "Year 2000 Readiness Disclosure" in the "Operating and Financial Review" incorporated herein by reference from the 1998 Annual Report to Shareholders. All written and oral forward-looking statements made on or after the date hereof and attributable to Reuters are expressly qualified in their entirety by such Cautionary Statements.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are provided under the sub-heading Treasury Management on pages 43 to 45 of the "Operating and Financial Review", and in Note 13 of Notes on the Consolidated Cash Flow Statement, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

Reuters Articles provide for a Board of Directors consisting of not fewer than five nor more than 15 directors. There are presently 14 directors in office, including six executive directors.

The directors and executive officers of Reuters are as follows:

NAME	POSITION	POSITION HELD SINCE
DIRECTORS:		
Sir Christopher Anthony Hogg	Chairman; Director (1)	1985; 1984
Peter James Denton Job	Chief Executive; Director	1991; 1989
Robert Oscar Rowley	Finance Director	1990
Robert Patten Bauman	Director (1)	1994
Sir John Anthony Craven	Director (1)	1997
Michael Philip Green	Director (1)	1992
Jean-Claude Marchand	Chief Executive, GSO Group; Director	1999; 1996
Roberto G Mendoza	Director (1)	1998
Richard Lake Olver	Director (1)	1997
John Michael Coldwell Parcell	Chief Executive, Reuters Information; Director	1999; 1996
Charles James Francis Sinclair	Director (1)	1994
David Granger Ure	Chief Executive, Reuters Trading Systems; Director	1999; 1989
Andre-Francois Helier Villeneuve	Chairman of Instinet; Chairman of Strategic Planning; Director	1989; 1999 1989
Sir David Alan Walker	Director (1)	1994
EXECUTIVE OFFICERS:		
Stephen Francis Mitchell	General Counsel and Secretary	1998
Geoffrey Arthur Weetman	Director of Human Resources	1998
Philip Kenneth Wood	Deputy Finance Director	1994

(1) Non-executive director.

The business address of the directors is 85 Fleet Street, London EC4P 4AJ, England.

The Chairman and all non-executive directors, except Michael Green, served on the Remuneration and Audit Committees of the Board in 1998 and all non-executive directors served on the Nomination Committee in 1998. Summaries of the functions of the Remuneration Committee and the Audit Committee appear on pages 24 and 32, respectively, of the 1998 Annual Report to Shareholders which is incorporated herein by reference. During 1998, Reuters maintained insurance for the directors and certain employees against liabilities in relation to Reuters.

The Articles require that, in performing their duties, the directors have due regard for the Reuter Trust Principles insofar as, by the proper exercise of their powers and in accordance with their other duties as directors, the directors may do so. For additional information with respect to the Reuter Trust Principles and the Reuter Trustees, who are charged with ensuring compliance with them, see Item 4 of this Report.

The Articles contain provisions that require the Board of Directors to include at least five non-executive directors before a new executive director can be appointed.

At each AGM of Reuters one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation. A retiring director shall be eligible for re-election. For additional information see the Report on Remuneration and Related Matters which appears on pages 24 to 31 of the 1998 Annual Report to Shareholders referred to above.

No director is required to hold any shares of Reuters in order to qualify as a director. A director not holding any shares may nevertheless attend and speak at general meetings of Reuters.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS  
-----

For the year ended December 31, 1998, the aggregate compensation paid or accrued by Reuters and its subsidiaries to all directors and officers as a group (24 persons) for services in all capacities was (pound) 8.8 million.

The aggregate compensation paid to all directors and officers as a group included (pound) 1.7 million accrued as bonuses to the executive directors and officers pursuant to a plan based upon the extent to which three targets were met. The targets covered first, Reuters objectives for millennium compliance and Euro conversion; second, the growth in operating profit at constant exchange rates; and third, the growth in earnings per share. Many of the objectives were achieved, some in full and some partially.

Also included in aggregate compensation was a (pound) 1.2 million termination settlement with one officer relating to one year's salary, a partially earned bonus and an accrual for his prorated interest in a rolling four-year profit sharing plan operated by a subsidiary.

For further information relating to Reuters senior executive remuneration policy and compensation, see the Report on Remuneration and Related Matters which appears on pages 24 to 31 of the 1998 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES  
-----

Reuters has established a number of employee share schemes. These include: (i) a share option plan introduced in 1998 ("Plan 2000") under which employees became entitled to a single award of non-transferable options to acquire up to 2,000 shares; (ii) a long term incentive plan, a performance related share plan and an international Save As You Earn ("SAYE") plan ("International SAYE Plan") introduced by Reuters Group in 1997, which have substantially the same terms as Reuters Holdings' 1997 Long Term Incentive Plan, 1997 Performance Related Share Scheme and 1994 SAYE Scheme, respectively, referred to below; and (iii) two executive share plans of Reuters Group (one for use in the US and the other for the rest of the world) which were used to provide replacement options to those persons who surrendered options granted under Reuters Holdings' 1984 Executive Schemes referred to below.

Reuters employee share schemes also include the following plans of Reuters Holdings in respect of which no further grants of options or rights will be made, but under which options remain outstanding: (1) a long-term incentive scheme introduced in 1993 under which non-transferable awards of performance-based restricted shares or rights exercisable for shares on a one for one basis (share rights) were made annually to key senior executives (the "1993 Long-Term Incentive Scheme"); (2) a long-term incentive plan introduced in 1997 under which non-transferable awards of performance-based share options were made annually to key senior executives (the "1997 Long Term Incentive Plan"); (3) a long-term incentive scheme introduced in 1995 under which non-transferable awards of performance-based share rights were made annually to executives (the "1995 Performance Related Share Scheme"); (4) a long-term incentive scheme introduced in 1997 under which non-transferable performance-based share options were granted annually to executives (the "1997 Performance Related Share Scheme"); (5) a SAYE share option scheme adopted in 1994 (the "1994 SAYE Scheme"); (6) three SAYE share option schemes adopted in 1984 (the "1984 SAYE Schemes"); and (7) two executive share option schemes adopted in 1984 (the "1984 Executive Schemes"). In connection with the Capital Reorganization, mechanisms were introduced so that, upon exercise of options and rights outstanding under these Reuters Holdings plans, the person exercising his option or right would receive Ordinary Shares of Reuters Group.

For additional information relating to Reuters employee share schemes, see the Report on Remuneration and Related Matters which appears on pages 24 to 31 of the 1998 Annual Report to Shareholders and Note 30 of Notes on the Consolidated Balance Sheet, both incorporated herein by reference from the 1998 Annual Report to Shareholders.

Reuters also offers an Employee Stock Purchase Plan for most US-based employees, introduced in 1995, in which employees can elect to participate in lieu of the International SAYE Plan. Under this plan, participating employees authorize after-tax payroll deductions (subject to certain maximum amounts) which, together with contributions from Reuters equal to 20% of the payroll deductions, are transferred to a designated broker who, at the end of each pay period, purchases ADSs at available market prices for the accounts of the employees.

OUTSTANDING OPTIONS AND RESTRICTED SHARES

Information concerning options, restricted shares and share rights outstanding under Reuters share option and restricted share schemes at February 12, 1999 is set forth below:

SCHEMES/PLANS	NUMBER OF ORDINARY SHARES ISSUABLE UPON EXERCISE OF OPTIONS OR SUBJECT TO RESTRICTED SHARE OR SHARE RIGHT AWARDS (1)	RANGES OF EXERCISE PRICES PER ORDINARY SHARE (POUND) OR ADS (\$)	RANGE OF EXPIRATION DATES
OPTIONS:			
1984 SAYE (2)	3,901,860	(pound) 3.94 \$34.98	11/99 11/99
1994 SAYE (2)	8,207,053	(pound) 3.51 - (pound) 6.01	4/00 - 10/02
International SAYE (2)	4,790,119	(pound) 4.78 \$47.10	10/01 - 10/03 10/01 - 10/03
1984 Executive (3)	1,262,930	(pound) 1.50 - (pound) 4.93 \$15.94 - \$43.72	2/00 - 2/05 2/00 - 2/05
Plan 2000	25,348,000	(pound) 5.50	9/05
TOTAL	43,509,962		
SHARES SUBJECT TO RESTRICTIONS OR RIGHTS:			
1993 Long-Term Incentive (4)	927,228	Not applicable	2/99 - 12/02
1997 Long-Term Incentive (5)	518,290	(pound) 0 - (pound) 6.40	12/03
1995 Performance Related (6)	88,824	Not applicable	12/01
1997 Performance Related (5)	2,951,252	(pound) 0 - (pound) 6.40	12/03 - 12/04
TOTAL	4,485,594		

(1) Includes Ordinary Shares represented by ADSs.

(2) The exercise price of options granted under the 1984, 1994 and International SAYE schemes is effectively fixed at 20% below the market price at the start of either a three-year or a five-year savings period. In general, these options become exercisable at the end of that period and remain exercisable for six months thereafter.

(3) The exercise price of options granted under the 1984 Executive Schemes is the market price either at or shortly before the date of grant. Under their original terms, these options become exercisable during the period commencing on the third anniversary of the date of grant (the second anniversary in the case of options issued to US-based employees) and ending on either the seventh or the tenth anniversary of the date of grant. As a result of the Capital Reorganization all options expired on August 18, 1998, but holders could elect to replace their original options with unapproved Reuters Group options that have the same exercise price but generally lapse one year later.



- (4) Includes 510,184 restricted shares and 90,136 options relating to 1994 and 1995 awards respectively, which are vested.
- (5) The 1997 long-term incentive and performance related awards granted in the UK (a total of 417,688 shares and 1,423,147 shares, respectively) have an exercise price equivalent to the market value of the underlying shares on the date of the grant, and are linked with a cash bonus equal to such exercise price. The share rights and linked cash bonus vest and are exercisable only in tandem.
- (6) All options outstanding under the 1995 Performance Related Share Scheme have vested.

Of the total number of Ordinary Shares subject to outstanding options at February 12, 1999, 85,272 Ordinary Shares were subject to options held by directors and officers of Reuters, 27,272 of which were granted pursuant to savings related schemes, 18,000 of which were granted pursuant to Plan 2000 and 40,000 of which were granted pursuant to the 1984 Executive Schemes. In addition, Ordinary Shares subject to restrictions or rights held by directors and officers at February 12, 1999 included 1,044,979 shares awarded under the 1993 and 1997 long-term incentive plans (435,831 vested) and 38,598 shares awarded under the 1995 and 1997 performance related share plans (5,638 vested).

At February 12, 1999 options, restricted shares and/or share rights were held by the Chairman and the executive directors as follows:

	SAVINGS RELATED SCHEMES	PLAN 2000	EXECUTIVE SCHEME	LONG-TERM INCENTIVE SCHEMES/PLANS	
				VESTED	NON-VESTED
Sir Christopher Hogg.....	2,065	--	--	--	--
P.J.D. Job.....	3,508	2,000	--	98,579	130,030
J-C. Marchand.....	3,098	2,000	--	41,385	87,799
J.M.C. Parcell.....	2,065	2,000	40,000	36,611	57,549
R.O. Rowley.....	3,508	2,000	--	61,587	80,834
D.G. Ure.....	--	2,000	--	66,527	85,996
A-F.H. Villeneuve.....	3,508	2,000	--	66,527	85,996

For additional information concerning options, restricted shares and share rights held by the executive directors, see the Report on Remuneration and Related Matters, incorporated herein by reference from the 1998 Annual Report to Shareholders.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Not applicable.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED  
SECURITIES

Not applicable.

PART IV

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS:

	Annual Report to Shareholders	
	-----	
	Pages	Related Notes Pages
	-----	-----
Incorporated by reference from the 1998 Annual Report to Shareholders:		
Report of the auditors .....	34	
Consolidated profit and loss account for each of the three years in the period ended December 31, 1998 .....	50	51 to 56
Consolidated cash flow statement for each of the three years in the period ended December 31, 1998 .....	57	58 to 62
Consolidated balance sheet as of December 31, 1998, 1997 and 1996 .....	63	64 to 74
Accounting policies .....	77 to 78	
Summary of differences between UK and US GAAP .....	79	80 to 81
Report on Remuneration and Related Matters .....	24 to 31	

The consolidated financial statements listed in the above index which are included in the 1998 Annual Report to Shareholders are hereby incorporated by reference. With the exception of the pages listed in the above index and the items incorporated by reference in Items 1, 2, 3, 8, 9, 9A, 10, 11 and 12 of this report, the 1998 Annual Report to Shareholders is not to be deemed filed as part of this Report.

(b) EXHIBITS

- 2.4 Consent of PricewaterhouseCoopers for incorporation by reference in Forms S-8 of their report dated February 12, 1999.
- 2.5 Consent of PricewaterhouseCoopers for incorporation by reference in Forms F-3 of their report dated February 12, 1999.
- 4. The 1998 Annual Report to Shareholders of Reuters Group PLC.
- 27 Financial Data Schedule

SIGNATURES

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Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

REUTERS GROUP PLC

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(Registrant)

Dated: March 5, 1999

By /s/ Robert O. Rowley

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Robert O. Rowley  
Finance Director

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form F-3 (No. 33-69694 and No. 333-7374) of Reuters Group PLC of our report dated February 12, 1999 appearing on page 34 of the 1998 Annual Report to Shareholders which is incorporated in this Annual Report on Form 20-F.

By: /s/ PricewaterhouseCoopers

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Chartered Accountants  
and Registered Auditors

London, England  
March 1, 1999

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-16927, No. 33-90398 and No. 333-5998) of Reuters Group PLC of our report dated February 12, 1999 appearing on page 34 of the 1998 Annual Report to Shareholders which is incorporated in this Annual Report on Form 20-F.

By: /s/ PricewaterhouseCoopers

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Chartered Accountants  
and Registered Auditors

London, England  
March 1, 1999

Reuters Group PLC  
Annual Report and Accounts 1998  
- --((logo))--  
Trust Reuters

(Inside Front Cover)

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	Peter Job answers the key questions facing Reuters
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COVER IMAGE

Teamwork won the 1998 football World Cup for France. Teamwork and technology won off the field for Reuters News Pictures Service. The latest digital cameras and laptop computers enabled Reuters pictures to be delivered to customers within minutes of the action, sweeping the play against our rivals in the most highly competitive conditions. (Front cover) Zinedine Zidane of France (C) celebrates scoring with teammates Emmanuel Petit (R) and Christian Karembeu during the World Cup Final against Brazil 12 July.

Photo by Paulo Whitaker REUTERS

...to innovate

Reuters is at the cutting edge of innovative technological solutions. In 1998, among many other developments, Reuters launched the Reuters Plus specialised U.S. equities service. In Japan, ReuterFirst, a new and similar product, serves professional Japanese investors. To help business customers do their jobs better, Reuters is committed to the qualities they value most: integrity, international content and constant innovation.

Kevin Overland of Canada tucks into a corner as he competes in the first race of the Olympics speed skating men's 500 metres at the M-Wave Stadium.

Photo by Blake Sell REUTERS

...to support high performance

Reuters operates the world's largest private network of communications and linked computers, using satellites and high-speed land links to beam real-time information and news around the planet to 498,500 users in nearly 58,000 locations.

Germany's Georg Hackl speeds down the track in the Winter Olympics luge competition. Hackl made luge history when he became the first man to win the men's singles title at three consecutive games.

Photo by Mark Baker REUTERS

Pages 2 & 3

...to show fine judgement

Success often requires split-second timing. The launch of Europe's new single currency, the euro, meant a total of one billion items in Reuters databases had to be changed to be ready for the start of trading on 4 January 1999. From 31 December, when rates for the 11 euro currencies were fixed, 700 specialist staff worked round the clock to amend information relating to a quarter of a million financial instruments. The work was completed seven hours ahead of schedule, giving Reuters customers extra time to view the converted data before the markets opened.

Austria's Mario Stecher soars down the hill during the ski jumping of the Olympic Nordic combined individual event.

Photo by Juergen Schwarz REUTERS



FINANCIAL HIGHLIGHTS

	1998 (pound)m	1997 (pound)m	% change
Revenue	3,032	2,882	5
Earnings before interest, tax, depreciation and amortisation	927	904	2
Operating profit	550	541	2
Interest	2	80	(98)
Profit before tax	580	626	(7)
Pre-tax profit margin	19.1%	21.7%	
Taxation	196	236	(17)
Profit after tax	384	390	(1)
Post-tax profit margin	12.7%	13.5%	
Return on tangible fixed assets	48.2%	49.0%	
Return on equity	78.5%	25.6%	
Free cash flow	490	449	9
Net (debt)/funds	(3)	1,290	-
	1998	1997	% change
Basic earnings per ordinary share	26.7p	24.0p	11
Earnings per ADS*++	\$2.66	\$2.39	11
Dividends per ordinary share	14.4p	13.0p	11
Dividends per ADS* (see page 83)	87.7p	82.9p	11

\*Each ADS represents six ordinary shares.

++A nominal exchange rate of US\$1.66=(pound)1 has been used for convenience.

The following supplementary information is provided for those who track Reuters performance on a pre-goodwill basis:

	1998	1997	% change
Pre-tax profit excluding goodwill	(pound) 631m	(pound) 677m	(7)
Adjusted earnings per ordinary share excluding goodwill	30.3p	27.1p	12

FIVE YEAR SUMMARY

Revenue (pound)million	98	97	96	95	94
	3,032	2,882	2,914	2,703	2,309

Grew 5% at actual exchange rates and 9% at comparable exchange rates

Profit before taxation (pound)million	98	97	96	95	94
	580	626	652	558	481

Down 7% at actual exchange rates but up 2% at comparable exchange rates, despite the fall in interest income

Earnings before interest, tax, depreciation and amortisation (EBITDA) (pound)million	98	97	96	95	94
	927	904	924	801	681

Grew 2% at actual exchange rates and 10% at comparable rates

Basic earnings per ordinary share pence	98	97	96	95	94
	26.7	24.0	27.3	23.2	21.7

Increased 11% in 1998

Dividends per ordinary share pence	98	97	96	95	94
	14.40	13.00	11.75	9.80	8.00

Increased by 11% in 1998. Dividend cover decreased to 1.9 in 1998 from 2.1 in 1997

Cash flow per ordinary share pence	98	97	96	95	94
	67.9	61.0	60.7	52.7	45.6

Increased by 11% in 1998. The ratio is defined on page 89

Financial information products revenue (pound)million	98	97	96	95	94
	1,949	1,852	1,892	1,841	1,617

Revenue grew 5% and accounted for 64% of the total

Transaction products revenue (pound)million	98	97	96	95	94
	882	828	813	671	527

Revenue grew 6% and accounted for 29% of the total

Media and professional products revenue (pound)million	98	97	96	95	94
	201	202	209	191	165

Revenue declined 1% and accounted for 7% of the total

REUTERS PRODUCTS

User accesses	498,500
Customer locations	57,900
Countries served	157
Languages in which news services created	22

INFRASTRUCTURE

Staff	16,938
Countries with Reuters offices	96
Cities with Reuters offices	218

INFORMATION SOURCES

Data contributors	4,982
Markets reported in real time	267
Journalistic staff	2,072
Editorial bureaux	182

Page includes picture showing computer screen with Reuters share price over a 10-year period relative to Financial Times Stock Exchange 100 index.

REUTERS SHARE PRICE RELATIVE TO THE FTSE 100 INDEX

Date	Relative Performance Against the FTSE 100	Date	Relative Performance Against the FTSE 100	Date	Relative Performance Against the FTSE 100	Date	Relative Performance Against the FTSE 100
31-Jan-99	2.117804						
31-Dec-98	1.450328	31-Dec-95	2.162292	31-Dec-92	1.672006	31-Dec-89	1.425649
30-Nov-98	1.378245	30-Nov-95	2.276672	30-Nov-92	1.625158	30-Nov-89	1.40447
31-Oct-98	1.52901	31-Oct-95	2.252785	31-Oct-92	1.503003	31-Oct-89	1.432488
30-Sep-98	1.31888	30-Sep-95	2.154437	30-Sep-92	1.583532	30-Sep-89	1.367146
31-Aug-98	1.285278	31-Aug-95	2.177157	31-Aug-92	1.533279	31-Aug-89	1.377346
31-Jul-98	1.410698	31-Jul-95	2.04963	31-Jul-92	1.457967	31-Jul-89	1.258205
30-Jun-98	1.58797	30-Jun-95	2.137502	30-Jun-92	1.552557	30-Jun-89	1.239889
31-May-98	1.617941	31-May-95	1.918526	31-May-92	1.484375	31-May-89	1.294924
30-Apr-98	1.477921	30-Apr-95	1.986084	30-Apr-92	1.502325	30-Apr-89	1.161855
31-Mar-98	1.467832	31-Mar-95	2.05104	31-Mar-92	1.551933	31-Mar-89	1.127287
28-Feb-98	1.433608	28-Feb-95	1.992666	29-Feb-92	1.544001	28-Feb-89	1.097258
31-Jan-98	1.362372	31-Jan-95	1.975078	31-Jan-92	1.483058	31-Jan-89	1
31-Dec-97	1.76005	31-Dec-94	2.06199	31-Dec-91	1.400306		
30-Nov-97	1.869278	30-Nov-94	2.154467	30-Nov-91	1.26399		
31-Oct-97	1.806587	31-Oct-94	2.086589	31-Oct-91	1.267257		
30-Sep-97	1.895023	30-Sep-94	2.124442	30-Sep-91	1.228729		
31-Aug-97	1.756948	31-Aug-94	2.125055	31-Aug-91	1.13837		
31-Jul-97	1.812892	31-Jul-94	2.041779	31-Jul-91	1.011928		
30-Jun-97	1.858738	30-Jun-94	1.984693	30-Jun-91	1.070845		
31-May-97	2.007088	31-May-94	2.089245	31-May-91	1.140042		
30-Apr-97	1.933955	30-Apr-94	2.299418	30-Apr-91	1.102633		
31-Mar-97	1.940562	31-Mar-94	2.146596	31-Mar-91	1.205407		
28-Feb-97	2.061891	28-Feb-94	2.061797	28-Feb-91	1.138622		
31-Jan-97	2.074401	31-Jan-94	1.930288	31-Jan-91	1.199271		
31-Dec-96	2.467154	31-Dec-93	1.767047	31-Dec-90	1.108608		
30-Nov-96	2.407311	30-Nov-93	1.794237	30-Nov-90	0.951447		
31-Oct-96	2.59776	31-Oct-93	1.741816	31-Oct-90	0.928191		
30-Sep-96	2.525533	30-Sep-93	1.688168	30-Sep-90	1.263638		
31-Aug-96	2.607976	31-Aug-93	1.678121	31-Aug-90	1.309707		
31-Jul-96	2.460872	31-Jul-93	1.665571	31-Jul-90	1.539282		
30-Jun-96	2.838264	30-Jun-93	1.61202	30-Jun-90	1.769404		
31-May-96	2.707576	31-May-93	1.604024	31-May-90	1.725069		
30-Apr-96	2.663175	30-Apr-93	1.512819	30-Apr-90	1.672277		
31-Mar-96	2.59842	31-Mar-93	1.549972	31-Mar-90	1.668086		
29-Feb-96	2.539072	28-Feb-93	1.630007	28-Feb-90	1.568868		
31-Jan-96	2.229929	31-Jan-93	1.678556	31-Jan-90	1.430303		

## REUTERS TODAY

In 1998 Reuters set out to engineer one of the biggest organisational changes in its 150-year history. We decided to transform ourselves from a horizontal structure managed by areas and country units to become a vertical organisation driven by our main businesses and measured by their profitability.

The growing globalisation and integration of financial markets made the new structure essential to develop global customer relationships, since many of our clients already manage themselves this way.

There will be two main business divisions, Reuters Information and Reuters Trading Systems. They will distribute products through the Global Sales and Operations Group. Our third large business, Instinet, continues to operate as an autonomous subsidiary. The company's Corporate and Media Information business is managed separately.

The structure includes specified functions which run across all businesses, including Strategic Planning and the post of Chief Technical Officer, who takes the lead in establishing a unified and cost-effective technical infrastructure.

Our new structure is explained in more detail on the opposite page.

## REUTERS INFORMATION DIVISION

Reuters Information division operates in four main markets: foreign exchange/money; commodities; fixed income; and equities. It provides a comprehensive service of up-to-the-second and historical pricing along with associated analysis. News is a vital part of its activity.

### Customers

The world's leading financial institutions. Traders, brokers, dealers, analysts, investors and corporate treasurers use information products.

### Competitors

Reuters is a market leader in these sectors. Its principal competitors are Bloomberg L.P. and Bridge Information Systems.

### Outlook

Management is confident that there is good potential for growth in the longer term, through upgrading existing users, exploiting adjacent market segments, maintaining pricing power through high-quality performance and close integration with customers' activities, and through obtaining margin improvement via efficiency gains.

## REUTERS TRADING SYSTEMS DIVISION

Reuters Trading Systems groups several world-leading businesses designed to cater to the financial markets. They include transactions systems for the foreign exchange and money markets (Dealing 2000-1 and Dealing 2000-2) as well as sophisticated software for the distribution of real-time information within customer organisations (sold under the brand names TIBCO and Triarch). The division has an important risk management business and is pioneering products which facilitate straight through processing of equity orders in a manner designed to improve cost effectiveness.

### Customers

The world's leading financial institutions, including trading and brokerage personnel and risk managers.

### Competitors

The Electronic Broking Service is the principal competitor for money and foreign exchange transactions. In other areas, competition is fragmented between individual and conglomerated software and systems companies.

### Outlook

Foreign exchange dealing looks flat due to the consolidation of European currencies into the euro. There are good growth prospects for systems generally pending our ability to provide generic solutions to replace in-house spending which our customers are anxious to reduce.

## INSTINET

Instinet Corporation is a major force in the world's equities markets. It is a member of 17 exchanges around the world with offices in eight international financial centres. Instinet competes with other brokers for equities order flow. It specialises, as an agency broker, in using technology and automation to obtain best execution for its clients and the institutional investors they represent. Instinet was founded in 1969 and was acquired by Reuters in 1987.

### Customers

Instinet provides its equity transaction and research services to a global base of institutional fund managers and plan sponsors, other brokers, dealers and exchange specialists.

### Competitors

Instinet competes daily with other institutional brokerage firms for global order flow.

### Outlook

Instinet continues its global expansion, aiding in capital formation. It is increasingly clear that its business model, rooted in technology, makes markets more efficient and liquid, and increases client performance through the reduction of transaction costs.

## GLOBAL SALES AND OPERATIONS

The Global Sales and Operations (GSO) Group acts as the distribution arm for the company's businesses. It handles sales, customer support and technical operations worldwide. It is responsible for delivering financial performance in line with business plans agreed with the divisions. The GSO seeks to enhance profitability and customer satisfaction by implementing global standards and processes. It acts as the eyes and ears of the organisation in ensuring that no attractive market opportunity goes unexplored. It is the custodian of the Reuters Group brand.

## CORPORATE AND MEDIA INFORMATION

Reuters is the principal international supplier of news in the form of text, video and still pictures to media all over the world. It is a leading news brand on the Internet and makes its services available through the principal and most

popular servers. It maintains a very large database, including up to 18 years of Reuters news and more than 4,000 other publications, which are offered to corporate clients under the label of Reuters Business Briefing. The media market is quite static but the outlook for growth in other segments is good.

FROM THE CHAIRMAN

For several years now I have in my statements focused initially on the results of the year and then have gone on to reiterate in various ways the Board's deep commitment to the Reuter Trust Principles and to a long-term perspective. In reviewing 1998, which has been a year of even more extraordinary activity and change in Reuters than usual, it would for once be more appropriate to comment on longer-term issues before dealing with the all important topic of the year's financial results.

The cornerstone of the Reuter Trust Principles (see page 86) is that Reuters should be dedicated to preserving integrity in its gathering and dissemination of news and information. It should be the essence of our business to be independent, unbiased, open, honest and objective and to deliver relevant information, spin-free and with all speed, to our customers worldwide.

The Reuter Trust Principles were first drafted in 1941 and were firmly entrenched as part of the Reuters constitution at the time of the company's flotation in 1984. For nearly 60 years, therefore, they have represented the basic values of the Reuters brand and they remain a touchstone for our strategy and one to which the Board is firmly committed. They have stood the test of time and in no way do we find them either restricting desirable enterprise or marginal to our central purposes.

Our other commitment, that to a long-term perspective, is difficult to maintain at the best of times. It is doubly difficult for a publicly quoted market leader in an era of huge and rapid technology and market change, when share price volatility and media comment are daily reminders of how variable investment judgements can be. However, just as 1998 has deepened our confidence in the basic values of Reuters business, so it has also increased our belief in the long-term growth opportunities to be derived from exceptional and innovative service to Reuters current markets. We have devoted much Board time in 1998 to the company's ability to spot and exploit those opportunities. From this point of view the reorganisation embarked on in mid-1998 will be particularly influential.

As a result of this reorganisation, two important changes are now taking place in the conduct of Reuters business. The first is a change of emphasis from a geographical focus to a product line one. The second is a change of emphasis from market share to profitability. Both shifts are relative, not absolute: that is to say, the company has always been concerned, as its record demonstrates, with product line and profitability; but they will now become even more important in determining our priorities and measuring our performance. In this way, we shall be going with the grain of our customers' and shareholders' requirements and will cater better to Reuters long-term earnings growth.

Reorganisation may enable better use of resources. It counts for little unless the resources themselves are of high quality and kept so. Reuters key assets, as I said last year, though intangible from a balance sheet point of view, are real, formidable and competitive: the skills and loyalty of its people; its databases and the organising of them; its extraordinary geographical diversification; and the Reuters brand itself. The development of all these has long been a high and continuous priority for the Board and it is ongoing.

As to the specifics of 1998, (pound)1.5 billion was returned to shareholders early in the year (which means that financial comparisons with 1997 must be handled with caution); earnings per share, which are comparable, were up by 11%; and the dividend per share was similarly increased. The year ended, and the new one began, with a successful culmination to the hundreds of man-years of effort we had put into preparing for the introduction of the euro (an event which several years back was seen as likely to be terminal for Reuters). So another milestone has been passed. One down and many to go, but we have a lot of momentum.

--((signature))--  
Sir Christopher Hogg

#### Company objectives

Reuters aims to grow its value for shareholders, and outperform its peers. It will devote itself to the business of information and related systems technology, enabling professional communities to enhance their work performance in the fields of finance and commerce.

Reuters brand offers customers innovative use of well-supported technology, as well as swift and easy access to essential content, accurately compiled without bias. We will capitalise on Reuters media businesses which are profitable to build our brand worldwide in newspapers, broadcasting and on the Internet.

The company aims to attract and retain good people through its unique international culture, the important values embodied in the Reuter Trust Principles, and the interesting opportunities it offers in terms of career development and participation in the success of the enterprise.



FROM THE CHIEF EXECUTIVE

Trust Reuters

1998 was the year of Internet stocks. Who knows, in the short time it takes for this message to go from my screen to publication in our annual report, where their values will have gone? It has also been the year of a major reorganisation in Reuters. Though conducted in a low key manner, it is probably the most extensive change the company has seen in its nigh-on 150 years of history.

These topical issues are my subjects for this letter to shareholders:

...to innovate

What distinguishes popular Internet stocks from Reuters? There are important similarities to mention first. Like the "portal" companies, Reuters aggregates a great deal of text and numbers from other sources, such as exchanges, newspapers or published research. In both cases, there are gateways to transactions or E-commerce. Reuters uses cheap and efficient Internet technology standards, and is gradually making increasing use of the Internet as a low-cost delivery mechanism.

...to support high performance

The differences are also instructive. Firstly, as well as being an aggregator, Reuters owns massive slabs of text, numbers, pictures and video. It applies fine judgement to the production of this material in its own particular factual, non-opinionated way. We apply the same selectivity to the high level of coding and presentation of material we offer, including sources that we do not own. In this we differ from the portal companies, which are not very selective because they are targeting a much broader consumer segment. Reuters elects to concentrate on professionals who are willing to pay for high-specification, trustworthy material which helps them in their work.

Those who analyse the industry have gone, perhaps too rapidly, from the maxim "content is king" to the portal theory, with the allied suggestion that, on the Internet, "high-price" information will become available free of charge. We believe possession of content, and the difficult skills needed to generate quality material, is a vital part of value creation. The production of value-added content demands continuous innovation too. On the day of the euro launch, we were proud to show seven hours of continuous live programming - our biggest-ever daily figure - to customers of our specialised TV service for dealing rooms.

...to show fine judgement

We do not rely on dissemination through portals owned by others who exact tolls from us. Nor do we see an economic model emerging which will

make branded information worthless. We can see reasons why the wide availability of free information will enlarge the market for paid information. Due to the self-imposed pricing restraint we exercised, we believe wisely, throughout this decade, we do not think that our information is that expensive any more. We now plan for modest increases in 1999.

...to get at results

Finally, the message of the Internet companies is frequently one of disintermediation (although it often seems to mean the creation of a new class of intermediaries). Here again, we differ in that we would rather avoid disintermediation and actually help our clients - surely one of the most blue-chip lists that any global company can assemble - to reach their own customers with information and transaction software. This message of partnership has been well received and is bringing us business.

In short, there are more subtle growth messages in the new technologies than bloody revolution overturning all that went before. This encourages us, but we also know that technology faces its own special millennium challenge. We approach the Year 2000 with increased confidence following our handling of the massive euro conversion exercise. But we have to anticipate possible disruption of buying patterns as our customers divert resources to Y2K problems of their own.

...to win

Against this background, improved management techniques can clearly be used to safeguard and grow profit. Our reorganisation is designed to throw a spotlight on the profitability of our different activities. This harsher glare is exposing many a need for change. In tightening strategy and objectives, and controlling the expansion of staff and capital resources, we hope to earn the trust of our shareholders in our ability to grow the value of the company.

- --((signature))--  
Peter Job

## AN INTERVIEW WITH THE CHIEF EXECUTIVE

1998 saw a growing trend of mergers and acquisitions among banks, finance houses and exchanges and there are predictions this could accelerate in 1999. What effect does this have for Reuters?

Mergers have been going on for just about as long as I can remember now. The bad effects for us are to reduce the pool of liquidity and trading and to reduce the number of dealing stations. The good effects are to provide us with systems sales opportunities and a more healthy and aggressive client base. People tend to exaggerate the effect of merger activity since many of the people who analyse our stock are themselves involved in one way or another and they get to see things out of proportion sometimes. An example: Reuters serves something like 60,000 client locations around the world. If you were to take say a leading investment bank or broker it might only account for 50 or 100 of those locations. We really are a diversified company.

The New Year saw the launch of a new international currency, the euro, in 11 European Union states. Where is Reuters positioned with regard to trading in the euro and what does the whole question of a common currency mean for Reuters?

The euro has three main effects for us. We will lose some foreign exchange business in the reduction in currency pairs available. Quite a lot of this has probably already been discounted by our clients running down their foreign exchange activities. Secondly, it should give a boost to securities trading in Euroland which is right at the heart of our business and should bring significant benefits over time. Thirdly, we need to harmonise on pricing because our pricing in the different euro countries has constantly drifted apart due to exchange movements among other things. We have been planning the convergence of tariffs for quite some time and I think we will manage it perfectly ok with an attendant gain in the simplicity of administration.

The economic crises in Japan and the rest of Asia sent shudders through the global economy. Do you see any prospect of an upturn in Asia and how has this affected Reuters business in the region?

What you believe about Japan is more an act of faith than anything else. There is a set of economic problems, but these may only start to be overcome when the society agrees on new strategies and finds the will to pursue them. Personally, I see signs that this is now happening. Our business is certainly benefiting from the new set of circumstances. We have thoroughly 'Japanised' our products and are getting into domestic market sectors where we were previously not present. The rest of Asia remains somewhat problematic. We do not expect to lose very much, but equally it may be over-optimistic to see an immediate upturn in places like Hong Kong and Indonesia. Our businesses in China, Taiwan and India have managed to continue reasonably stable growth and we have also observed that South Korea is putting itself together again relatively fast. Singapore, which is a major centre for us, is stable in itself but surrounded by regional problems. The balance should be one of gentle improvement.

Instinet is a major revenue contributor to Reuters. Could you tell us why the new rules introduced progressively by the US Securities and Exchange Commission are not favourable to Instinet?

The general effect of the rule changes made or announced by the SEC in the last couple of years has been to expose widely outside the Instinet system the proprietary liquidity pool previously only visible to brokers and institutions with Instinet screens. This has enabled competition to flourish and is just one of those penalties for getting bigger and bigger. From time to time we have argued against certain aspects of the changes, but our main concern is to look for ways in which we can add further value to our vast Instinet network either through improvements to our present activities or through totally new projects. You can expect both things to happen. We still feel Instinet is a hot property and it has much potential for further

development. It is a company we want to invest more in, but we don't particularly want to give our competitors notice of our plans in these columns today.

In what areas are you looking to grow the company and how will your new structure help you to achieve this?

The watchword is "grow profit" and the new structure is all about making sure that market share is translated into profit. We have been through a big investment phase, particularly in the 3000 series, and these investments have to produce results now. Looking at the top line, there is an overall concern that the millennium will defer purchases by customers, particularly if they conclude that they should freeze their technical configurations as early as mid-1999. This would tend to mean deferred growth rather than permanent loss of business. Underlying growth in our businesses is better in some cases than others - risk management, systems sales, database sales to corporations and electronic equities brokerage are all well up at the moment. Whereas the duller information sectors like foreign exchange are not contributing that much to growth. We think the balance is that this will not be a spectacular year for revenue growth at constant exchange rates. But we should have an opportunity to grow profit faster than revenue if we succeed as we intend in tightening management control over the cost base.

How did your investments in Internet start-up companies fare in 1998?

After four years' experience, or thereabouts, we feel we are accumulating the right skills to pick good investments in companies with technology or information solutions from which we can learn something for the future. We have the dual aim of making capital gains and learning from people smaller than ourselves. The people we invest with like that too because it means we are willing to try out their technologies in our mainstream business. This partly accounts for our profitable record to date by investing in several companies which have gone on to IPOs. We are ploughing back our profits into new investments but we have switched our focus in recent times to Europe as valuations in Silicon Valley have risen so astronomically. Maybe some of the extremes of the market will be seen as tulip-mania later on but we still think there will be a series of solid opportunities to invest in new start-ups in 1999 and onwards. We call it a greenhouse fund. The idea is that it should be self-financing and make regular contributions to our results as it has done in 1998.

After the return to shareholders of (pound)1.5 billion in 1998, what do you see as the future capital structure of the company?

Acquisitions made in 1998 have soaked up our spare cash, so we don't have any surplus at the moment. But we are squeezing capital expenditure and costs generally so we expect to remain in a healthy cash flow position. There is something to be said for launching a share buyback programme, but we are still studying the pros and cons at this stage.

Reuters has made a major investment to deal with the impending millennium computer bug. How confident are you that your products and services will be able to cope with this threat when Year 2000 dawns?

We have taken this matter very seriously, starting our formal Millennium Programme in 1996 and having an executive director specifically focusing on the issue. Nobody can be sure in the millennium that they won't be let down by somebody else but we at Reuters have invested a considerable amount to try to reduce the risks posed for us by the millennium. Further details of our Millennium Programme are given on pages 45 to 47 of the annual report. In the case of both converting for the euro (which was also a massive task which we did exactly on time on 4 January) and the millennium we have been working closely with customers and we are getting a lot of relationship value from that.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS  
(pictured left to right)

Sir Christopher Hogg  
(1984, Chairman 1985)

Chairman of Allied Domecq since April 1996. Director of SmithKline Beecham, member of the International Council of J.P. Morgan and a Ford Foundation Trustee. Former Chairman of Courtaulds 1980-1996 (Chief Executive 1979-1991); director of the Bank of England 1992-1996. Age 62.

Robert (Bob) Bauman (1994)  
Former Chairman of BTR plc (May 1998-February 1999) and former Chairman of British Aerospace plc (1994-May 1998). Chief Executive of SmithKline Beecham plc (1989-1994) Director of BTR Plc, Union Pacific Corporation, CIGNA Corporation, Hathaway Holdings, Inc, Morgan Stanley Dean Witter and Russell Reynolds Associates, Inc. Age 67.

Sir John Craven (1997)  
Former member of the Board of Managing Directors of Deutsche Bank AG and Chairman of Deutsche Morgan Grenfell plc; Chairman of Lonrho Plc; non-executive director of Rothmans International B.V. Age 58.

Michael Green (1992)  
Chairman of Carlton Communications Plc and ONdigital. Non-executive director of ITN. Age 51.

Roberto Mendoza (1998)  
Vice Chairman and a Director of J.P. Morgan & Co Inc. He joined J.P. Morgan in 1967 and was assigned to London early in his career. He left in 1972 to pursue graduate studies, returning to the firm's New York office in 1975 to work in international corporate finance. From 1980 to 1985 he headed the capital market services group and then became head of the Mergers and Acquisitions group. Age 53.

Richard (Dick) Olver (1997)  
A group managing director of BP Amoco plc and EVP, Exploration and Production. Member of the Institution of Civil Engineers. A Governor of New Hall School. Age 51.

Charles Sinclair (1994)  
Group Chief Executive of Daily Mail and General Trust plc. A director of Euromoney Publications PLC and Schroders PLC. Age 50.

Sir David Walker (1994)  
Chairman of Morgan Stanley International Inc., and a member of the Management Committee of the Board of Morgan Stanley Dean Witter in New York. Former Deputy Chairman of Lloyds Bank plc, Chairman of the Securities and Investments Board and Director of the Bank of England. Age 59.

STRATEGY REVIEW COMMITTEE

Peter Job (Chair), Jean-Claude Marchand, John Parcell, Rob Rowley, David Ure, Andre Villeneuve

Doug Atkin, 46, President and Chief Executive Officer, Instinet Corporation.  
Tom Glocer, 39, President, Reuters Information, the Americas and President of Reuters America Inc.

Julie Holland, 47, MD, Reuters Information, and Senior Company Officer, UK & Ireland.

Marion King, 40, MD, Money & FX Transaction Systems.

Greg Meekings, 45, MD, Global Sales & Operations, Reuters Trading Systems.

David Morgan, 47, Chief Information Officer.

EXECUTIVE DIRECTORS  
(pictured left to right)

Peter Job (1988)

Chief Executive since 1991. Joined Reuters as a journalist in 1963. From 1971 he worked to develop the company's business in Latin America, Africa, Asia and the Middle East. From 1978 until 1991 he headed the company's business in Asia. Non-executive director Diageo Plc and Glaxo Wellcome plc. Age 57.

Jean-Claude Marchand (1996)

Executive Director and Chief Executive, Global Sales and Operations. Managing Director, Continental Europe since 1989, with Middle East and Africa since 1995. Joined Reuters in 1971 as a sales executive and became Sales and Marketing Manager, Asia in 1978. A Swiss national, he has held senior management positions in Europe since 1979. Age 52.

John Parcell (1996)

Executive Director of Reuters Group PLC and Chief Executive of Reuters Information, the largest of the Group's new product-based divisions. Joined Reuters in 1969 as a journalist, working in Asia and Latin America, then became a marketing and product manager. Assistant Managing Director, Europe, Middle East and Africa 1988 -1990. Managing Director, UK and Ireland 1990-1996. Age 52.

Robert (Rob) Rowley (1989)

Finance Director since 1990. Joined Reuters in 1978, taking financial responsibility for Europe in 1981. He became Joint Company Secretary in 1988, Group Financial Controller in 1989, and Company Secretary from 1991 to 1993. Responsible for new business information products, media and new business ventures since 1996. Age 49.

David Ure (1988)

Executive Director responsible for Reuters Trading Systems Division and Group technical strategy. From 1992 to 1998, Ure was responsible for Group marketing and technical policy. Before that he headed Reuters operations in Europe, Middle East and Africa. He joined the company in 1968 as a trainee journalist. Non-executive Director of Woolwich PLC from 1998. Age 51.

Andre Villeneuve (1988)

Executive Director Strategic Planning and Chairman Instinet Inc. He headed Reuters geographical operating units 1992 to 1998. He managed the company's business in North America from 1983 to 1991, taking charge of Latin America as well in 1989. He joined as a journalist in 1967. Independent (non-executive) director CGU plc and non-executive director of United Technologies Corporation. Age 54.

STRATEGY REVIEW COMMITTEE (continued)

Jeremy Penn, 39, MD, Reuters Asia.

Maurizio Pescosolido, 56, MD, Global Sales & Operations, Reuters Information.

Mike Sayers, 45, Chief Technology Officer.

Geoff Weetman, 52, Director of Human Resources.

Ros Wilton, 47, MD, FX/Money & Commodities, Reuters Information.

Mark Wood, 46, Editor-in-Chief.

Philip Wood, 43, Deputy Finance Director.

Simon Yencken, 43, Chief Operating Officer, TIBCO Finance and MD of Financial Enterprise Systems.

## REPORT OF THE DIRECTORS

The directors submit their annual report and audited financial statements for the year ended 31 December 1998.

## ACTIVITIES

Reuters activities are set out on page 9.

A detailed review of Reuters activities during 1998 and likely future developments is given in the messages from the Chairman and the Chief Executive (pages 10-13) and the financial review appearing on pages 35-49. The directors consider that these reviews, taken together, comply with the statement issued by the UK Accounting Standards Board on the Operating and Financial Review and with the requirements of the US Securities and Exchange Commission (SEC) for a Management's Discussion and Analysis of Financial Condition and Results of Operations.

## FINANCIAL STATEMENTS AND INTERNAL CONTROL

Separate statements about the Audit Committee and about directors' responsibilities in respect of the financial statements which include details of internal financial control are set out on pages 32-33

The consolidated profit and loss account is set out on page 50.

## AUDITORS

In accordance with the Companies Act 1985 a resolution to reappoint PricewaterhouseCoopers as auditors at a remuneration to be agreed by the directors will be placed before the annual general meeting of the company on 20 April 1999.

## CORPORATE GOVERNANCE

Reuters has always recognised the importance of high standards of corporate governance. It supports and has complied throughout 1998 with the majority of the principles of corporate governance recommended in the Combined Code. The ways in which Reuters applies these principles, and the few principles with which Reuters does not consider it appropriate to comply at present, are described in the appropriate parts of this annual report. Thus the application of corporate governance principles to Board matters is described on pages 18-19, to internal controls on page 19, to relations with shareholders on page 21, to directors' remuneration on page 24 and to financial reporting on page 33.

PricewaterhouseCoopers have reviewed Reuters statements as to compliance with the Combined Code to the extent required by the Listing Rules of the London Stock Exchange. The results of their review are set out on page 34.

## COMPANY ORGANISATION

The Board currently comprises six executive directors including Peter Job, the Chief Executive, and eight independent non-executive directors including Sir Christopher Hogg who is the Chairman and who thus has responsibility for running the Board. Michael Green, who joined the Board as a non-executive director in July 1992 and who has served two three-year terms, has decided not to stand for re-election at the forthcoming annual general meeting. The directors record their warm appreciation for his contribution to the Board. The Board has not identified a senior independent non-executive director because it considers such an appointment to be unnecessary at present.

The Board carries the ultimate responsibility for the conduct of Reuters business. Its regular meetings take place every two months and, in addition, it has an annual strategy review meeting. Each year the directors, other than the Chairman, meet to review the role and performance of the Chairman and once a year the Chairman and the non-executive directors meet to consider the performance of the executive directors. In 1998 the Board also introduced a formal self-assessment of its effectiveness. It intends to undertake these self-assessments regularly and to include in them consideration of whether the directors have any training requirements. The executive directors present the annual budget to the Board for its approval. Actual results are reported to each scheduled meeting of the Board with appropriate trend analysis. Regular and ad hoc reports and presentations to the Board ensure it is supplied, in a timely fashion, with the information it needs. Non-executive directors receive a series of briefings about Reuters when they join the Board and they periodically visit Reuters offices throughout the world where they are briefed on various aspects of the company's operations. All the directors have access to the company secretary and a procedure exists for directors in the furtherance of their duties to take independent professional advice if necessary at the company's expense.

The Executive Committee, chaired by the Chief Executive, was responsible for the management of the business until the end of 1998. It met five times during the year. With effect from 1 January 1999 the company was reorganised into two business divisions, Reuters Information and Reuters Trading Systems and the geographical units of the company were brought together into a global sales and operations group responsible for the sale, installation, delivery and support of divisional products. Instinet continues to operate as an autonomous subsidiary. As part of the reorganisation a new committee structure was introduced and the Executive Committee was dissolved. The senior corporate management group, the Group Executive, now comprises the executive directors, Geoffrey Weetman (Director of Human Resources) and Stephen Mitchell (General Counsel and Company Secretary). It will normally meet 11 times a year. Amongst other senior management committees, there are the Strategy Review Committee, which has taken over from the Executive Committee the task of reviewing corporate strategy, plans and performance, and the Operations Committee, which has assumed operating responsibilities previously handled by the Executive Committee. The functions of the 20 Members of the Strategy Review Committee are set out on pages 16-17.

The three principal committees of the Board are the Remuneration Committee (see pages 24-31), the Audit Committee (see page 32) and the Nomination Committee. The Board sets the terms of reference of these committees. The members of the Remuneration Committee and the Audit Committee are Bob Bauman, Sir John Craven, Sir Christopher Hogg, Roberto Mendoza, Dick Olver, Charles Sinclair and Sir David Walker. These directors, together with Michael Green and Peter Job, are the members of the Nomination Committee which is chaired by Sir Christopher Hogg and which makes recommendations to the Board on the appointment of directors.

The schedule of matters reserved for the Board's decision includes treasury investment, borrowing and hedging policies, significant capital expenditure or disposals of assets, and all investments, acquisitions or disposals which are not in line with strategies previously adopted by the Board.

Also reserved for Board decision is any transaction by a group company likely to require listing particulars or a tender offer to be filed with the London Stock Exchange or to require a filing under the US federal securities laws with the SEC.

The Board must approve any agreement with any other party that entails or may involve the assumption of ongoing business risks, liabilities or commitments equal to or exceeding (pound)50 million in aggregate during the life of the contract.

Non-financial risks, including possible damage to Reuters reputation as a leading news provider, or threats to the reliability of its computer systems, are examined by a Business Risks Steering Group which periodically reports to the Board on the management of risks throughout the group. There is also a dedicated risk management function at Instinet.

In 1997, Reuters established a compliance programme to consolidate and extend company compliance activities. During 1998, the programme was extended and refocused in a number of ways. A Compliance Overview Group has been established, chaired by the Finance Director. Its members include the heads of the compliance group, business risks, the legal department and the internal audit department. Its terms of reference require it to ensure that Reuters has an efficient and effective system for ensuring compliance, and that it harmonises the efforts of the various activities represented by its members.

The directors are bound by the company's Articles to pay due regard to the Reuter Trust Principles. The Board views these principles as central to the company's standing and commercial success and works closely with the Reuters Founders Share Company Limited to safeguard them. The Trust Principles and other relevant information are set out on page 86.

Company technical policies provide standards for the integrity, confidentiality and availability of internal and external information services and the systems on which they operate. These policies, together with the company's Code of Conduct which sets out the standards of behaviour and integrity which all employees are expected to observe, are readily available on the company's internal information database.

#### SHARE CAPITAL AND DIVIDENDS

Details of the changes in the authorised and called-up share capital are set out



in notes 26 and 28 on pages 70-71.

For details of proposed resolutions, see the explanatory notes attached to the notice of the annual general meeting.

The company has received notice from The Capital Group Companies, Inc., under section 198 of the Companies Act 1985, that on 31 December 1998 it and its affiliates together held in their capacity as investment managers 76.4 million ordinary shares in Reuters (5.7% of the issued share capital) and on 12 February 1999 their holding was 75.5 million ordinary shares (5.3%).

Reuters Founders Share Company Limited has held the Founders Share since it was issued on 18 February 1998 (and held the Founders Share in Reuters Holdings PLC from 9 May 1984 until 18 February 1998).

The company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

An interim dividend of 3.4p per ordinary share was paid on 8 September 1998. The directors recommend a final dividend of 11.0p per ordinary share giving a total of 14.4p per ordinary share for the year (1997 - 13.0p). Subject to shareholders' approval at the annual general meeting, the final dividend will be paid on 26 April 1999 to members on its register at the close of business on 19 March 1999.

#### EMPLOYEES

The total number of employees at 31 December 1998 was 16,938 (31 December 1997 - 16,119). For further details see page 56.

Reuters aims to offer a wide range of experience to employees. The group offers competitive rates of pay and a commitment to training. This enables staff to respond to rapid change in a fast changing technology and market and to take advantage of opportunities to develop their careers around the world.

It is Reuters policy that selection of employees including for entry to the company, for training, development and promotion should be determined solely on their skills, abilities and other requirements which are relevant to the job and in accordance with the laws in the country concerned.

The Board values the courage and professionalism shown by employees operating in zones of conflict. Reuters aims to cover news wherever it breaks but instructs staff to avoid risks wherever possible.

#### THE ENVIRONMENT

Reuters activities have marginal direct impact on the environment and contribute minimally to pollution. The group's information products help to spread global awareness of the environment. One of them, Reuters Business Briefing, offers a wealth of information on many topics, including the environment. Its search facilities enable customers to keep abreast of events and issues with minimal use of paper and other resources. They need only print out what they want to keep.

Reuters seeks to ensure its major international equipment suppliers avoid using environmentally harmful materials or processes.

Reuters contributes to public awareness and understanding of environmental issues through the educational work of the Reuter Foundation. In 1998, the Foundation ran two practical training courses for journalists to study environmental issues, one in London for journalists from a dozen countries and one in Brazil for journalists in Sao Paulo. Journalists from developing countries wishing to study environmental issues in greater depth can apply for fully-funded fellowships in the Reuter Foundation Fellowship Programme at Green College, Oxford University. The Foundation also reached agreement in 1998 with the Geneva-based World Conservation Union (IUCN) to launch an annual series of media awards for excellence in environmental reporting.

#### MILLENNIUM PROGRAMME

Reuters established its Millennium Programme in 1996 to assess the issues arising as a result of the change of millennium. The programme is led by an Executive Director supported by a full time Programme Director. The programme consists of six key parts, namely awareness, product strategy, inventory, development, testing and implementation. Much of the work under these phases has been completed. Some work will continue in 1999 including product assurance, industry based testing, development work for corporate systems and residual client site implementation. Reuters will also

continue to verify the efforts of its suppliers. Reuters is currently preparing a comprehensive business continuity plan specifically designed for the millennium. For further details of the programme see pages 45-47.

#### CHARITABLE CONTRIBUTIONS

The Reuter Foundation, the group's charitable trust, remains the main vehicle for cash grants and for direct action in educational and humanitarian programmes. Its spending rose to (pound)3.2 million in 1998, from (pound)3 million in 1997. In addition, Reuters area management units made direct charitable grants of (pound)0.9 million in cash and (pound)11.1 million in kind in 1998, including the value of Reuters services, equipment and employees' time donated to educational and charitable causes. This total of (pound)15.2 million in overall charitable donations amounted to 2.6% of the group's pre-tax profit in 1998.

The Reuter Foundation offers university fellowships, scholarships, research grants and training courses in sectors where Reuters itself is involved: financial markets, information technology, journalism and medical information. In emerging financial markets, the Foundation ran training courses and seminars in 1998 in Belarus, Cuba, Georgia, Russia, Uganda and Ukraine. In journalism training for the developing world, courses were held in 20 countries, including Iran for the first time.

The Reuter Foundation's AlertNet, launched on the Internet at the end of 1997, established itself as a serious professional service to the international disaster relief community. By the end of 1998, it had 71 members, including the Red Cross movement and voluntary organisations in 16 countries. The service, funded by the Reuter Foundation, is provided free to the members in return for information which they contribute about their own relief operations.

General charitable giving by the Foundation increased in 1998, largely in response to the concerns of Reuters employees around the world. The focus is mainly on local community and healthcare projects. Some support is also given to environmental and cultural causes, particularly where there is an educational dimension. The Foundation usually limits its grants to causes which are actively backed by Reuters employees through voluntary work or fund-raising.

More information on the work of the Reuter Foundation is contained in a separate annual review, available on request from the Director, Reuter Foundation, 85 Fleet Street, London EC4P 4AJ, or on the Foundation's website: <http://www.foundation.reuters.com>.

No political contributions are made.

#### CREDITOR PAYMENT TERMS

It is Reuters normal procedure to agree terms of transactions, including payment terms, with suppliers in advance. Payment terms vary, reflecting local practice throughout the world. It is Reuters policy that payment is made on time, provided suppliers perform in accordance with the agreed terms. Group trade creditors at 31 December 1998 were equivalent to 31 days purchases during the year.

#### INVESTOR RELATIONS

The directors regularly meet with institutional shareholders and analysts. Investor Relations departments in London, New York and Geneva are dedicated to improving communications between the company and its shareholders. The company's annual general meeting is used as an opportunity to communicate with private investors. Since it held its 1998 shareholders' meetings before the Combined Code was issued, Reuters did not comply at those meetings with the recommendation that at shareholders' meetings the level of proxies lodged on each resolution should be announced after the show of hands for the resolution. However, it is now studying the most effective way of complying with this recommendation in future.

#### DIRECTORS

On 18 February 1998 Roberto Mendoza was appointed a director. All other directors mentioned on pages 16-17 served throughout the year.

The group maintained insurance for directors and certain employees against liabilities in relation to the group throughout the year.

By order of the Board

- -((signature))-  
Stephen Mitchell,  
Company Secretary  
12 February 1999

TRUST REUTERS TO GET RESULTS

Financial markets in 1998 took a battering for the second successive year, with turmoil in Asia, devaluation in Russia and slower growth in the West. During the turbulence, our customers saw that Reuters can be relied upon at times of great change to deliver the information they need to trade and report with confidence.

A lone South Korean investor watches a trading board at a securities house during the first day of 1998 trading in Seoul on 3 January.

Photo by Paul Barker REUTERS

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This report on remuneration and related matters covers issues which are the concern of the Board as a whole in addition to those which are dealt with by the Remuneration Committee.

#### THE REMUNERATION COMMITTEE

The Remuneration Committee deals with the remuneration of senior executive management on behalf of the Board and shareholders. During 1998 the members of the Remuneration Committee were Sir Christopher Hogg, Bob Bauman, Sir John Craven, Roberto Mendoza, Dick Olver, Charles Sinclair and Sir David Walker. On 9 February 1998 Bob Bauman took over the chairmanship of the Remuneration Committee from Sir Christopher Hogg.

#### REMUNERATION POLICIES

The Remuneration Committee has agreed a framework of policies within which it sets the remuneration package for each executive director. The committee also agrees the principles underlying remuneration for other senior executives.

The basic objectives of these policies are that executives, including executive directors, should receive compensation which is appropriate to their scale of responsibility and performance, and which will attract, motivate and retain executives of the necessary calibre. Reuters believes that basic salary should be competitive in the relevant market and if performance exceeds the targets set total compensation should rise to an appropriate level. The Remuneration Committee aims to balance the entire compensation package so as to help the director attain, and encourage him to retain, a long-term interest in the share capital of the company.

#### SUMMARY OF REMUNERATION

The remuneration packages of executive directors consist of annual salary, health and car benefits, prolonged disability insurance, an annual cash bonus plan, pension contributions and participation in a performance-linked share plan described below and all-employee share schemes. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between long- and short-term goals.

#### EXECUTIVE DIRECTORS' SALARIES

In setting annual salary levels the committee has been assisted by reports from independent professional consultants. It compares Reuters remuneration packages with those for jobs of similar type and seniority in relevant national and international companies. For the purpose of each year's comparison the committee has used large international companies from the Financial Times Stock Exchange 100 index (FTSE 100). The comparisons consider the relative size of each company in terms of sales, profits and number of employees, its market capitalisation, the complexity of its operations and the international spread of its business. It also considers, inter alia, the company's operating performance in the previous year and the UK inflation rate over the same period. During its deliberations the committee has had regard to salary levels in other countries where this is relevant for any non-UK director or senior manager.

#### EXECUTIVE DIRECTORS' BONUSSES

The company sets annual bonus targets which are relevant to the objectives of the year. In 1997 the company did not succeed in meeting the targets set for the directors and no directors' bonuses were paid.

For 1998 the directors' bonuses depended on the extent to which three key targets were met. The targets were designed to align directors' interests with shareholders and covered first, the company's objectives for millennium compliance and euro conversion, second, the growth in operating profit at constant exchange rates and third, the growth in earnings per share. Many of the objectives were achieved in 1998, some in full and some partially and the resulting bonus awards for the executive directors are reported in the table opposite. Maximum bonus earnings were capped at 50% of salary for executive directors in 1998. Directors' bonuses amounted to 2.1% of total cash bonuses paid to all employees of the group.

#### EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The service contracts of the executive directors are terminable by the company on two years' notice (except for Jean-Claude Marchand whose contract is terminable by the company on one year's notice). The committee considers these notice periods appropriate, having regard, amongst other things, to the length of the executive directors' service to the company, collectively and individually, and to the substantial knowledge gained thereby of the company and its business.

If an executive director's contract is terminated by the company, the benefits for which the company is liable may vary depending on his age and length of service. Any termination payment will not exceed twice his salary and benefits, plus retention of long-term incentive plan awards held for more than 18 months, entitlement under the rules of the share option plans and enhanced early retirement benefits under the company's pension plans. Jean-Claude Marchand's service contract is written under Swiss law. If the contract is terminated under normal circumstances, he will be entitled to two years salary plus all other benefits.

It is the Board's policy that executive directors, in the interests of their development to the benefit of Reuters, may serve as non-executive directors on the boards of other companies and may each, as a general rule, retain remuneration from such appointments.

REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

The Chairman's remuneration comprises salary, life assurance, prolonged disability insurance and pension. These are amongst the matters discussed at an annual meeting of the Board to review the Chairmanship. Sir Christopher Hogg is not present at this meeting.

The remuneration of the other non-executive directors is determined by ordinary resolution of the shareholders in general meeting. At the 1998 annual general meeting the shareholders agreed to increase such remuneration from (pound)30,000 per annum to (pound)33,000 per annum with effect from 1 January 1998. No increase is being proposed for 1999. The Board has power to pay additional remuneration for services outside the scope of the ordinary duties of a non-executive director.

	1998				1997	
	SALARY/FEES (POUND) 000	SALARY/FEES INCREASE %	BONUS (POUND) 000	BENEFITS (POUND) 000	TOTAL (POUND) 000	REMUNERATION TOTAL (POUND) 000
Chairman:						
Sir Christopher Hogg	193	4.5%	-	10	203	195
Non-executive directors:						
R P Bauman	42	40.0%	-	-	42	30
Sir John Craven (appointed 19 February 1997)	33	10.0%	-	-	33	26
M P Green	33	10.0%	-	-	33	30
P G Gyllenhammar (resigned 15 October 1997)	-	-	-	-	-	25
R Mendoza (appointed 18 February 1998)	29	-	-	-	29	-
R L Olver (appointed 1 December 1997)	33	10.0%	-	-	33	3
C J F Sinclair	43	7.5%	-	-	43	40
Sir David Walker	33	10.0%	-	-	33	30
Total for non-executive directors (excluding Chairman)	246		-	-	246	184
Executive directors:						
P Job, Chief Executive	522	4.5%	255	14	791	513
J-C Marchand 1	338	4.5%	173	19	530	347
J M C Parcell	246	4.7%	120	11	377	246
R O Rowley	324	4.5%	158	10	492	320
D G Ure	340	4.6%	166	12	518	337
A-F H Villeneuve	340	4.6%	166	18	524	343
Total for executive directors	2,110		1,038	84	3,232	2,106
TOTAL EMOLUMENTS	2,549		1,038	94	3,681	2,485

1 A substantial part of Jean-Claude Marchand's remuneration is paid in Swiss francs and is converted to sterling at the year's average rate of SF2.42 to the (pound). The bonus is converted at the year end rate of SF2.29 to the (pound).

DIRECTORS' PENSION ARRANGEMENTS

Executive directors are entitled to a pension of two-thirds of basic salary on retirement from Reuters at the normal retirement age of 60. Post-retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% and discretionary above that level).

In the event of death before retirement, a spouse's pension of four-ninths of the executive's basic salary is payable, together with a capital sum equal to four times the aggregate of basic salary and taxable health and car benefits and a refund with interest of the executive director's own contributions. On death in retirement, the executive director's spouse will receive a pension equal to two-thirds of that payable to the executive director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension instalments.

Provision for the above benefits is made through the Reuters Pension Fund, a contributory plan, the Reuters Supplementary Pension Scheme, a non-contributory plan, and in the case of Jean-Claude Marchand, a Swiss pension plan, also a contributory plan. None of the executive directors has pension arrangements that are subject to the Inland Revenue earnings cap.

Pension contributions paid by the company in respect of the six executive directors participating in the plans are assessed according to long-term funding arrangements and are expressed as an average contribution rate, which for 1998 was 21.025%, of basic salaries.

Under an unfunded pension arrangement the Chairman is entitled to a pension of 2.5% of his annual fee times the number of years of service, from the date of his appointment as Chairman in May 1985 to the date his office terminates. In addition the Chairman has been admitted as a member of the Reuters Pension Fund for the purpose only of providing a fixed lump sum benefit of (pound)300,000 for his dependants in the event of his death in service.

Pensions benefits earned by directors are as follows:

	AT 31 DECEMBER 1998		ACCRUED PENSION ENTITLEMENT		
	AGE	YEARS OF SERVICE	DIRECTORS' CONTRIBUTIONS DURING YEAR (POUND)000	INCREASE DURING YEAR (POUND)000	TOTAL AT 31 DECEMBER 1998 (POUND)000
Sir Christopher Hogg	62	13	-	5	66
P Job	57	34	31	3	348
J-C Marchand	52	27	24	8	188
J M C Parcell	52	29	15	6	130
R O Rowley	49	20	19	9	131
D G Ure	51	30	20	8	170
A-F H Villeneuve	54	31	20	9	184

The accrued pension entitlement shown is that which would be paid annually, commencing at normal retirement age, based on service to 31 December 1998. The increase in accrued pension during 1998 excludes any increase for inflation. Neither the contributions nor the accrued entitlement reflect any additional voluntary contributions made by the directors.

#### SHARE PLANS

Under the terms of the capital reorganisation which became effective on 18 February 1998 (see page 51), rights and options vesting under the former Reuters Holdings PLC plans entitle the holders to shares in Reuters Group PLC on a one-for-one basis.

#### Long-term incentive plan

Since 1993, Reuters has operated a long-term incentive plan under which annual awards of restricted shares or, commencing in 1995, rights exercisable for shares on a one-for-one basis (share rights), are made to executive directors and certain key executives. Vesting of the awards depends on performance in terms of total return to shareholders over a defined period. Awards vesting under the plan which covers the executive directors are not released until at least five years from the date of grant.

Under the terms of the plan the number of share rights awarded to each senior executive is determined by dividing each executive's annual salary by the average of the daily closing price of Reuters shares for the previous year. Commencing with the 1997 awards, the share rights granted in the UK (which include those granted to the executive directors) are at an exercise price equivalent to the market value of the underlying shares on the date of grant, and are linked with a cash bonus equal to such exercise price. The share rights and linked cash bonus vest and are exercisable only in tandem. No awards were made under the plan during 1998.

The table below shows the number of shares underlying awards to each executive director:

	NO. OF AWARDS					VALUE AT 31 DECEMBER 1998			DATE OF RELEASE OR EXERCISABLE PERIOD IF VESTING OCCURS
	YEAR OF GRANT	AT 31 DECEMBER 1997	RELEASED DURING YEAR	LAPSED DURING YEAR	AT 31 DECEMBER 1998	GAINS ON RELEASE (POUND) 000	VESTED (POUND) 000	NON-VESTED RANGE (POUND) 000	
<b>P Job</b>									
Restricted shares	1993	77,920	77,920	-	-	464	-	-	Feb 1998
Restricted shares	1994	82,056	-	-	82,056	-	518	-	Feb 1999
Share rights	1995	66,092	-	49,569	16,523	-	104	-	Feb 2000-Dec 2001
Share rights	1996	61,218	-	-	61,218	-	-	0-386	Feb 2001-Dec 2002
Share rights	1997	68,812	-	-	68,812	-	-	0-434	Feb 2002-Dec 2003
		356,098	77,920	49,569	228,609	464	622		
<b>J-C Marchand</b>									
Restricted shares	1993	41,216	41,216	-	-	245	-	-	Feb 1998
Restricted shares	1994	34,464	-	-	34,464	-	217	-	Feb 1999
Share rights	1995	27,681	-	20,760	6,921	-	44	-	Feb 2000-Dec 2001
Share rights	1996	38,805	-	-	38,805	-	-	0-245	Feb 2001-Dec 2002
Share rights	1997	48,994	-	-	48,994	-	-	0-309	Feb 2002-Dec 2003
		191,160	41,216	20,760	129,184	245	261		
<b>J M C Parcell</b>									
Restricted shares	1993	36,064	36,064	-	-	215	-	-	Feb 1998
Restricted shares	1994	30,176	-	-	30,176	-	190	-	Feb 1999
Share rights	1995	25,737	-	19,302	6,435	-	41	-	Feb 2000-Dec 2001
Share rights	1996	25,207	-	-	25,207	-	-	0-159	Feb 2001-Dec 2002
Share rights	1997	32,342	-	-	32,342	-	-	0-204	Feb 2002-Dec 2003
		149,526	36,064	19,302	94,160	215	231		
<b>R O Rowley</b>									
Restricted shares	1993	47,652	47,652	-	-	284	-	-	Feb 1998
Restricted shares	1994	51,284	-	-	51,284	-	324	-	Feb 1999
Share rights	1995	41,211	-	30,908	10,303	-	65	-	Feb 2000-Dec 2001
Share rights	1996	38,171	-	-	38,171	-	-	0-241	Feb 2001-Dec 2002
Share rights	1997	42,663	-	-	42,663	-	-	0-269	Feb 2002-Dec 2003
		220,981	47,652	30,908	142,421	284	389		
<b>D G Ure</b>									
Restricted shares	1993	54,092	54,092	-	-	322	-	-	Feb 1998
Restricted shares	1994	55,388	-	-	55,388	-	349	-	Feb 1999
Share rights	1995	44,554	-	33,415	11,139	-	70	-	Feb 2000-Dec 2001
Share rights	1996	41,268	-	-	41,268	-	-	0-260	Feb 2001-Dec 2002
Share rights	1997	44,728	-	-	44,728	-	-	0-282	Feb 2002-Dec 2003
		240,030	54,092	33,415	152,523	322	419		
<b>A-F H Villeneuve</b>									
Restricted shares	1993	54,092	54,092	-	-	322	-	-	Feb 1998
Restricted shares	1994	55,388	-	-	55,388	-	349	-	Feb 1999
Share rights	1995	44,554	-	33,415	11,139	-	70	-	Feb 2000-Dec 2001
Share rights	1996	41,268	-	-	41,268	-	-	0-260	Feb 2001-Dec 2002
Share rights	1997	44,728	-	-	44,728	-	-	0-282	Feb 2002-Dec 2003
		240,030	54,092	33,415	152,523	322	419		

The gains on release are calculated at the quarter up share price of 595.25p on the date of release used to determine each director's tax liability on that date. The value of the awards at 31 December 1998 has been based on the closing mid-market share price of Reuters ordinary shares of 631p per share from the Daily Official List for 30 December 1998.



Performance under the long-term incentive plan is measured over a three- to five-year period by comparing the total shareholder return (TSR) of Reuters with that of other companies comprising the FTSE 100 at the beginning of the period. Awards vest only after the expiration of this period. The TSR for each company is determined based on the internal rate of return from cash flows of an investor who bought a share at the beginning of the period, sold it at the end and received dividends and benefited from capital changes during the period. The average of the daily closing prices for the prior calendar year are used as the initial and ending share prices.

The companies comprising the comparator group are ranked according to each company's TSR for the measurement period with the company having the highest, or best, TSR ranked first. Reuters' position on the list determines the extent to which plan awards will vest. The preset vesting criteria for awards are shown in the table below together with the actual ranking for each award as at either the date of vesting or, if not yet vested, at 31 December 1998. Between the two vesting extremes awards vest on a graduated scale. Rankings can change materially during a measurement period.

PRESET VESTING CRITERIA				
DATE MEASUREMENT PERIOD COMMENCED	RANKINGS FOR 100% VESTING	RANKINGS FOR ZERO VESTING	RANKING AT DATE OF VESTING	RANKING AT 31 DECEMBER 1998
1 January 1993	1 to 40	75 to 100	18	-
1 January 1994	1 to 40	75 to 100	7	-
1 January 1995	1 to 30	70 to 100	60	-
1 January 1996	1 to 25	75 to 100	-	79
1 January 1997	1 to 26	66 to 100	-	95
1 January 1998	1 to 26	66 to 100	-	84

Under the plan rules, if awards do not vest 100%, each participant is permitted either to let the lesser number of shares vest or to elect to extend the measurement period for the entire award for a fourth year without a change to the preset vesting criteria. A similar election may be made at the end of year four. The 1993 and 1994 awards of restricted shares vested 100% at the end of their initial three year vesting periods. The 1993 awards were released in February 1998 and the 1994 awards are due for release in February 1999. The 1995 awards vested 25% based on the 31 December 1997 ranking and the rights become exercisable in February 2000. The three year measurement period for the 1996 awards ended on 31 December 1998 with a zero vesting.

The obligations under the plan, and those of the performance-related share plan discussed below, will be met from shares held by Reuters employee share ownership trusts (ESOTs). The costs charged to profit for these plans are based on the cost of shares purchased by the ESOTs. In 1998 the charge for the long-term incentive plan amounted to (pound)1.3 million (1997 - (pound)1.9 million, 1996 - (pound)1.9 million).

#### Performance-related share plan

Reuters has another performance-related share plan for senior executives not participating in the long-term incentive plan. Under this plan, the performance-related share plan, awards have been made to up to 600 executives each year. The rules for vesting are substantially the same as those currently operating for the long-term incentive plan, except that prior to the 1998 award, share rights become exercisable immediately upon crystallisation at the end of three years. Accordingly, rights to 452,363 shares (25% of the total grant) relating to the 1995 award vested on 1 January 1998 and are exercisable through the end of 2001, when they expire. No rights vested on 1 January 1999 in relation to the 1996 award. Commencing with the 1998 award, the rules for this plan have been changed to permit participants to extend the measurement period for each award through to the end of year five.

Participants in the 1998 award received rights to a total of 1.9 million shares (1997 - 1.3 million, 1996 - 1.6 million) and the costs charged against 1998 profit amounted to (pound)1.0 million (1997 - (pound)1.7 million, 1996 - (pound)5.6 million). The 1998 charge is net of a credit of (pound)8.1 million relating to lapsed 1996 awards. Costs are based on the total cost of shares purchased by the ESOTs to match awards.

#### Subsidiaries' long-term plans

Certain subsidiaries in the group operate profit-sharing, deferred bonus, various share plans or earn-out arrangements which have generally evolved from acquisition negotiations. The most significant plans are those operated by TIBCO Finance Technology Inc. (TIBCO) and Instinet.

As part of the agreement to acquire TIBCO in 1994, stock appreciation rights plans for employees/former shareholders were negotiated to be paid on the basis of superior performance. In 1998, 78 TIBCO employees were paid (pound)3.6 million under these plans.

Following the creation, in late 1996, of a new subsidiary, TIBCO Software Inc., to market middleware products outside the finance industry, option plans have been established over TIBCO Software shares for both TIBCO and TIBCO Software employees. These options will be satisfied in part by issuing new TIBCO Software shares and in part through existing TIBCO Software shares owned by Reuters. As at 31 December 1998 options had been granted equivalent to approximately 30% of TIBCO Software on a fully diluted basis.

The Instinet plan began in 1993 and is a rolling four-year profit sharing plan now covering approximately 700 employees. During 1998, (pound)6.2 million was paid to 150 employees and a further (pound)14.6 million had been reserved as at 31 December 1998. Of the total sum reserved (pound)7.2 million relates to the 1995 plan and will be payable in early 1999.

#### Plan 2000

At the April 1998 extraordinary general meeting the shareholders approved a new, all-employee, option plan introduced to help retain and motivate staff worldwide at a time of unprecedented adjustments to be made for the euro and the Millennium. Under the terms of the plan a substantial majority of employees of the group became entitled to apply for a single award of options to acquire 2,000 shares, at the exercise price of 550p per share, exercisable in September 2001, and generally expiring in September 2005. At 31 December 1998 options to acquire a total of 25,738,000 shares had been granted to 12,869 employees, including the executive directors. In early 1999 further options will be granted to employees who joined Reuters after the initial qualification date and before 31 December 1998, but no further options will be awarded under this plan after 30 June 1999.

#### Save-as-you-earn (SAYE) and stock purchase plans

Employees are eligible to save a fixed sum each month and to use these funds to exercise options over Reuters shares. Generally, the exercise price is fixed at 20% below the market price at the start of the savings period. The maximum monthly savings is (pound)250 (or equivalent) and participants can choose between plans having either a five year or a three year savings period.

In the US, Reuters also offers an employee stock purchase plan in which employees can elect to participate in lieu of a SAYE plan. Under the employee stock purchase plan the monthly savings, plus 20% contributed by Reuters, are transferred to a designated broker for the purchase of ADSs for the accounts of the participants.

#### Executive options

At 31 December 1998 Reuters had vested but unexercised options relating to 1,183,830 shares outstanding to 125 employees under executive option plans. These plans have been replaced by the performance based plans described above.

Vested options on shares held by directors during 1998, including SAYE options, were all in respect of Reuters Group PLC and were as follows:

NO. OF OPTIONS									
	DATE OF GRANT	AT 31 DECEMBER 1997	GRANTED DURING YEAR	EXERCISED/ LAPSED DURING YEAR	AT 31 DECEMBER 1998	EXERCISE PRICE PENCE	NET VALUE AT 31 DECEMBER 1998 (POUND) 000	DATE FROM WHICH EXERCISABLE	EXPIRY DATE
-----									
Sir Christopher Hogg									
SAYE	Mar 1997	2,065	-	-	2,065	501.0	3	Apr 2002	Oct 2002
-----									
		2,065	-	-	2,065		3		
-----									
P Job									
SAYE	Mar 1997	2,065	-	-	2,065	501.0	3	Apr 2002	Oct 2002
	Mar 1998	-	1,443	-	1,443	478.0	2	Apr 2003	Oct 2003
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		2,065	3,443	-	5,508		7		
-----									
J-C Marchand									
SAYE	Sept 1996	1,721	-	-	1,721	601.2	1	Oct 2001	Apr 2002
	Mar 1997	1,377	-	-	1,377	501.0	1	Apr 2002	Oct 2002
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		3,098	2,000	-	5,098		4		
-----									
J M C Parcell									
Executive	Mar 1991	60,000	-	60,000	-	192.2	-	Mar 1994	Mar 1998
	Aug 1992	40,000	-	-	40,000	253.5	151	Aug 1995	Aug 1999
SAYE	Mar 1997	2,065	-	-	2,065	501.0	3	Apr 2002	Oct 2002
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		102,065	2,000	60,000	44,065		156		
-----									
R O Rowley									
SAYE	Sept 1996	860	-	860	-	601.2	-	Oct 2001	Apr 2002
	Mar 1997	2,065	-	-	2,065	501.0	3	Apr 2002	Oct 2002
	Mar 1998	-	1,443	-	1,443	478.0	2	Apr 2003	Oct 2003
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		2,925	3,443	860	5,508		7		
-----									
D G Ure									
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		-	2,000	-	2,000		2		
-----									
A-F H Villeneuve									
SAYE	Mar 1997	2,065	-	-	2,065	501.0	3	Apr 2002	Oct 2002
	Mar 1998	-	1,443	-	1,443	478.0	2	Apr 2003	Oct 2003
Plan 2000	Sept 1998	-	2,000	-	2,000	550.0	2	Sept 2001	Sept 2005
-----									
		2,065	3,443	-	5,508		7		
-----									

The only gain made by directors on the exercise of share options during 1998 was (pound)251,850 made by John Parcell, who exercised certain executive options immediately prior to their expiry date. In 1997 the aggregate gain made by directors was (pound)163,134 and the gain made by Peter Job, the highest paid director, was (pound)15,341. Gains on the exercise of options are calculated as at the dates of exercise even though the directors may have retained their shares. The net value at 31 December 1998 is the difference between the day's closing mid market price of Reuters ordinary shares of 631p per share and the exercise price of the options. During 1998 the price for Reuters ordinary shares ranged between 412p and 770p.

The number of options outstanding under all option plans at 31 December 1998 related to 44,443,659 shares. The number of shares issued under share options granted over the 10 years to 31 December 1998, combined with the total options outstanding at 31 December 1998 relating to the same grants, was approximately 6.5% of issued share capital at that date. This compares with a maximum authorised level of 10%. Also at 31 December 1998 the ESOTs held 12,149,866 shares of Reuters Group PLC, approximately 0.9% of issued share capital. The authorised limit is 5%.

DIRECTORS' INTERESTS

The interests of directors in the issued share capital of group companies at 31 December 1998 were as follows:

	1998	1997	
	REUTERS GROUP PLC	PROFORMA REUTERS GROUP PLC	REUTERS HOLDINGS PLC
R P Bauman	8,666	8,666	10,000
Sir John Craven	6,846	10,746	12,400
M P Green	6,933	6,933	8,000
Sir Christopher Hogg	26,693	26,693	30,800
P Job	158,411	111,438	128,584
J-C Marchand	44,159	2,943	3,396
J M C Parcell	81,638	-	-
R O Rowley	151,691	122,957	141,876
C J F Sinclair	10,062	10,062	11,611
D G Ure	344,099	311,644	359,590
A-F H Villeneuve	135,839	103,223	119,106
Sir David Walker	2,600	2,600	3,000
	977,637	717,905	828,363

The 1997 proforma Reuters Group PLC column indicates the directors' interests in shares of Reuters Holdings PLC at 31 December 1997 adjusted for the effect of the subsequent capital reorganisation.

Directors were the beneficial holders of all shares listed, except certain shares held by, or in trust for the benefit of, family members. These were Peter Job 483 shares (1997 - 404); Rob Rowley 4,606 shares (1997 - 4,606) and Andre Villeneuve 120,687 shares (1997 - 88,147). (The 1997 numbers have been adjusted for the effect of the reorganisation).

There have been no movements in the interests of directors in the share capital of group companies since 31 December 1998.

None of the directors has notified the company of an interest in any other shares, transactions or arrangements which require disclosure.

DIRECTORS RETIRING AND STANDING FOR RE-ELECTION

As mentioned in the report of the directors, Michael Green has decided not to stand for re-election at the 1999 annual general meeting.

Directors proposed for re-election at the forthcoming annual general meeting are Sir Christopher Hogg, Rob Rowley and Charles Sinclair. As an executive director, Rob Rowley has a service contract terminable by the company on two years' notice. As non-executive directors, Sir Christopher Hogg and Charles Sinclair do not have service contracts.

On behalf of the Board

-- ((signature))--  
 Sir Christopher Hogg  
 Chairman  
 12 February 1999

## AUDIT COMMITTEE

The members of the Audit Committee are Charles Sinclair (Chairman), Bob Bauman, Sir John Craven, Sir Christopher Hogg, Roberto Mendoza, Dick Olver and Sir David Walker. The Finance Director and the Deputy Finance Director attend its meetings. All executive directors are invited to attend. The Audit Committee meets regularly twice a year, with further meetings as required.

The Audit Committee reviews the half year and annual financial results before they are approved by the Board. In doing so it focuses on any changes in accounting practice, major areas of judgement, the going concern assumption and compliance with accounting principles and regulatory requirements, and it ensures that the annual report presents a balanced and understandable assessment of the company's financial position and prospects.

The Committee may examine whatever aspects it deems appropriate of the group's financial affairs, its internal and external audits and its exposure to risks of a regulatory or legal nature. It keeps under review the effectiveness of Reuters system of accounting and internal financial controls, for which the directors are responsible (see page 33).

The Audit Committee reviews the plans and findings of the internal and external auditors with them each year. The auditors have unrestricted access to the Audit Committee. The Audit Committee recommends the appointment of the company's external auditors.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Reuters directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year, and of the profit and cashflows of the group for the period. Reuters is also required to prepare financial statements in accordance with the requirements of the SEC.

Reuters has complied with both UK and US disclosure requirements in this report in order to present a consistent picture to all shareholders. In preparing the financial statements, applicable accounting standards have been followed, suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made.

The directors have reviewed the group's budget and cashflow forecast for the year to 31 December 1999 and outline projections for the subsequent year in the light of the sound financial position and borrowing facilities at 31 December 1998. On the basis of this review the directors are satisfied that Reuters is a going concern and have continued to adopt the going concern basis in preparing the financial statements.

The Board has decided that until the working party convened by the Institute of Chartered Accountants in England and Wales has produced guidance on the scope, extent, nature and review of internal control to which the Combined Code refers, the Board will report on internal financial control pursuant to the guidance for directors on internal control and financial reporting that was issued by the Rutteman Working Group in December 1994.

The directors acknowledge their responsibility for the group's system of internal financial control and confirm that they have reviewed its effectiveness. They consider that it is appropriately designed to provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits. The control system includes written accounting and control policies and procedures, clearly drawn lines of accountability and delegation of authority and comprehensive financial reporting and analysis against approved budgets. In a growing group of the size, complexity and geographical diversity of Reuters it should be expected that breakdowns in established control procedures may occur. During 1998 the directors were not aware of any such breakdowns which resulted in a material loss.

The group monitors its internal financial control system through management reviews, detailed representation letters on compliance signed by the Chief Executive and Chief Financial Officer of each significant business unit and a programme of internal audits. The group's external auditors, PricewaterhouseCoopers, have audited the financial statements and have reviewed the work of the internal auditors and the internal financial control systems to the extent they considered necessary to support their audit report. The Audit Committee has met the internal auditors and PricewaterhouseCoopers to discuss the results of their work. Further information on the group's monitoring processes is set out in the report of the directors on pages 18-19.

By order of the Board

--((signature))--  
Stephen Mitchell,  
Company Secretary  
12 February 1999

AUDITORS' REPORT TO THE MEMBERS OF REUTERS GROUP PLC

AUDIT REPORT

We have audited the financial statements on pages 50-78 incorporating pages 24-31 which have been prepared under the historical cost convention and the accounting policies set out on pages 77-78 and the summary of differences between UK and US Generally Accepted Accounting Principles on pages 79-81.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 33, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 18 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and with Auditing Standards generally accepted in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

United Kingdom opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group at 31 December 1998, 1997 and 1996 and the results of its operations and cash flows for each of the three years in the period ended 31 December 1998 all expressed in pounds sterling in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended 31 December 1998 and consolidated shareholders' equity all expressed in pounds sterling at 31 December 1998, 1997 and 1996 as shown in the summary of differences between UK and US generally accepted accounting principles set out on pages 79-81.

-- ((signature)) --  
PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors  
London  
12 February 1999  
- -- ((logo)) --

## OPERATING AND FINANCIAL REVIEW

The following review has been prepared in accordance with both the recommendations of the UK Accounting Standards Board in their statement entitled 'Operating and Financial Review', and the US requirement for a Management's Discussion and Analysis of Financial Condition and Results of Operations.

Under US law all statements other than statements of historical fact included in this review are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Certain important factors that could cause actual results to differ materially from those discussed in such forward-looking statements are described under "Cautionary Statements" as well as elsewhere in this review. All written and oral forward-looking statements made on or after the date hereof and attributable to Reuters are expressly qualified in their entirety by such Cautionary Statements.

### FINANCIAL SUMMARY

Revenue increased 5% to (pound)3,032 million in 1998. Excluding the impact of currency movements, revenue grew 9%, in line with growth at comparable rates in 1997.

Fourth quarter revenue grew 8% at actual rates, and 9% at comparable exchange rates.

Operating profit, which includes the amortisation of goodwill, grew 2% to (pound)550 million at actual exchange rates and 14% at comparable rates. This compares with an 8% decline at actual rates in 1997 which principally reflected the impact of currency, and 8% growth at comparable rates. Operating margin in 1998 was 18.2%, compared to 18.8% in 1997. However, excluding the impact of currency movements, operating margin improved by 0.9%.

External costs related to the Millennium and Euro Programmes increased to (pound)37 million in 1998, compared with (pound)11 million in 1997. Further details of these programmes are disclosed on pages 45-47.

Goodwill amortisation remained constant at (pound)51 million. Of this, (pound)5 million related to investments in associates during the year which was charged against the group's share of associates' profits.

Earnings before interest, tax, depreciation and amortisation (EBITDA) grew 2% at actual rates to (pound)927 million, and 10% at comparable rates compared with 8% in 1997.

The sale of a number of investments in high technology companies held in the Reuters Greenhouse Fund resulted in an exceptional profit of (pound)26 million in 1998.

Net interest receivable was (pound)2 million compared with (pound)80 million in 1997 reflecting ten months' worth of net borrowings in 1998 following the return of (pound)1.5 billion to shareholders in February. Net interest income in the first half of 1998 was (pound)11 million, offset in part by a net interest charge of (pound)9 million in the second half of the year. Net debt at the end of 1998 was (pound)3 million.

Profit before tax of (pound)580 million was down 7% at actual exchange rates but up 2% at comparable exchange rates, despite the fall in interest income.

The effective rate of tax for 1998 was 33.8% compared with 37.7% in 1997. Excluding goodwill amortisation and costs charged in 1997 relating to the return of capital to shareholders, the effective tax rate for both years was unchanged.

(BEGINNING OF SIDEBAR)

### REVENUE AT ACTUAL AND COMPARABLE RATES

% CHANGE	1998	1997	1996
Actual	5%	(1)%	8%
Comparable	9%	9%	8%

### OPERATING PROFIT AT ACTUAL AND COMPARABLE RATES

% CHANGE	1998	1997	1996
Actual	2%	(8)%	16%
Comparable	14%	8%	7%

(END OF SIDEBAR)



(BEGINNING OF SIDEBAR)

EARNINGS AND DIVIDENDS PER SHARE

% CHANGE	1998	1997	1996
Earnings per share growth	11%	(12)%	18%
Dividends per share growth	11%	11%	20%

1998 REVENUE BY TYPE

Recurring	72%
Usage	20%
Outright Sales	8%

(END OF SIDEBAR)

Earnings per share increased 11% in 1998 to 26.7p from 24.0p in 1997. 1997 earnings per share fell 12% from 27.3p in 1996, principally reflecting the decline in operating profit due to currency and once-off tax costs related to the return of capital to shareholders.

The final dividend per share has been increased by 11% to 11.0p resulting in a total dividend for the year of 14.4p, also up 11% on 1997. Dividend cover decreased to 1.9 in 1998 from 2.1 in 1997.

Investment in the business continued with (pound)296 million spent on capital expenditure, (pound)200 million on development and (pound)157 million on acquisitions and investments.

Free cash flow increased 9% to (pound)490 million. Free cash flow per share was 34.1p, up 23% from 27.7p in 1997, reflecting the lower number of shares in issue following the capital reorganisation.

Operating profit in the second half of 1998 at (pound)272 million decreased by (pound)6 million compared with the first half of the year.

Phasing of costs associated with the Millennium Programme, new initiatives following the acquisition of Lipper Analytical Services Inc. and Liberty SA, new investment at Instinet and costs in connection with the reorganisation of the company offset the impact of stronger revenue growth in the second half of the year. Costs associated with these initiatives and investments will continue through 1999. Benefits from the reorganisation are expected to flow through in the second half of the year.

Sterling remained strong during the first three quarters but weakened in the fourth quarter. The sterling trade weighted index was 99.7 at the end of 1998 compared to 104.4 at the end of 1997. If 1998 year end exchange rates had prevailed throughout 1998, (pound)31 million would have been added to operating profit before currency hedging.

Currency hedging gains were (pound)45 million for the full year compared to (pound)56 million in 1997. At the end of 1998, the currency hedging book had an unrealised loss of (pound)3 million in respect of 1999.

Revenue growth in the fourth quarter was 9% at comparable exchange rates. Instinet grew 19% at underlying rates helped by record volumes in the US market and very strong growth outside the US. Other transaction products revenue decreased 2%, reflecting a small decline in the number of accesses to our foreign exchange dealing services. Revenue from information products grew 9% in the quarter. Outright revenue was up 17%, helped by good sales of Risk Management and TIBCO products.

Price increases taking effect in January 1999 will be offset by a decline in new orders for subscription products in the last quarter of 1998, as clients reacted to the sudden emerging markets crisis at the onset of autumn. The sale of Information Management Systems and Risk Management products was not affected but our business in Russia suffered a sharp though not unexpected setback. Demand in Asia continues to be weak but this is offset by an encouraging performance in Japan, where we are making progress in penetrating domestic markets. We continue to make steady progress in rolling out the 3000 product line and the Reuters Plus domestic equities product in the United States. The disposal of Reuters Health Information practice management systems and Reuters Voice Systems will have some impact on revenue growth this year.

## REVENUE BY TYPE

	Year to 31 December		
	1998	1997	1996
((pound)m)			
Recurring	2,170	2,147	2,232
Usage	621	511	478
Outright sales	241	224	204
Total	3,032	2,882	2,914

Recurring revenue, which is principally derived from the sale of subscription services, represented 72% of group revenue in 1998, compared with 74% in 1997. Usage-based revenue, principally derived from Instinet and Dealing 2000-2, represented 20% of total revenue compared to 18% in 1997. Outright revenue, which comprises once-off sales of information management systems and risk management software, represented 8% of group revenue in both 1997 and 1998.

## REVENUE BY PRODUCT

	Year to 31 December		
	1998	1997	1996
((pound)m)			
Financial information	1,949	1,852	1,892
Transaction	882	828	813
Media/Professional	201	202	209
Total	3,032	2,882	2,914

The proportion of revenue derived from each product group was at similar levels in each of the last three years.

## FINANCIAL INFORMATION PRODUCTS

## REVENUE

	Year to 31 December		
	1998	1997	1996
((pound)m)			
Europe, Middle East and Africa	1,164	1,087	1,145
Asia/Pacific	342	359	365
The Americas	343	324	322
TIBCO	100	82	60
Total	1,949	1,852	1,892
% change actual comparable	5% 9%	(2%) 8%	

Financial information products revenue grew 5% at actual rates and 9% at comparable rates. This reflects growth in both recurring and outright revenue.

1998 revenue included (pound)7 million of revenue related to the acquisitions of Lipper Analytical Services Inc. and Liberty SA during the year, and (pound)15 million of revenue related to Reuters Voice Systems which was sold in December 1998.

## RECURRING REVENUE

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	1,716	1,640	1,703
% change actual comparable	5% 9%	(4%) 7%	
ACCESSES (000s)			
3000 products	48	28	1
Off-trading floor products	87	49	21
Other products	310	309	299
Total	445	386	321
REVENUE PER ACCESS ((pound)000)	4.1	4.7	5.6
% change actual comparable	(11%) (8%)	(16%) (7%)	

Accesses grew 15% year on year to 445,000 at 31 December 1998. This compares to growth of 20% in 1997. Installed 3000 accesses increased from 28,000 at the end of 1997 to 48,000 at the end of 1998. Approximately 30% of all 3000 installations relate to new users, of which nearly 7,000 were installed during 1998. New products aimed at the Japanese and US domestic markets were introduced during the year.

There were 87,000 installed off-trading floor accesses at 31 December 1998. These products are aimed at users of financial information outside the dealing room. Web-based products accounted for most of the growth and represented

approximately 50,000 of the installed base at the end of the year.

Revenue per access at comparable rates continued to fall, as the proportion of lower priced off-trading floor products increased. Excluding these accesses, the

(BEGINNING OF SIDEBAR)

FINANCIAL INFORMATION PRODUCTS deliver real-time and historical news and financial data to customers within the financial markets and provide the software tools to analyse data. Reuters main offerings are the series 2000 and 3000 product lines.

Information management systems offer customers the means to integrate and analyse data from a variety of sources for financial trading rooms. Risk management, order handling products and customised solutions from TIBCO offer customers the means of managing their own information flows and exposure to risk.

1998 REVENUE BY PRODUCT

-----		
Transactions	29%	
Media/Professional	7%	
Financial Information	64%	
-----		

FINANCIAL INFORMATION PRODUCTS (pound)m

	1998	1997	1996
-----			
Recurring revenue	1,716	1,640	1,703
Outright revenue	233	212	189
-----			
	1,949	1,852	1,892
-----			

(END OF SIDEBAR)

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TRANSACTION PRODUCTS principally comprise Dealing 2000-1, Dealing 2000-2 and Instinet. Dealing 2000 products enable foreign exchange professionals to converse electronically with chosen trading partners using Reuters Dealing 2000-1 or the Dealing 2000-2 automated matching system. Instinet provides agency brokerage services in global equities to securities industry professionals in more than 26 countries.

TRANSACTION PRODUCTS (pound)m

	1998	1997	1996
Instinet	436	445	467
Dealing	446	383	346
	882	828	813

MEDIA PRODUCTS comprise textual news, television services, pictures and graphics for republication by media customers and also the repackaging and sale of content for online services.

PROFESSIONAL PRODUCTS provide a range of near real-time and historical financial information news products and related technology to the corporate and professional markets. Reuters Business Briefing provides access to 10 years' business information from one of the world's most comprehensive databases.

MEDIA AND PROFESSIONAL PRODUCTS (pound)m

	1998	1997	1996
Media	127	138	155
Professional	74	64	54
	201	202	209

(END OF SIDEBAR)

revenue per access at comparable exchange rates was stable.

Selective price rises taking effect in January 1999 will increase 1999 recurring revenue by approximately 1%.

OUTRIGHT REVENUE

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	233	212	189
% change actual	10%	12%	
comparable	13%	22%	

Revenue growth at comparable rates in 1998 reflected strong demand for risk management products, particularly in Europe, and information management systems from TIBCO.

TRANSACTION PRODUCTS

REVENUE

	Year to 31 December		
(pound)m	1998	1997	1996
Europe, Middle East and Africa	266	266	286
Asia/Pacific	97	107	108
The Americas	73	72	73
Instinet	446	383	346
Total	882	828	813
% change actual	6%	2%	
comparable	9%	10%	
ACCESSES (000s)			
Dealing	24	25	24
Instinet	16	13	9
Total	40	38	33
REVENUE PER ACCESS ((pound)000)	22.5	23.4	25.5
% change actual	(3%)	(8%)	
comparable	-	(1%)	

Revenue growth of 9% at comparable rates included growth of 18% at Instinet, discussed further on page 39, and slower growth of 2% from Dealing products.

Revenue per access at comparable rates was stable.

MEDIA AND PROFESSIONAL PRODUCTS  
REVENUE

(pound)m	Year to 31 December		
	1998	1997	1996
Europe, Middle East and Africa	136	131	133
Asia/Pacific	27	30	31
The Americas	38	41	45
Total	201	202	209
% change actual	(1%)	(3%)	
comparable	1%	3%	

MEDIA PRODUCTS

REVENUE ((pound)m)	Year to 31 December		
	1998	1997	1996
	127	138	155
% change actual	(8%)	(11%)	
comparable	(6%)	(4%)	

Media revenue fell 6% at comparable exchange rates, reflecting the full year impact of the disposal of the satellite services business in 1997 and fewer TV location specials.

PROFESSIONAL PRODUCTS

REVENUE ((pound)m)	Year to 31 December		
	1998	1997	1996
	74	64	54
% change actual	14%	19%	
comparable	16%	25%	

Strong growth from professional products reflected the continued success of the Reuters Business Briefing product range. Password accesses to Reuters Business Briefing increased by nearly 20% to 13,100 at the year end and revenues increased over 30% at comparable rates.

Included with professional products revenue was (pound)19 million related to Reuters Health Information practice management systems which was sold in December 1998.

SEGMENTAL ANALYSIS OF REVENUE AND CONTRIBUTION  
EUROPE, MIDDLE EAST & AFRICA

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	1,566	1,484	1,564
% change			
actual	6%	(5%)	
comparable	8%	6%	
CONTRIBUTION ((pound)m)	538	498	588
% change			
actual	8%	(15%)	
comparable	13%	2%	
Actual operating margin	34%	34%	

Revenue growth at comparable rates in the more mature European markets was in the range of 5%-10%, with 7% growth in the UK and Ireland and 6% growth in Germany.

Revenue from the emerging markets in central and eastern Europe continued to grow strongly, up 13% at comparable rates, despite the deteriorating economic environment in Russia.

Contribution growth at comparable rates of 13%, ahead of revenue growth of 8%, reflected the impact of tight cost control across the region.

ASIA/PACIFIC

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	466	496	504
% change			
actual	(6%)	(2%)	
comparable	3%	9%	
CONTRIBUTION ((pound)m)	177	184	193
% change			
actual	(4%)	(5%)	
comparable	7%	9%	
Actual operating margin	38%	37%	

Revenue growth at comparable rates of 3% was depressed by the impact of the Asian financial crisis on the region's economy. Revenue growth in Japan was 8% at comparable rates.

Tight cost control resulted in contribution growth of 7% at comparable rates despite the low level of revenue growth.

THE AMERICAS

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	454	437	440
% change			
actual	4%	(1%)	
comparable	5%	6%	
CONTRIBUTION ((pound)m)	25	37	26
% change			
actual	(33%)	45%	
comparable	(36%)	76%	
Actual operating margin	5%	8%	

Revenue from the Americas, which excludes Instinet and TIBCO, grew 4% at actual rates and 5% at comparable rates in 1998.

North American revenue grew 5% at comparable rates reflecting continuing demand for information products. Revenue grew 11% at comparable rates in Latin America.

The decline in contribution reflected development and infrastructure costs to support new domestic products.

INSTINET

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	446	383	346

% change			
actual	16%	11%	
comparable	18%	17%	
-----			
Contribution ((pound)m)	155	149	135
% change			
actual	3%	11%	
comparable	6%	18%	
-----			
Actual operating margin	35%	39%	

Instinet's 1998 revenue growth of 18% at comparable rates reflected growth in the second half of the year of 23%, compared to 13% in the first half, as a result of higher levels of activity.

At comparable rates, Instinet revenues in the US grew 10% compared with 15% growth

(BEGINNING OF SIDEBAR)

EUROPE, MIDDLE EAST AND AFRICA

(pound)m			
	1998	1997	1996
-----			
Revenue	1,566	1,484	1,564
Contribution	538	498	588
-----			

ASIA/PACIFIC

(pound)m			
	1998	1997	1996
-----			
Revenue	466	496	504
Contribution	177	184	193
-----			

THE AMERICAS

(pound)m			
	1998	1997	1996
-----			
Revenue	454	437	440
Contribution	25	37	26
-----			

(END OF SIDEBAR)

(BEGINNING OF SIDEBAR)

INSTINET (pound)m	1998	1997	1996
Revenue	446	383	346
Contribution	155	149	135

TIBCO (pound)m	1998	1997	1996
Revenue	100	82	60
Contribution	13	15	12

(END OF SIDEBAR)

in 1997. Revenue growth in the second half of the year was 17% compared with 3% in the first half of 1998.

Revenue growth from activities outside the US was 70%. Revenues from this segment now represent nearly 20% of total Instinet revenues. Growth was driven principally by increased trading in European equities.

The lower level of contribution growth compared to revenue growth resulted in a decline in margin to 35% from 39% in 1997. This reflected additional costs associated with capacity requirements and product development during 1998.

For information concerning certain rules that could affect Instinet's business see Cautionary Statements: 'SEC rules on ECN usage', 'SEC rules for Alternative Trading Systems', and 'NASD initiatives' on pages 48-49.

TIBCO

	Year to 31 December		
	1998	1997	1996
REVENUE ((pound)m)	100	82	60
% change			
actual	23%	37%	
comparable	24%	45%	
CONTRIBUTION ((pound)m)	13	15	12
% change			
actual	(13%)	23%	
comparable	(14%)	30%	
Actual operating margin	13%	18%	

TIBCO comprises two units, TIBCO Finance Technology, which focuses on the finance sector and TIBCO Software, which pursues opportunities outside the finance sector. Minority shareholdings in TIBCO Software are held by Cisco Systems Inc and Mayfield Venture Capital.

Revenue continued to grow at double digit levels in both businesses. However, overall operating margin and profit overall declined due to continuing investment in product development and increased sales support costs.

EMERGING MARKETS

Revenue from emerging markets (eastern Europe, Latin America, South East and East Asia, excluding Hong Kong and Singapore) grew 1% to (pound)275 million in 1998 or 6% at comparable rates, compared with 15% growth at comparable rates in 1997.

Revenues in the CIS grew 2% at comparable rates although this does not fully reflect the impact of client cancellations in the last quarter of 1998.

The decline in revenue growth in Asia reflected increased levels of client cancellations during 1997 and 1998. The group's revenues from Malaysia, Thailand and Indonesia, the three Asian markets with the greatest economic difficulties in 1998, totalled less than 1.5% of group revenue.

CENTRAL COSTS

Central costs which comprise corporate costs and central development, marketing and technical operations grew 1% in 1998 at actual exchange rates to (pound)351 million.

Development expenditure, which excluded costs associated with the Millennium Programme, fell 15% to (pound)200 million in 1998, and represented approximately 7% of group revenue. In 1997 development expenditure increased 17% to (pound)235 million.



OPERATING PROFIT

Operating profit grew 2% at actual rates and 14% at comparable rates. Operating profit of (pound)272 million in the second half of 1998 decreased by (pound)6 million, compared with the first half of the year.

TOTAL COSTS

Total costs grew 8% in 1998 at comparable exchange rates, compared with revenue growth of 9%. In 1997 both revenue and costs grew by 9%.

COSTS BY TYPE

(pound)m	Year to 31 December		
	1998	1997	1996
Staff	928	835	856
Services	586	585	539
Depreciation	331	312	283
Data	242	207	195
Communications	207	201	202
Space	129	142	150
Cost of sales and other	52	64	59
Goodwill amortisation	46	51	49
Currency hedging activities - net gain	(45)	(56)	(5)
Foreign currency translation - net loss/(gain)	6	-	(6)
<b>Total</b>	<b>2,482</b>	<b>2,341</b>	<b>2,322</b>
% change			
actual	6%	1%	
comparable	8%	9%	

Staff	Year to 31 December		
	1998	1997	1996
COST ((pound)m)	928	835	856
% change			
actual	11%	(2%)	
comparable	14%	5%	

Total staff costs increased 14% at comparable rates, reflecting growth in staff numbers, the impact of inflationary increases, and costs related to the company reorganisation.

Total staff numbers grew by 5% in the year to 16,938 at 31 December 1998. Approximately half of this growth related to Instinet and TIBCO. The net effect of acquisitions and disposals was not material. In 1997, staff numbers grew 4% to 16,119.

Services	Year to 31 December		
	1998	1997	1996
COST ((pound)m)	586	585	539
% change			
actual	-	9%	
comparable	2%	17%	

Cost containment initiatives continued to restrict services spending, although there was an increase in consultancy and contractor costs to support the millennium and euro projects.

Depreciation	Year to 31 December		
	1998	1997	1996
COST ((pound)m)	331	312	283
% change			
actual	6%	10%	
comparable	7%	11%	

The depreciation charge grew at a slower rate in 1998 reflecting a reduction in the level of capital expenditure.

Data	Year to 31 December		
	1998	1997	1996
COST ((pound)m)	242	207	195

% change		
actual	17%	6%
comparable	20%	12%

Growth in data costs was principally due to the continuing increase in recoverable exchange fees on equity products and increased demands for specialist data.

	Year to 31 December		
	1998	1997	1996
Communications			
COST ((pound)m)	207	201	202
% change			
actual	3%	-	
comparable	7%	7%	

Volumes of data delivered over Reuters products continued to increase. The associated increase in costs was partially offset by savings from the sale of the satellite services business in 1997 and tariff reductions. The most significant growth was in local distribution costs, which are largely recoverable from clients.

	Year to 31 December		
	1998	1997	1996
Space			
COST ((pound)m)	129	142	150
% change			
actual	(9%)	(6%)	
comparable	(7%)	1%	

No significant expansion or refurbishment costs were incurred in 1998.

#### GOODWILL

The total goodwill amortisation charge of (pound)51 million was unchanged compared with 1997. Of the 1998 charge, (pound)5 million related to associated undertakings and

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#### TOTAL 1998 GROWTH IN REVENUE, COSTS AND OPERATING PROFIT

	Growth at Actual Rates	Growth at Comparable Rates
Revenue	5%	9%
Costs	6%	8%
Operating Profit	2%	14%

#### TOTAL 1998 COSTS BY TYPE

Depreciation	13%
Data	10%
Space	5%
Services	24%
Staff	37%
Communications	8%
Other	3%

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REUTERS TSR RANKING IN FTSE 100

	Completed Periods	Ongoing Periods
94-96	7	
95-97	60	
96-98	79	
97-98		95
98		84

(END OF SIDEBAR)

was charged against the group's share of income from associates.

COSTS BY FUNCTION

Selling, marketing and administrative expenses increased 8% at actual rates in 1998 to (pound)714 million compared with a 2% decline in 1997.

Production and communication costs grew 6% at actual rates in 1998 to (pound)1,722 million compared with growth of 2% in 1997.

INCOME FROM FIXED ASSET INVESTMENTS AND ASSOCIATES

During 1998, a number of investments in high technology companies, held within the Reuters Greenhouse Fund, were sold resulting in an exceptional profit of (pound)26 million. The sales related principally to investments in Yahoo!, Infoseek and Sportsline.

Income of (pound)3 million from fixed asset investments comprised distributions from a US venture capital fund specialising in high technology companies.

The group's shares of losses from associates of (pound)1 million in 1998 included Reuters share of the profit of Independent Television News (ITN) less goodwill amortisation of (pound)5 million related to investments in associates in the second half of 1998.

SHAREHOLDER VALUE

Reuters aims to grow its value and outperform its peers. Reuters believes that its mix of assets, some of which are unique to the company, will help it to meet this aim. These assets, some of which are not included in the consolidated balance sheet, include:

- o Reuters independence, as enshrined in the Reuter Trust Principles;
- o Goodwill attached to the Reuters name;
- o Software and other intellectual property;
- o Global databases of financial and other information;
- o An integrated global organisation including a skilled workforce.

Reuters uses a model for measuring and ranking its total shareholder return (TSR) compared with that of the other 99 companies in the FTSE 100 index at the start of each measurement period. This model is used to determine vesting of awards under performance-linked share plans. Reuters rankings over both completed three year periods, and ongoing two and one year measurement periods are set out opposite.

RETURN OF CAPITAL TO SHAREHOLDERS

On 18 February 1998 Reuters implemented a capital reorganisation which returned (pound)1.5 billion of surplus capital to shareholders. The reorganisation involved the creation of a new holding company, Reuters Group PLC, which became the ultimate parent company of Reuters Holdings PLC in a court approved scheme of arrangement.

Ordinary shareholders received 13 shares in Reuters Group PLC plus (pound)13.60 in cash for every 15 shares held. Holders of American Depositary Shares (ADSs), each representing six ordinary shares, received 13 new ADSs plus the US dollar equivalent of (pound)81.60 in cash for every 15 ADSs held.

The capital reorganisation has been accounted for as a group reconstruction and merger accounting principles have been applied.

FINANCIAL NEEDS AND RESOURCES

Excluding the (pound)1.5 billion return of capital to shareholders, net funds increased by (pound)189 million during 1998. Total net debt at 31 December 1998 amounted to (pound)3 million and comprised cash and short term investments of (pound)1,006 million offset by (pound)1,009 million of debt.

"Free cash flow" which comprises operating cash flow plus net interest and other investment income received less tax paid and expenditure on tangible fixed assets was (pound)490 million, compared with (pound)449 million in 1997. This reflects higher cashflow from operations and reduced capital expenditure, offset by increased tax payments arising from timing differences between the payment and recovery of advance corporation tax and reduced net interest income following the return of surplus capital to shareholders.

Additions to fixed assets were (pound)296 million, (pound)65 million lower than 1997. Subscriber equipment expenditure fell (pound)13 million to (pound)119 million and other equipment additions fell (pound)52 million to (pound)177 million due principally to lower levels of infrastructure spending following the heavy investment in capacity in 1997. Reuters spent (pound)157 million on acquisitions and investments compared to (pound)29 million in 1997, principally in the areas of funds measurement and automated entry of stock orders.

Dividends paid were (pound)188 million, (pound)8 million down from 1997, reflecting the reduced number of shares in issue following the capital reorganisation, offset by an increase in dividends per share.

Reuters expects to be able to finance its current business plans from existing resources and facilities. In February 1998 Reuters Group PLC put in place syndicated loan facilities with a total commitment of (pound)1.5 billion, of which (pound)1.0 billion expired in December 1998 and (pound)500 million expires in December 2002.

A Euro Commercial Paper Programme was established in March 1998 providing access to (pound)1.5 billion in uncommitted finance, subject to market conditions. In December 1998 Reuters established a Euro Medium Term Note Programme which will provide access to up to (pound)1.0 billion of uncommitted facilities, subject to market conditions. In addition, at 31 December 1998 Reuters had unused, short-term uncommitted bank borrowing facilities denominated in various currencies, the sterling equivalent of which was approximately (pound)230 million, at money market rates varying principally between 2% and 13% depending on the currency.

In February 1998 Reuters entered into a joint venture with Rudin Times Square Associates, LLC to develop an 855,000 square foot building in the Times Square section of New York City, to be known as "The Reuters Building". Each party will invest approximately US\$45 million of equity, with other costs to be funded through a loan. The total cost of the project is estimated to be approximately US\$360 million.

#### TREASURY MANAGEMENT

A substantial portion of Reuters revenue is committed under one- and two-year contracts and approximately 80% is denominated in non-sterling currencies. Reuters also has significant costs denominated in foreign currencies with a different mix from revenue. Reuters profits are, therefore, exposed to currency fluctuations. The approximate proportion of operating profit excluding goodwill amortisation and currency gains attributable to each key currency group was as follows:

#### OPERATING PROFIT BY CURRENCY

	1998	1997
-----		
Continental Europe		
- - euro currencies	80%	74%
- - other	19%	16%
US dollar	54%	55%
Japanese yen	13%	14%
Sterling		
- - depreciation	(59%)	(52%)
- - other	(22%)	(23%)
Other	15%	16%
-----		
Total	100%	100%

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#### STERLING TRADE WEIGHTED EXCHANGE RATE INDEX

MONTH	INDEX ON LAST DAY OF MONTH		
	1998	1997	1996
Jan	105.0	94.4	83.3
Feb	105.1	98.3	83.3
Mar	108.8	98.0	83.4
Apr	106.3	100.1	83.8
May	103.6	90.3	86.3
Jun	107.0	102.1	86.3
Jul	104.2	104.6	84.6
Aug	106.0	102.2	85.3
Sep	103.3	100.4	87.0
Oct	100.0	102.3	90.2
Nov	100.5	105.0	94.0
Dec	99.7	104.4	96.1

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OPERATING PROFIT SENSITIVITY TO CURRENCY FLUCTUATIONS BASED ON VAR ANALYSIS  
Change in profit ((pound)m)

Profit (pound)	Probability	
	Without Hedging	With Hedging
-170.0124796	3.14872E-06	6.33421E-15
-165.7621676	4.6739E-06	2.608E-14
-161.5118556	6.86884E-06	1.03601E-13
-157.2615436	9.9941E-06	3.97063E-13
-153.0112316	1.43966E-05	1.46823E-12
-148.7609196	2.05322E-05	5.23806E-12
-144.5106076	2.89913E-05	1.80296E-11
-140.2602956	4.05281E-05	5.98746E-11
-136.0099836	5.60921E-05	1.9184E-10
-131.7596717	7.68607E-05	5.93028E-10
-127.5093597	0.000104271	1.76869E-09
-123.2590477	0.000140049	5.08942E-09
-119.0087357	0.000186232	1.41295E-08
-114.7584237	0.00024518	3.78462E-08
-110.5081117	0.000319576	9.78046E-08
-106.2577997	0.0004124	2.43858E-07
-102.0074877	0.000526891	5.86615E-07
-97.75717574	0.00066647	1.36148E-06
-93.50686375	0.000834635	3.04865E-06
-89.25655176	0.001034832	6.58636E-06
-85.00623978	0.001270282	1.37285E-05
-80.75592779	0.001543788	2.76084E-05
-76.5056158	0.001857514	5.35672E-05
-72.25530381	0.002212757	0.000100276
-68.00499182	0.00260971	0.000181107
-63.75467983	0.003047249	0.000315583
-59.50436784	0.003522741	0.000530556
-55.25405585	0.004031906	0.000860578
-51.00374387	0.004568748	0.001346755
-46.75343188	0.005125557	0.002033421
-42.50311989	0.005693011	0.002962143
-38.2528079	0.00626037	0.004163178
-34.00249591	0.006815771	0.00564526
-29.75218392	0.007346612	0.007385555
-25.50187193	0.007840003	0.009322285
-21.25155994	0.008283282	0.011352767
-17.00124796	0.008664544	0.013338937
-12.75093597	0.008973172	0.01512101
-8.500623978	0.009200329	0.016537906
-4.250311989	0.009339374	0.017451001
0	0.009386188	0.017766435
4.250311989	0.009339374	0.017451001
8.500623978	0.009200329	0.016537906
12.75093597	0.008973172	0.01512101
17.00124796	0.008664544	0.013338937
21.25155994	0.008283282	0.011352767
25.50187193	0.007840003	0.009322285
29.75218392	0.007346612	0.007385555
34.00249591	0.006815771	0.00564526
38.2528079	0.00626037	0.004163178
42.50311989	0.005693011	0.002962143
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127.5093597	0.000104271	1.76869E-09
131.7596717	7.68607E-05	5.93028E-10
136.0099836	5.60921E-05	1.9184E-10
140.2602956	4.05281E-05	5.98746E-11
144.5106076	2.89913E-05	1.80296E-11
148.7609196	2.05322E-05	5.23806E-12
153.0112316	1.43966E-05	1.46823E-12
157.2615436	9.9941E-06	3.97063E-13
161.5118556	6.86884E-06	1.03601E-13
165.7621676	4.6739E-06	2.608E-14
170.0124796	3.14872E-06	6.33421E-15

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Sterling costs exceeded sterling revenues due to the level of UK-based marketing, development, operational and central management costs, and depreciation which, with the exceptions of Instinet and TIBCO, is largely accounted for in sterling once an asset has been acquired.

In broad terms using the 1998 mix of profits, the impact of an additional unilateral 1% strengthening of sterling would have been a reduction of approximately (pound)9 million in 1998 operating profits before hedging (1997: (pound)9 million).

Sterling strengthened significantly over 1997 and the first nine months of 1998, although it weakened in the last quarter of 1998. As a result, 1997 and 1998 operating profits were adversely affected.

The risk that sterling might strengthen against foreign currencies is hedged within parameters laid down by the Board. The priority in treasury policy is to reduce the risk of earnings volatility to acceptable levels while allowing a degree of flexibility to take advantage of market movements.

The main principles underlying currency hedging policies are as follows:

- o Committed hedging cannot exceed the underlying cash flow exposure;
- o Options may only be written against an underlying exposure;
- o Levels of cover for currency hedging cannot exceed 90% of underlying exposure for the first 12 months and 70% for the following 12 months.

The company has adopted value at risk (VAR) analysis as a means of quantifying the potential impact of exchange rate volatility on reported earnings. VAR is a measure of the potential loss on a portfolio within a specified time horizon, at a specified confidence interval. Loss is defined, in this instance, as the diminution in value of rolling 12 month forecast group profits denominated in sterling. Due to the approximations used in determining VAR, the theory provides order of magnitude estimates only but these are useful for comparison purposes.

Reuters estimates that there is currently a 5% chance that profits forecast for the coming 12 months will deteriorate by more than (pound)70 million as a result of currency fluctuations before hedging and (pound)37 million after taking into account hedging at 31 December 1998 (1997: (pound)74 million before hedging and (pound)42 million after hedging). These figures represent the value at risk and are illustrated graphically opposite.

During 1998 the average value at risk before hedging on forecast profits for the coming 12 months varied between (pound)55 million and (pound)76 million and averaged (pound)64 million (1997: (pound)72 million) and after hedging varied between (pound)30 million and (pound)43 million, averaging (pound)35 million (1997: (pound)36 million).

The gains on currency hedging activities for the three years to December 1998 and the fair value of the unrecognised (losses)/gains on the hedging book at the end of 1998 are summarised below:

CURRENCY HEDGING GAINS/(LOSSES)

((pound)m)	1998	1997	1996
Recognised gains in the year	45	56	5
Unrecognised (losses)/gains at 31 December	(6)	39	39

The unrecognised (losses)/gains are based on fair values at the end of each year and include certain realised items which have been deferred because they relate to future periods.

Recognised currency hedging gains were lower in 1998 compared with 1997 due

to the relative strength of sterling when hedging for 1998 was undertaken. Of the currency gains recognised in 1998, (pound)43 million related to contracts in place at the end of 1997. Unrecognised losses of (pound)6 million at 31 December 1998 compare with unrecognised gains of (pound)39 million at 31 December 1997. The fall reflects the strength of sterling during most of 1998, when the majority of cover was arranged, and the impact of sterling's subsequent weakness at the end of 1998.

Of the unrecognised currency hedging loss at 31 December 1998, (pound)3 million relates to 1999 (31 December 1997 - (pound)36 million gain related to 1998).

Net cash flows are mainly converted into sterling and either applied to reduce debt or invested in money market instruments with financial institutions holding strong credit ratings. The use of sterling instruments avoids any currency exposure. Interest rates are hedged using a mix of financial instruments which commence and mature at various dates through to April 2000. The maturity of investments and debt are matched to minimise interest rate risk.

In broad terms, using the average net funds position, adjusted on a proforma basis for the return of capital to shareholders as if it had taken place at the beginning of the year, a 1% increase in global interest rates would have reduced proforma profit before tax in 1998 by approximately (pound)1 million (1997: (pound)3 million) excluding the impact of hedging.

#### US GAAP

Reconciliations of net income and shareholders' equity under UK and US GAAP are set out on pages 80-81. A discussion of the relevant US accounting policies which differ materially from UK GAAP is given on page 79. Two additional accounting adjustments were made in 1998.

Firstly, a deduction of (pound)2 million before tax was made in respect of the recognition of revenue from sales of software subject to millennium warranties. Under UK GAAP, revenue and related direct costs from contracts for the outright sale of software systems are recognised at the time of client acceptance. Under US GAAP, specific rules were introduced with effect from January 1998 for the determination of client acceptance in cases where future significant modifications or upgrades to the software are considered to be part of the client's overall acceptance of the product. Under these rules, an amount of revenue is required to be deferred until these software upgrades have been delivered and accepted by the client.

The adjustment made for 1998 of (pound)2 million compares with a (pound)22 million adjustment required in the first half of 1998. The fall reflects the progress in the second half of 1998 in the delivery and installation of millennium compliant software.

Secondly, a different accounting treatment is required under US GAAP to reflect the impact of the capital reorganisation in February 1998. Under US GAAP this transaction was deemed to be a share consolidation combined with a special dividend and requires retroactive restatement of earnings per share and per ADS and dividends per share and per ADS. Under UK GAAP no restatement of earnings per share was deemed necessary as the return of capital was considered to be equivalent to a repurchase of shares at market value and the number of new shares in Reuters Group PLC was set to facilitate comparability with those of Reuters Holdings PLC.

#### REPORTING UNDER THE NEW ORGANISATION STRUCTURE

With effect from 1 January 1999 the group has been reorganised into two business divisions - Reuters Information (RI) and Reuters Trading Systems (RTS). Instinet continues to operate as an autonomous subsidiary. A Global Sales and Operations group (GSO) has been established to co-ordinate the activities of the geographical units responsible for the sale, installation, delivery and support of divisional products.

The external reporting of financial performance will be revised with effect from the 1999 interim announcement to reflect this new organisation structure.

#### EUROPEAN MONETARY UNION

The Reuters Euro Programme established to handle the product-related issues arising from European monetary union was completed successfully.

The programme addressed changes to Reuters systems and products required to meet the demands of the single European currency. Product revisions to address euro issues were completed and tested on time.

Conversion and testing of approximately 1 billion pieces of information held on Reuters historical databases took place over the four days prior to the opening of the markets on 4 January 1999.

The incremental external costs incurred on the Euro Programme amounted to (pound)6 million in 1998. Some additional expenditure will be incurred in 1999, principally related to the additional client support required in the first few weeks of the year.

#### YEAR 2000 READINESS DISCLOSURE

##### Millennium Programme

Reuters established its Millennium Programme in 1996 to address the issues arising as a result of the change of millennium. Many computer systems, as well as equipment that uses embedded chips, store or process date information



using only the last two digits of the year. From 1 January 2000 these systems may be unable to distinguish between 1900 and 2000. This is complicated by the fact that the year 2000 is also a leap year. If not overcome these problems could disrupt the normal business operations of companies, including Reuters. Reuters Millennium Programme is led by an executive director, supported by a full time programme director, and both central and locally based millennium staff. The Programme consists of six key parts:

1. Awareness - making Reuters customers, suppliers and employees aware of its Millennium Programme and its progress through a series of brochures and a comprehensive public Internet Millennium web-site.
2. Product Strategy - determining which Reuters products would be included in the Reuters Millennium Programme and which older products would be declared obsolete and replaced by newer products in accordance with the normal business cycle.
3. Inventory - identifying and recording all aspects of Reuters business that are date sensitive. The inventory details both third party and proprietary software used in Reuters, hardware from desktop PCs to main frame computers, third party datafeeds whether they be from an exchange or a single institution, telecommunication and building services and other equipment that is utilised for business operations.
4. Development - assessment of date sensitivity, and rectification or replacement of date sensitive products. To date, over 1,500 of Reuters proprietary software applications have been renovated.
5. Testing - verification of rectification. Testing is carried out at three levels:
  - o Unit testing of individual software applications
  - o Integration testing of groups of related applications
  - o Product testing to give assurance of end to end operation
6. Implementation - installation of tested products and systems. To date, over 85% of client site applications have been upgraded.

Much of the work under the six phases of the Millennium Programme has been completed. Some work will continue in 1999, including product assurance, industry based testing, development work for certain corporate systems and residual client site implementation. Reuters will also continue to verify the efforts of its suppliers.

As part of the Millennium Programme, Reuters actively participates in a number of national and international year 2000 groups which include representation from customers, suppliers, infrastructure suppliers, regulatory and government authorities, and other organisations with a significant interest in year 2000 issues.

#### Millennium Programme costs

The effort associated with the Millennium Programme falls into two main categories:

- 1) The diversion of existing internal resources. This includes development staff who would otherwise be deployed on other projects and operational staff involved in the implementation at customer sites.
- 2) Incremental external resources, largely contractors and consultants, who will not remain following the completion of the programme.

Details of the costs incurred in 1998 and budgeted for 1999 are set out below.

Costs ((pound)m)	1998	1999 budget
-----		
Internal effort		
- - Development	10	6
- - Implementation	14	8
External effort		
- - Development	18	7
- - Implementation	13	7
-----		
Total	55	28

Internal and external costs for 1998 were in line with expectations. Incremental capital expenditure arising as a direct result of the programme was (pound)33 million in 1998. No estimation of the cost of assets replaced in the normal business cycle has been made.

The 1998 internal development effort of (pound)10 million represented 5% of total group development expenditure. The (pound)14 million of implementation activity represented 8% of client site activity. Accordingly, Reuters believes that the Millennium Programme has not resulted in any material deferrals of product developments or decreases in service quality at client sites. As internal resource plans have considered Millennium Programme requirements since 1996, it is not possible to assess whether forthcoming product development might have occurred sooner in the absence of this programme.

No material costs are currently projected for the year 2000 or beyond. However, due to the number of variables and dependencies involved, Reuters does not consider it possible to identify, avoid or quantify the damage that could result from all possible millennium-related problems.

Reuters has used, and expects to continue to use, internally generated funds to

cover the cost of the Millennium Programme.

Business risks from year 2000 issues

The production of Reuters services and Reuters internal operations rely on third party suppliers of data, hardware,

software, telecommunications utilities, buildings and building services. A failure of a third party supplier represents a business risk to Reuters. Third party suppliers of date sensitive products and services have been included in the millennium inventory. These suppliers have been surveyed by Reuters about the nature and progress of their millennium work, and may be requested to provide additional information, including regular updates of the progress of their work.

Testing to verify Reuters use of certain third party products and services is also carried out to gain further assurance. However, in the case of telecommunications and utility suppliers, testing has not been possible, and generally it has been difficult to obtain full assurances of millennium compliance from them. Failure of a telecommunications or utility provider is therefore a business risk for Reuters.

Through existing disaster recovery plans, Reuters already has the capability to manage certain telecommunications and utilities failures. These plans will be refined during the business continuity planning process described below.

Reuters products make use of software running in Reuters technical centres and software at customer sites. Both types of software are tested and certified as part of the Reuters Millennium Programme. A risk is posed to the effective delivery of Reuters products if a problem is experienced with client site software which requires site visits by Reuters engineers to overcome, due to the time required to visit all customers. Remote support techniques such as direct downloading and delivery via the Internet will form part of the business continuity plan to minimise this risk.

Although Reuters will continue to devote substantial resources to address its millennium issues, there can be no assurance that its products will not contain undetected year 2000 problems. Moreover, while Reuters business continuity plan will require that there is enhanced staff coverage at the beginning of the year 2000 and thereafter when needed, there can be no assurance that an unexpected level of millennium problems will not result in a shortage of qualified personnel to deal with them or in a diversion of personnel from other operations.

In addition, many commentators believe that there will be a significant amount of litigation arising out of millennium-related issues. The unprecedented nature of any such litigation makes it impossible for Reuters to predict the impact that any such litigation would have on Reuters.

Reuters expects that the development of its business continuity plan will further refine its understanding of the relevant business risks arising from the change of millennium, and there may be additional risks of which Reuters is not now aware.

#### Reuters continuity plan

Reuters is currently preparing a comprehensive business continuity plan specifically designed for the millennium. The continuity plan is a key component of Reuters preparation for the millennium and will be the primary focus of the programme during 1999.

Reuters already has as part of its day to day operations plans that can be executed in the event of certain service failures. These range from failure of a single computer or software application to the failure of a key global technical centre. These operational plans will form the basis of the millennium continuity plan after being checked for applicability and enhanced as appropriate.

Continuity planning focuses on three areas in Reuters - production, infrastructure, and customer environment. Potential incidents in each area are being identified, assessed and, where possible, plans put in place to handle the incident. Continuity plans will include additional staff coverage globally for key parts of the Reuters business. This ranges, for example, from enhanced help desks, field support, software support and operational support to incident monitoring and decision making.

#### CAUTIONARY STATEMENTS

##### Impact of currency movements

Reuters receives revenue and incurs expenses in more than 60 currencies and is thereby exposed to the impact of fluctuations in currency rates. Sterling's strength in the first three quarters of 1998 has restricted revenue and earnings growth. A resumption of sterling's strength could further restrict reported revenue and earnings in 1999. Reuters currency exposure is actively hedged. For additional information concerning currency fluctuations see "Treasury Management" on pages 43-45.

##### State of financial markets

Reuters business is dependent upon the health of the financial markets and the participants in those markets. Recent events in the financial sector in Asia, Russia and Latin America have created uncertainty in these and other markets and the full impact of these events has not yet been reflected in revenue. Reuters business could also be adversely affected by consolidations and rationalisations among clients in the banking and other industries.

Reuters transactions business is particularly dependent upon the level of activity in the foreign exchange and equity markets.

#### Product development

Products in the information technology industry are becoming increasingly sophisticated. As a result, Reuters, like other information vendors, may encounter difficulties or delays in the development, production, testing, marketing, installation and market acceptance of new products.

#### European economic and monetary union

The introduction of a single currency in Europe in January 1999 has initially resulted in a reduction in the volume of foreign exchange trading. At this time Reuters is unable to predict whether this will have a long-term effect on the company's foreign exchange information and transaction services.

#### Millennium issues

Reuters is exposed to various risks arising out of the change of millennium and the impact which this may have on its products and the development and production processes upon which they depend. A risk is posed to the effective delivery of Reuters products if a problem is experienced with client site software which requires site visits by Reuters engineers to overcome, due to the time required to visit all customers. Also, Reuters services and internal operations rely on third party suppliers of data, hardware, software, telecommunications, utilities and building services. For further information concerning Reuters Millennium Programme, see "Millennium Programme" on pages 45-47. Additional risks are described under the heading "Business Risks from Year 2000 issues" on pages 46-47.

#### Broker activities

Certain Reuters subsidiaries act as brokers in the financial markets but do not undertake trading on their own account. Instinet Corporation is an agency broker in the equities markets and Reuters Transaction Services Limited (RTSL) operates the Dealing 2000-2 electronic brokerage services for the foreign exchange market. These brokers could incur losses from broken trades and, in respect of equities, the failure of a counterparty. Reuters seeks to mitigate these risks by computerised systems, procedural controls and contractual agreements with customers.

#### SEC rules for alternative trading systems

In December 1998 the US Securities and Exchange Commission (SEC) promulgated new rules overhauling the regulation of certain "alternative trading systems" (ATS). The rules expand the SEC's interpretation of the definition of "exchange" under the US securities laws to encompass a broad range of electronic brokerage activities, including those conducted by Instinet Corporation.

The rules permit alternative trading systems to choose to be regulated either as a national securities exchange or as a broker-dealer, provided that they comply with certain additional requirements imposed by a new Regulation ATS. The requirements include, among others, mandatory public display of, and public access to, best-priced orders displayed within the system and the establishment and application of fair access and capacity, integrity and security standards. The new rules were promulgated with an effective date of 21 April 1999, subject to a phase-in provision for the public display requirement (with 50% of covered securities required to be displayed on 21 April 1999 and the remaining 50% required to be displayed on 30 August 1999).

Implementation of Regulation ATS may have a significant impact on Instinet's business. Mandatory order display may result in an increased volume of message traffic, with resulting additional costs associated with increasing network capacity. Implementation of the Regulation is also expected to require functional modifications to Instinet Corporation's systems and its customers' interfaces.

Instinet Corporation has commenced discussions with the staff of the SEC Division of Market Regulation regarding implementation of Regulation ATS in a manner that would minimise or avoid disruption to Instinet's business. Reuters is unable to predict the outcome of these discussions, although they may have a significant impact on the extent to which Instinet's business is affected by Regulation ATS.

#### SEC rules on ECN usage

Reuters and Instinet Corporation continue to monitor the operation of SEC rules governing market-maker and exchange specialist usage of electronic communications networks (ECNs).

Most recently, by letter dated 18 December 1998, the SEC Division of Market Regulation issued an extension, until 19 February 1999, of the Division's no-action position verifying Instinet Corporation's status as an ECN. The Division continues to condition its position upon, among other things, Instinet Corporation's representation that it has sufficient capacity to handle the volume of trading reasonably anticipated. Reuters has no reason at this time to believe that Instinet Corporation will not be able to continue to meet its obligations as an ECN under currently applicable SEC rules, although Instinet's status could be adversely affected by the implementation of Regulation ATS, as described below.

#### NASD initiatives

The US National Association of Securities Dealers, Inc. (NASD), which oversees the activities of US broker-dealers and also operates and regulates the primary market

for the trading of over-the-counter securities (Nasdaq), is considering a number of changes to the Nasdaq marketplace.

Some of these changes could put the NASD into direct competition with Instinet or otherwise have a significant impact on Instinet's business. Each of the NASD's proposals must be approved by the SEC. At this time Reuters is unable to predict whether, when or in what form any of the NASD's proposals will be approved or implemented, or the impact that any such implementation would have on Instinet Corporation's business.

#### Further regulation of transaction products

The increasing use of electronic systems as alternatives to traditional exchange and over-the-counter trading has led authorities in several jurisdictions to explore various methods of regulating such systems, including the SEC rules described below, implementation of which could impact Instinet and other transaction products offered by Reuters from time to time.

#### Key suppliers

Reuters is reasonably dependent on certain hardware and software suppliers, although alternative sources could be found if the need arose. The main suppliers are Intel Corporation, Microsoft Corporation, Compaq Computer Corporation and NCR Corporation.

#### Networks and systems

Reuters networks and systems risk being impacted by a catastrophic failure of long or short duration due to factors beyond its control. Reuters seeks over time to minimise these risks as far as it can by, inter alia, security controls, systems and communications redundancy and elimination of single points of failure where feasible.

#### Internet

The availability of the public Internet and Internet technology may, over time, reduce barriers to entry for new information providers, creating additional competition and new price/cost dynamics in the industry. It may also increase the availability of commoditised data in cheaper forms and the loss of control over intellectual property. As a new publishing medium, it will also create new outlets for content providers.

#### Geographical operations

Reuters may suffer discriminatory tariffs or other forms of government intervention due to the nature of its editorial and other reporting activities.

#### Reuters Analytics

In January 1998 Reuters was notified that Reuters Analytics Inc. ("Reuters Analytics"), one of its US subsidiaries, is the subject of a grand jury investigation in New York arising out of an arrangement that Reuters Analytics had with a New York-based consultant. The consultant subscribed to Bloomberg L.P.'s service, which included the associated data and analytics.

Reuters is co-operating with the investigation and has engaged external legal counsel to conduct a thorough internal inquiry. At this time Reuters is unable to predict the impact the investigation or related events may have on its business or financial condition.

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December

	Notes	1998 (pound)m	1997 (pound)m	1996* (pound)m
REVENUE	2	3,032	2,882	2,914
Operating costs	3	(2,482)	(2,341)	(2,322)
OPERATING PROFIT		550	541	592
Profit on disposal of fixed asset investments		26	--	--
Loss from associates		(1)	(1)	(7)
Income from fixed asset investments		3	6	6
Net interest receivable	4	2	80	61
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		580	626	652
Taxation on profit on ordinary activities	5	(196)	(236)	(210)
PROFIT AFTER TAXATION ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		384	390	442
Dividends	6	(203)	(190)	(190)
RETAINED PROFIT	26	181	200	252
BASIC EARNINGS PER ORDINARY SHARE	7	26.7p	24.0p	27.3p
Fully diluted earnings per ordinary share	7	26.6p	23.8p	27.0p

Consolidated revenue and operating profit derive from continuing operations in all material respects

The profit for the year has been computed on an unmodified historical cost basis.

Accounting policies are set out on pages 77-78

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December

	1998 (pound)m	1997 (pound)m	1996* (pound)m
Profit attributable to ordinary shareholders	384	390	442
Translation differences (debited)/credited directly to reserves	(1)	2	(28)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	383	392	414

The detailed statement showing the movement in capital and reserves is set out in note 26.

\*31 December 1996 figures restated following implementation in 1997 of UK Financial Reporting Standard 10 Goodwill and Intangible Assets (FRS 10).

1. CAPITAL REORGANISATION

Reuters Group PLC was incorporated on 24 December 1996 as Nayatronics Limited and was re-registered as a public limited company on 12 December 1997. On 2 December 1997, the authorised share capital of Reuters Group PLC was increased from (pound)100 to (pound)50,000 by the creation of 49,900 redeemable preference shares of (pound)1 each and on 12 December 1997 was further increased to (pound)525,000,001 by the creation of 2,099,800,000 ordinary shares of 25p each and one Founders Share of (pound)1.

On 18 February 1998, Reuters Group PLC issued and credited as fully paid 1,417,331,693 ordinary shares of 25p each and paid cash of (pound)1,482 million to acquire the majority of the issued share capital of Reuters Holdings PLC following the approval of a High Court Scheme of Arrangement. In exchange for every 15 ordinary shares in Reuters Holdings PLC shareholders received 13 ordinary shares in Reuters Group PLC plus (pound)13.60 in cash.

As the cash consideration exceeded 10% of the nominal value of the new shares issued, compliance with the detailed accounting requirements of the UK Companies Act 1985 would have required the capital reorganisation to be accounted for as an acquisition. This would have resulted in all of the separable assets and liabilities of the group at the date of the reorganisation being recorded at their fair values, substantial goodwill and goodwill amortisation charges arising and only post reorganisation results being reported in the group profit and loss account. The directors do not believe this would have given a true and fair view of the state of affairs of the group and of its results as in substance the capital reorganisation represented a change in the identity of the holding company rather than an acquisition of a business. Consequently, the capital reorganisation has been accounted for using merger accounting principles as the directors consider this necessary in order to meet the overriding requirement of the Companies Act 1985 to show a true and fair view. The directors consider that it is not practicable to quantify the effect of this departure from the detailed accounting requirements.

Share capital and reserves in the prior year consolidated balance sheets have been restated on a proforma basis. The proforma share capital as at 31 December 1997 and 31 December 1996 represents the proforma nominal value of shares in issue of Reuters Group PLC immediately prior to the reorganisation. Differences between this amount and the previously reported capital and reserves, excluding the profit and loss reserve, represent the merger difference and have been reflected in other reserves.

The cash payment and the reduction in the number of ordinary shares was considered to represent a repurchase of two shares in every fifteen at market value. Consequently, prior year earnings per share figures have not been adjusted.

## 2. SEGMENTAL ANALYSIS

The tables below are a segmental analysis of revenue, costs and contribution. Central costs comprise the costs of corporate administration and the centrally controlled elements of development, marketing and technical operations. The table does not purport to show geographical profitability but reflects how Reuters controls costs and monitors contribution including the worldwide activities of Instinet and TIBCO which are managed separately. Because of the interactive nature of the worldwide operations of Reuters, Instinet and TIBCO costs incurred in one location often relate to revenues earned in other locations.

	1998 (pound)m	% CHANGE	1997 (pound)m	% CHANGE	RESTATED 1996 (pound)m
<b>REVENUE</b>					
Europe, Middle East and Africa (see note below)	1,566	6%	1,484	(5%)	1,564
Asia/Pacific	466	(6%)	496	(2%)	504
The Americas	454	4%	437	(1%)	440
	2,486	3%	2,417	(4%)	2,508
Instinet	446	16%	383	11%	346
TIBCO	100	23%	82	37%	60
	3,032	5%	2,882	(1%)	2,914
<b>OPERATING COSTS WHERE INCURRED</b>					
Europe, Middle East and Africa	(1,028)	4%	(986)	1%	(976)
Asia/Pacific	(289)	(7%)	(312)	--	(311)
The Americas	(429)	7%	(400)	(3%)	(414)
	(1,746)	3%	(1,698)	--	(1,701)
Instinet	(291)	25%	(234)	11%	(211)
TIBCO	(87)	31%	(67)	40%	(48)
	(2,124)	6%	(1,999)	2%	(1,960)
<b>CONTRIBUTION</b>					
Europe, Middle East and Africa	538	8%	498	(15%)	588
Asia/Pacific	177	(4%)	184	(5%)	193
The Americas	25	(33%)	37	45%	26
	740	3%	719	(11%)	807
Instinet	155	3%	149	11%	135
TIBCO	13	(13%)	15	23%	12
	908	3%	883	(7%)	954
Central costs	(351)	1%	(347)	7%	(324)
Net currency gain	39	(29%)	56	--	11
Goodwill amortisation	(46)	(9%)	(51)	2%	(49)
<b>OPERATING PROFIT</b>	<b>550</b>	<b>2%</b>	<b>541</b>	<b>(8%)</b>	<b>592</b>

United Kingdom and Ireland revenue was (pound)542 million (1997 - (pound)509 million, 1996 - (pound)477 million). Instinet's and TIBCO's operations are predominantly based in the Americas.



2. SEGMENTAL ANALYSIS continued

Revenue is normally invoiced in the same geographical area in which the customer is located. Revenue earned, therefore, generally represents revenue both by origin and by destination. The main exception is TIBCO, where a substantial proportion of revenue billed by the Americas is from customers located elsewhere. In 1998, 38% (1997 - 42%, 1996 - 42%) of TIBCO's revenue was generated from customers in the Americas, 47% (1997 - 43%, 1996 - 39%) from customers located in Europe, Middle East and Africa and 15% (1997 - 15%, 1996 - 19%) from customers in Asia/Pacific.

REVENUE BY PRODUCT CATEGORY	1998 (pound)m	% CHANGE	1997 (pound)m	% CHANGE	1996 (pound)m
<b>INFORMATION PRODUCTS</b>					
Europe, Middle East and Africa	1,164	7%	1,087	(5%)	1,145
Asia/Pacific	342	(5%)	359	(2%)	365
The Americas	343	6%	324	1%	322
TIBCO	100	23%	82	37%	60
	1,949	5%	1,852	(2%)	1,892
<b>TRANSACTION PRODUCTS</b>					
Europe, Middle East and Africa	266	--	266	(7%)	286
Asia/Pacific	97	(9%)	107	(1%)	108
The Americas	73	1%	72	(1%)	73
Instinet	446	16%	383	11%	346
	882	6%	828	2%	813
<b>MEDIA AND PROFESSIONAL PRODUCTS</b>					
Europe, Middle East and Africa	136	3%	131	(1%)	133
Asia/Pacific	27	(9%)	30	(3%)	31
The Americas	38	(8%)	41	(9%)	45
	201	(1%)	202	(3%)	209
	3,032	5%	2,882	(1%)	2,914

Reuters operates in a single class of business: the provision of news and financial information and related services. With the exception of Instinet and TIBCO, Reuters products are delivered and sold through a common network and geographical infrastructure.

REVENUE BY TYPE	1998 (pound)m	% CHANGE	1997 (pound)m	% CHANGE	1996 (pound)m
Recurring	2,170	1%	2,147	(4%)	2,232
Usage	621	22%	511	7%	478
Outright sales	241	8%	224	10%	204
	3,032	5%	2,882	(1%)	2,914

Recurring revenue is derived from the sale of subscription services, including maintenance contracts. Usage revenue is based on volume and primarily relates to transaction products, including Instinet and certain activities of Reuters Television. Outright sales mainly represents once-off sales of information and risk management systems.

3. OPERATING COSTS

COSTS BY TYPE	1998	%	1997	%	RESTATED
	(pound)m	CHANGE	(pound)m	CHANGE	1996 (pound)m
Wages, salaries, commission and allowances	805	9%	729	(2%)	748
Social security costs	73	15%	62	(3%)	64
Other pension costs (see note 24)	50	10%	44	1%	44
Staff costs	928	11%	835	(2%)	856
Services	586	--	585	9%	539
Depreciation	331	6%	312	10%	283
Goodwill amortisation	46	(9%)	51	2%	49
Communications	207	3%	201	--	202
Space	129	(9%)	142	(6%)	150
Data	242	17%	207	6%	195
Cost of sales and other	52	(18%)	64	9%	59
Currency hedging activities - net gain	(45)	(20%)	(56)	--	(5)
Foreign currency translation - net loss/(gain)	6	--	--	--	(6)
	2,482	6%	2,341	1%	2,322

Services costs include equipment hire and bought-in services, including consultancy and contractors, advertising and publicity, professional fees and staff-related expenses.

COSTS BY FUNCTION	1998	%	1997	%	RESTATED
	(pound)m	CHANGE	(pound)m	CHANGE	1996 (pound)m
Production and communications costs	1,722	6%	1,626	2%	1,597
Selling, marketing and administrative expenses	714	8%	664	(2%)	676
Goodwill amortisation	46	(9%)	51	2%	49
	2,482	6%	2,341	1%	2,322

COSTS INCLUDE:					
Development expenditure	200	(15%)	235	17%	202
Operating lease expenditure:					
Hire of equipment	11	(27%)	14	(4%)	14
Other, principally property	73	1%	72	(4%)	75
Advertising costs	24	38%	17	(15%)	21

FEES PAYABLE TO PRICEWATERHOUSECOOPERS  
(FORMERLY PRICE WATERHOUSE) WERE AS FOLLOWS:

Audit Fees:					
United Kingdom	0.9	-	0.9	-	0.9
Overseas	0.9	(11%)	1.0	(9%)	1.1
	1.8	(5%)	1.9	(5%)	2.0
Non-Audit Services:					
United Kingdom	3.8	-	0.9	-	0.9
Overseas	6.1	15%	5.3	10%	4.8
	9.9	60%	6.2	9%	5.7
	11.7	44%	8.1	5%	7.7

The United Kingdom audit fee of (pound)0.9 million includes (pound)10,000 in respect of the parent company audit.

Non-audit services were as follows:

	1998	%	1997	%	1996
	(pound)m	CHANGE	(pound)m	CHANGE	(pound)m
Litigation support, due diligence and other audit related work	3.9	-	3.9	5%	3.7
Management consultancy	3.6	-	0.6	100%	0.3
Taxation advice	2.4	43%	1.7	-	1.7
	9.9	60%	6.2	9%	5.7

3. OPERATING COSTS continued

Non-audit fees of (pound)9.9 million for PricewaterhouseCoopers in 1998 includes (pound)3.7 million paid to Price Waterhouse and (pound)1.6 million paid to Coopers and Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors. Non-audit fees in 1997 and 1996 comprise solely amounts paid to the previous auditors Price Waterhouse.

Non-audit fees paid to Coopers and Lybrand in 1997 not included in the above figures amounted to (pound)2.6 million.

The directors consider it important that the company has access to a broad range of external advice, including from PricewaterhouseCoopers. Where appropriate, work is put out to competitive tender. The Audit Committee monitors the relationship with PricewaterhouseCoopers, including the level of non-audit fees.

4. NET INTEREST RECEIVABLE

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Interest receivable:			
Listed investments	14	14	5
Unlisted investments	60	68	59
	74	82	64
Interest payable:			
Short-term borrowings	(72)	(2)	(3)
	2	80	61

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1998 (pound)m	1997 (pound)m	1996 (pound)m
UK corporation tax	56	97	146
Credit for overseas taxation	(10)	(9)	(16)
Overseas taxation	143	135	61
Taxes on return of capital to shareholders	--	23	--
	189	246	191
Deferred taxation	7	(10)	19
	196	236	210
RECONCILIATION TO THE UK NOMINAL TAX RATE:			
Effective tax rate	33.8%	37.7%	32.2%
UK nominal tax rate	31.0%	31.5%	33.0%
Taxes as shown in these financial statements	196	236	210
Corporation tax on pre-tax profit at UK nominal rate	180	197	215
Difference	16	39	(5)
The difference is principally due to:			
Non-tax deductible amortisation of goodwill	16	16	16
Taxes on return of capital to shareholders	--	23	--
Other differences	--	--	(21)
	16	39	(5)

The other differences are primarily due to overseas profits taxed at rates differing from those in the UK and the geographical mix of profits.

## 6. DIVIDENDS

	1998 (pound)m	1997 pound)m	1996 (pound)m
Interim	48	50	45
Final (1998 proposed)	155	140	145
	203	190	190
Per ordinary share	1998 pence	1997 pence	1996 pence
Interim	3.4	3.1	2.75
Final (1998 proposed)	11.0	9.9	9.0
	14.4	13.0	11.75

## 7. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share are based on the profit attributable to ordinary shareholders and on the weighted average number of those shares in issue during the year. The weighted average number of shares in issue may be reconciled to the number used in the basic and fully diluted earnings per ordinary share calculations as follows:

Weighted average number in millions	1998	1997	1996
Ordinary shares in issue	1,449	1,692	1,684
Ordinary shares held by group undertakings	--	(59)	(59)
Non vested shares held by employee share ownership trusts	(11)	(10)	(9)
Basic earnings per share denominator	1,438	1,623	1,616
Issuable on conversion of options	5	13	22
Fully diluted earnings per share denominator	1,443	1,636	1,638

## 8. REMUNERATION OF DIRECTORS

The report of the Remuneration Committee on pages 24-31 includes details of directors' emoluments and forms part of these financial statements

## 9. EMPLOYEE INFORMATION

The average number of employees during the year was as follows:

SEGMENTAL ANALYSIS	1998	1997	1996
Europe, Middle East and Africa	6,906	6,708	6,432
Asia/Pacific	2,499	2,547	2,088
The Americas	2,761	2,737	2,790
Instinet	1,181	1,086	906
TIBCO	649	473	390
Central	2,694	2,454	2,311
	16,690	16,005	14,917

## ANALYSIS BY FUNCTION

Production and communications	10,021	9,347	8,636
Selling, marketing and administration	6,669	6,658	6,281
	16,690	16,005	14,917
The above include:			
Development staff	2,426	2,510	2,340
Journalists	2,048	1,990	1,920

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December

	NOTES	1998 (pound)m	1997 (pound)m	1996 (pound)m
NET CASH INFLOW FROM OPERATING ACTIVITIES	10	998	936	995
DIVIDENDS RECEIVED FROM ASSOCIATES		9	--	--
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		76	79	65
Interest paid		(72)	(3)	(3)
Income from fixed asset investments		3	1	6
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		7	77	68
TAXATION PAID		(219)	(196)	(197)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Purchase of tangible fixed assets		(307)	(369)	(374)
Sale of tangible fixed assets		2	1	2
Purchase of fixed asset investments		(22)	(21)	(23)
Sale of fixed asset investments		34	11	--
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(293)	(378)	(395)
ACQUISITIONS AND DISPOSALS (INCLUDING ASSOCIATES)	11	(138)	(22)	(106)
EQUITY DIVIDENDS PAID		(188)	(196)	(166)
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		176	221	199
MANAGEMENT OF LIQUID RESOURCES				
Net decrease/(increase) in short-term investments	11	313	(255)	(172)
FINANCING				
Return of surplus capital (see note 1)		(1,482)	--	--
Proceeds from issue of shares		13	22	23
Proceeds from issue of non-equity shares in TIBCO Software Inc.	27	--	17	--
Shares repurchased		--	(21)	--
Net increase/(decrease) in borrowings	11	972	(15)	2
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(497)	3	25
(DECREASE)/INCREASE IN CASH	12	(8)	(31)	52
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		1998 (pound)m	1997 (pound)m	1996 (pound)m
(Decrease)/increase in cash		(8)	(31)	52
Cash (inflow)/outflow from movement in borrowings		(972)	15	(2)
Cash (inflow)/outflow from movement in liquid resources		(313)	255	172
Change in net cash resulting from cash flows		(1,293)	239	222
Translation differences		-	1	(22)
Movement in net (debt)/funds		(1,293)	240	200
Opening net funds		1,290	1,050	850
CLOSING NET (DEBT)/FUNDS	12	(3)	1,290	1,050

10. NET CASH INFLOW FROM OPERATING ACTIVITIES

Operating profit is reconciled to net cash inflow from operating activities as follows:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Operating profit	550	541	592
Depreciation	331	312	283
Goodwill amortisation	46	51	49
Decrease/(increase) in stocks	3	10	(1)
Increase in debtors	(103)	(73)	(40)
Increase in creditors	171	81	96
Profit on disposal of subsidiaries	(5)	--	--
Loss on disposal of fixed assets	3	10	8
Amortisation of interests in own shares	3	4	8
Miscellaneous, principally translation difference	(1)	--	--
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>998</b>	<b>936</b>	<b>995</b>

11. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 (pound)m	1997 (pound)m	1996 (pound)m
<b>ACQUISITIONS AND DISPOSALS (INCLUDING ASSOCIATES)</b>			
Cash consideration:			
Subsidiary undertakings (see note 32)	(90)	(17)	(17)
Associated undertakings (see note 32)	(46)	(3)	(7)
Deferred payments for acquisitions in prior years	(7)	(3)	(82)
	(143)	(23)	(106)
Less cash acquired	1	1	--
	(142)	(22)	(106)
Cash received from disposals:			
Subsidiary undertakings	4	--	--
	(138)	(22)	(106)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Increase in term deposits	(7,145)	(5,826)	(6,110)
Decrease in term deposits	7,250	5,739	5,982
Purchase of certificates of deposit	(580)	(842)	(433)
Sale of certificates of deposit	597	940	432
Purchase of listed/unlisted securities	(465)	(771)	(74)
Sale of listed/unlisted securities	656	505	31
	313	(255)	(172)
<b>FINANCING</b>			
Increase/(decrease) in short-term borrowings	986	(12)	6
Decrease in long-term borrowings	(14)	(3)	(4)
	972	(15)	2

12. ANALYSIS OF NET FUNDS

	CASH AT BANK AND IN HAND (pound)m	OVERDRAFTS (pound)m	TOTAL CASH AND OVERDRAFTS (pound)m	SHORT-TERM INVESTMENTS (pound)m	BANK BORROWINGS		TOTAL (pound)m
					FALLING DUE WITHIN ONE YEAR (pound)m	FALLING DUE AFTER MORE THAN ONE YEAR (pound)m	
31 December 1996	77	(6)	71	1,019	(18)	(22)	1,050
Cash flow	7	(38)	(31)	255	12	3	239
Exchange movements	(3)	2	(1)	1	--	1	1
31 December 1997	81	(42)	39	1,275	(6)	(18)	1,290
Cash flow	(38)	30	(8)	(313)	(986)	14	(1,293)
Exchange movements	1	(1)	--	--	--	--	--
31 DECEMBER 1998	44	(13)	31	962	(992)	(4)	(3)

13. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

A substantial portion of Reuters revenue is receivable in foreign currencies and committed under one- and two-year contracts with terms of payment up to six months in advance. As such, Reuters is subject to currency exposure from committed revenue. In addition, Reuters is subject to interest rate risk from the investment of cash balances. Reuters seeks to limit these risks by entering into a mix of derivative financial instruments which include forward contracts, options (including cylinders), swaps and forward rate agreements. A more detailed discussion on Reuters Treasury Management can be found in the operating and financial review (see pages 43-45).

If the derivative financial instruments were considered separately from the underlying future revenue and interest income, Reuters would be subject to market risk on these financial instruments from fluctuations in currency and interest rates. Reuters only enters into such derivative financial instruments to hedge (or reduce) the underlying exposure described above. There is, therefore, no net market risk on such derivative financial instruments and only a credit risk from the potential non-performance by counterparties. The amount of this credit risk is generally restricted to any hedging gain and not the principal amount hedged.

Reuters may also purchase options to hedge translation exposure arising on the conversion of the results of subsidiaries whose functional currency is not sterling - principally Instinet and TIBCO. In such cases the maximum cash outflow from this activity is the cost of the option premia.

Derivative instruments held at 31 December were:

	1998			1997			1996		
	GROSS CONTRACT AMOUNTS (pound)m	CARRYING VALUE (pound)m	FAIR VALUE (pound)m	GROSS CONTRACT AMOUNTS (pound)m	CARRYING VALUE (pound)m	FAIR VALUE (pound)m	GROSS CONTRACT AMOUNTS (pound)m	CARRYING VALUE (pound)m	FAIR VALUE (pound)m
<b>CURRENCY MANAGEMENT</b>									
Foreign exchange forward contracts:									
Contracts in profit	97	--	5	324	--	39	531	--	29
Contracts in loss	257	--	(10)	59	--	--	7	--	--
Foreign currency options	399	--	(1)	53	2	2	166	3	13
	753	--	(6)	436	2	41	704	3	42
<b>INTEREST RATE MANAGEMENT</b>									
Interest rate swaps	100	--	(1)	140	1	3	250	2	8
Forward rate agreements	--	--	--	50	--	--	450	--	--
	100	--	(1)	190	1	3	700	2	8

13. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued

Carrying values are amounts recorded in the balance sheet and comprise deferred option premia, which are recognised over the period to which the option relates, and certain locked in profits on swap contracts which have been recognised for accounting purposes but where settlement in cash has not yet occurred. Fair values represent the mark to market value of contracts at the balance sheet date.

The foreign exchange forward contracts are held 52% in continental European currencies (1997 - 56%, 1996 - 74%). The remaining contracts were principally in Japanese yen and US dollars.

Foreign exchange forward contracts and options mature at dates up to 22 months from the balance sheet date. Interest forward rate agreements, swaps and options on swaps commence and mature at various dates through April 2000.

The fair value of foreign currency and interest rate management instruments is estimated on the basis of market quotes, discounted to current value using market-quoted interest rates.

The weighted average fixed rate receivable on the interest rate swaps at 31 December 1998 was 7% (1997 - 8%, 1996 - 9%) and the weighted average variable rate payable was 6% (1997 - 7%, 1996 - 7%). The weighted average variable rate is based on the rate implied in the yield curve at the balance sheet date.

All derivative instruments are unsecured. However, Reuters does not anticipate non-performance by the counterparties who are all banks with recognised credit ratings of 'A' or higher.

Carrying and fair values of group financial assets and liabilities at 31 December were:

	1998		1997		1996	
	CARRYING VALUE (pound)m	FAIR VALUE (pound)m	CARRYING VALUE (pound)m	FAIR VALUE (pound)m	CARRYING VALUE (pound)m	FAIR VALUE (pound)m
Derivative instruments	-	(7)	3	44	5	50
Other assets:						
Interests in own shares	45	77	39	79	28	73
Other fixed asset investments	25	67	19	33	22	46
Debtors	463	463	344	344	269	269
Short-term investments and cash	1,006	1,006	1,356	1,356	1,096	1,096
Liabilities:						
Current liabilities	(1,507)	(1,507)	(436)	(436)	(360)	(360)
Long-term liabilities	(4)	(4)	(18)	(18)	(22)	(22)

Financial instruments exclude prepayments and accrued income and taxation classified with debtors and accruals, deferred income and taxation classified within creditors.

Monetary assets and liabilities by currency, excluding the functional currency of each operation at 31 December 1998, were:

	NET FOREIGN CURRENCY MONETARY ASSETS/(LIABILITIES) (POUND)M							
	STERLING	US DOLLAR	SWISS FRANC	FRENCH FRANC	SINGAPORE DOLLAR	HONG KONG DOLLAR	OTHER	TOTAL
Functional currency of operation								
Sterling	-	16	(21)	9	(10)	(26)	48	16
US dollar	32	-	8	-	-	21	9	70
Total	32	16	(13)	9	(10)	(5)	57	86

Net currency gains and losses arising from monetary assets/(liabilities) not in the functional currency of an operation are recognised in its profit and loss account. Those arising from the translation of US dollar functional currency financial statements into sterling (principally Instinet and TIBCO) are recognised in the statement of recognised gains and losses.



The currency and interest rate profile of the group's short-term investments at 31 December 1998 was:

	SHORT-TERM INVESTMENTS			FIXED RATE INVESTMENTS	
	TOTAL (pound)m	FLOATING RATE INVESTMENTS (pound)m	FIXED RATE INVESTMENTS (pound)m	WEIGHTED AVERAGE INTEREST RATE AT 31 DECEMBER %	WEIGHTED AVERAGE TIME FOR WHICH RATE IS FIXED YEARS
Sterling	620	615	5	7	2
US dollar	267	171	96	6	2
Other	75	71	4	4	5
-----					
Total short-term investments					
-----					
31 December 1998	962	857	105	6	2
-----					
31 December 1997	1,275	1,212	63	7	2
31 December 1996	1,019	979	40	7	2

Sterling and US dollar floating rate investments include (pound)623 million (1997 - (pound)789 million) of money market deposits and nil (1997 - (pound)265 million) of equity based investments which mature within three months of the balance sheet date.

Fixed rate investments are those investments which have an interest rate fixed for a period of greater than one year.

The currency and interest rate profile of the group's total borrowings at 31 December 1998 was:

	BORROWINGS			FIXED RATE BORROWINGS	
	TOTAL (pound)m	FLOATING RATE BORROWINGS (pound)m	FIXED RATE BORROWINGS (pound)m	WEIGHTED AVERAGE INTEREST RATE AT 31 DECEMBER %	WEIGHTED AVERAGE TIME FOR WHICH RATE IS FIXED YEARS
Sterling	994	990	4	9	1
Other	15	15	--	--	--
-----					
Total borrowings					
-----					
31 December 1998	1,009	1,005	4	9	1
-----					
31 December 1997	66	58	8	9	2
31 December 1996	46	35	11	9	3

The floating rate borrowings comprise bank loans and overdrafts bearing interest at rates based on local money market rates and commercial paper with a maturity of less than 12 months. The weighted average interest rate on bank borrowings at 31 December 1998 was 4% (1997 - 4%, 1996 - 4%).

Total borrowings are repayable as follows:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Within one year	1,005	48	24
Between one and two years	4	18	4
Between two and five years	--	--	18
-----			
	1,009	66	46
-----			
Bank borrowings secured against freehold property	3	15	19

Bank borrowings at 31 December 1998 included a short-term loan denominated in sterling, secured on freehold property held at a cost of (pound)93 million. The interest rate payable on this loan was 8.8%.

### 13. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued

In December 1997, Reuters Group PLC entered into syndicated credit facilities for (pound)1.5 billion to cover payments due to shareholders under the capital reorganisation. A facility of (pound)1.0 billion expired on 2 December 1998. The remaining (pound)0.5 billion which is at variable interest rates based on LIBOR, the London Interbank Offer Rate, may be drawn and redrawn up to one month prior to its maturity in December 2002.

In March 1998 Reuters established a Euro Commercial Paper Programme. This provides access to (pound)1.5 billion of uncommitted finance of which (pound)511 million was unused at 31 December 1998. In December 1998 Reuters established a (pound)1.0 billion Euro Medium Term Note Programme.

In addition, at 31 December 1998 Reuters had unused, short-term, uncommitted bank borrowing facilities denominated in various currencies, the sterling equivalent of which was approximately (pound)230 million, at money market rates varying principally between 2% and 13%, depending on the currency.

### 14. CONCENTRATION OF CREDIT RISK

Reuters is exposed to concentrations of credit risk. Reuters invests in UK and US government securities and with high credit quality financial institutions. Reuters limits the amount of credit exposure to any one financial institution. Reuters is also exposed to credit risk from its trade debtors which are concentrated in the financial community. Reuters estimates that approximately 57% of its subscribers are financial institutions, 29% are corporations in other sectors of the business community, 5% are from the news media and 9% are government institutions and individuals worldwide (1997 - 58%, 28%, 5% and 9% respectively).

Instinet is exposed to the possibility of trades between its counterparties failing to settle. Due to the settlement mechanisms employed the maximum exposure is generally limited to the market movement between the trade date and the settlement date. There are no material unprovided off balance sheet exposures or positions in respect of trades undertaken on or prior to 31 December 1998.

	notes	PROFORMA		
		1998 (pound)m	1997 (pound)m	1996* (pound)m
<b>Fixed assets</b>				
Intangible assets: Goodwill	16	234	157	198
Tangible assets	17	779	816	775
Investments	18	85	73	53
		1,098	1,046	1,026
<b>Current assets</b>				
Stocks	19	6	13	22
Debtors (see note below)	20	595	498	431
Short-term investments	21	962	1,275	1,019
Cash at bank and in hand		44	81	77
		1,607	1,867	1,549
Creditors: Amounts falling due within one year	22	(2,250)	(1,153)	(1,024)
Net current (liabilities)/assets		(643)	714	525
<b>Total assets less current liabilities</b>				
Creditors: Amounts falling due after more than one year	23	(16)	(37)	(41)
Provisions for liabilities and charges:				
Pensions and similar obligations	24	(36)	(28)	(30)
Deferred taxation	25	(14)	(16)	(21)
Net assets		389	1,679	1,459
<b>Capital and reserves</b>				
Called-up share capital	26	354	408	408
Share premium account		16	--	--
Other reserve		(1,717)	(290)	(325)
Profit and loss account reserve		1,719	1,543	1,375
Shareholders' equity		372	1,661	1,458
Minority interests - equity		--	1	1
- non-equity	27	17	17	--
Capital employed		389	1,679	1,459

Debtors and net current assets include amounts due after more than one year of (pound)40 million (1997 - (pound)57 million, 1996 - (pound)39 million). 1997 and 1996 capital and reserves are shown on a proforma basis (see note 1).

\*1996 figures restated following implementation of UK Financial Reporting Standard 10 (FRS 10).

The balance sheet of Reuters Group PLC is shown on page 75.

The financial statements on pages 50-78 were approved by the directors on 12 February 1999.

--((signature))--

Peter Job, Chief Executive

--((signature))--

Rob Rowley, Finance Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 (pound)m	1997 (pound)m	1996 (pound)m
for the year ended 31 December			
Retained profit	181	200	252
Translation differences (debited)/credited directly to reserves	(1)	2	(28)
Return of surplus capital to shareholders	(1,482)	--	--
Shares issued during the year	13	22	23
Shares repurchased during the year	--	(21)	--
Net (reduction)/addition to shareholders' equity	(1,289)	203	247
Opening shareholders' equity	1,661	1,458	1,211
Closing shareholders' equity	372	1,661	1,458

## 15. SEGMENTAL ANALYSIS

The tables below show net assets and total assets by location on a basis consistent with the segmental analysis of profit in note 2. For the reasons discussed in that note, the assets in any location are not matched with the revenue earned in that location.

LOCATION OF NET ASSETS	RESTATED		
	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
Non-interest bearing assets/(liabilities):			
Europe, Middle East and Africa	253	301	295
Asia/Pacific	96	101	98
The Americas	4	53	80
Instinet	84	114	37
TIBCO	28	6	4
Central	(70)	(180)	(98)
-----			
Non-interest bearing net assets	395	395	416
Interest bearing net (liabilities)/assets	(6)	1,284	1,043
-----			
	389	1,679	1,459
-----			

Central non-interest bearing liabilities consist principally of dividend and taxation liabilities partially offset by unamortised goodwill. Interest bearing net assets are stated after deducting deferred consideration which has been discounted for accounting purposes.

LOCATION OF TOTAL ASSETS	RESTATED		
	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
Europe, Middle East and Africa	584	644	584
Asia/Pacific	213	224	206
The Americas	158	178	195
Instinet	686	500	355
TIBCO	64	56	33
Central	1,000	1,311	1,202
-----			
	2,705	2,913	2,575
-----			
Fixed assets	1,098	1,046	1,026
Current assets	1,607	1,867	1,549
-----			
	2,705	2,913	2,575
-----			

Central assets consist principally of purchased goodwill net of accumulated amortisation, short-term investments and cash.

## 16. INTANGIBLE ASSETS: GOODWILL

	COST (pound)m	AMORTISATION (pound)m	NET BOOK AMOUNT (pound)m
-----			
31 December 1997	474	(317)	157
Additions (see note 32)	128	-	128
Amortisation charged in year - subsidiaries	-	(46)	(46)
- associates	-	(5)	(5)
Written back	(38)	38	-
-----			
31 December 1998	564	(330)	234
-----			

Amounts written back comprise goodwill which was originally capitalised on the acquisition of Reuters Health Information practice management and Reuters Voice Systems businesses which were disposed of in December 1998.

## 17. TANGIBLE ASSETS

	FREEHOLD PROPERTY (pound)m	LEASEHOLD PROPERTY (pound)m	COMPUTER SYSTEMS EQUIPMENT (pound)m	OFFICE EQUIPMENT AND MOTOR VEHICLES (pound)m	TOTAL (pound)m
COST					
31 December 1997	176	137	1,623	208	2,144
Translation differences	-	-	(1)	-	(1)
Additions	5	18	231	42	296
Owned by subsidiaries acquired	-	1	4	2	7
Disposals	-	(14)	(159)	(25)	(198)
31 December 1998	181	142	1,698	227	2,248
Depreciation					
31 December 1997	58	68	1,071	131	1,328
Charged in the year	8	13	269	41	331
Owned by subsidiaries acquired	-	-	3	1	4
On disposals	-	(13)	(159)	(22)	(194)
31 December 1998	66	68	1,184	151	1,469
Net book amount					
31 December 1998	115	74	514	76	779
31 December 1997	118	69	552	77	816

NET BOOK AMOUNT OF LEASEHOLD PROPERTY	1998 (pound)m	1997 (pound)m	1996 (pound)m
Long-term leaseholds	14	16	15
Short-term leaseholds	60	53	44
	74	69	59

## CAPITAL COMMITMENTS

Contracted for	35	47	52
----------------	----	----	----

## 18. INVESTMENTS

	INTERESTS IN OWN SHARES (pound)m	INTERESTS IN ASSOCIATES (pound)m	OTHER INVESTMENTS (pound)m	TOTAL (pound)m
COST LESS AMOUNTS WRITTEN OFF				
31 December 1997	39	22	19	80
Net additions	6	6	14	26
Disposals	-	-	(8)	(8)
Reclassification (see note below)	-	(4)	-	(4)
31 December 1998	45	24	25	94
SHARE OF POST-ACQUISITION LOSSES				
31 December 1997	-	(7)	-	(7)
Profits arising in the year (see note below)	-	4	-	4
Reclassification (see note below)	-	3	-	3
Dividends received	-	(9)	-	(9)
31 December 1998	-	(9)	-	(9)
	45	15	25	85

Profits arising in the year of (pound)4 million are shown net of (pound)5 million goodwill amortisation in the consolidated profit and loss account.

18. INVESTMENTS continued

The reclassification reflects the purchase of the remaining 50% of Adways S.A. which is now treated as a wholly owned subsidiary undertaking.

Interests in own shares represents the cost less amounts written off of 12.1 million ordinary shares held by employee share ownership trusts (ESOTs). These were acquired in the open market using funds provided by Reuters. The write-off reflects employee interests under incentive plans which are charged against profit over the vesting period of the awards (see pages 26-28). The market value of these shares at 31 December 1998 was (pound)77 million. The ESOTs have waived dividend and voting rights on these shares. This presentation accords with that required by the Urgent Issues Task Force abstracts 13 and 17. Should the shares held by the ESOTs become material this treatment may be reviewed.

During 1998 Reuters entered into a joint venture with Rudin Times Square Associates, LLC. At 31 December 1998 Reuters had invested a nominal amount and had guaranteed the future injection of approximately US\$45 million (see page 43).

During 1998 transactions between Reuters and its associates totalled (pound)2 million (1997 - (pound)4 million, 1996 - (pound)3 million).

Other investments consist principally of US technology stocks, a number of which are listed with a market value of (pound)48 million, and Stock Exchange seats.

19. STOCKS

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Contract work in progress	10	15	22
Less progress payments	(9)	(11)	(13)
-----			
Equipment stocks	1	4	9
	5	9	13
-----			
	6	13	22
-----			

20. DEBTORS

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Trade debtors	197	176	166
Less allowance for doubtful accounts	(28)	(27)	(24)
-----			
Instinet counterparty debtors	169	149	142
Other debtors	204	122	63
Prepayments and accrued income	90	73	69
Deferred taxation (see note 25)	67	73	65
Advance corporation tax recoverable	65	74	69
	-	7	23
-----			
	595	498	431
-----			

Amounts falling due after more than one year  
(included in the above):

Other debtors	16	15	15
Deferred taxation	24	42	24
-----			
	40	57	39
-----			

21. SHORT-TERM INVESTMENTS

	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
Listed			
Government securities: UK	2	2	-
Overseas	115	83	54
Other investments: Overseas	-	265	-
	117	350	54
-----			
Unlisted			
Certificates of deposit	127	144	242
Term deposits: UK	511	647	594
Overseas	103	73	39
Other investments: UK	3	-	-
Overseas	101	61	90
	845	925	965
	962	1,275	1,019
-----			

22. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
Trade creditors	126	135	122
Accruals	435	374	362
Instinet counterparty creditors	186	77	39
Deferred income	43	38	43
Other creditors	35	36	30
Other taxation and social security	33	36	25
	858	696	621
Bank overdrafts	13	42	6
Bank loans	3	6	18
Commercial paper	989	-	-
Current UK corporation and overseas taxation	232	269	234
Proposed dividend	155	140	145
	2,250	1,153	1,024
-----			

Current UK corporation and overseas taxation comprises:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
UK corporation tax:			
Advance corporation tax	-	47	22
Mainstream corporation tax	105	134	163
Overseas taxes	127	88	49
	232	269	234
-----			

23. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
Bank borrowings	4	18	22
Other creditors	12	19	19
	16	37	41
-----			

## 24. PENSIONS AND SIMILAR OBLIGATIONS

Reuters has established various pension arrangements covering the majority of its employees. In all plans, except those which are internally funded, the assets are held separately from those of the company and are independently administered.

### Defined contribution plans

Reuters operates 31 defined contribution plans covering approximately 68% of its employees, of which the largest plan, the Reuters Pension Fund, covers approximately 26% of employees. Members of this plan contribute 6% of basic salaries and Reuters is required to make an annual contribution of 9.525% of members' basic salaries regardless of the funding status of the plan. Reuters does not have the ability to recover assets held by the plan, nor can it be required to make additional payments to the plan over and above the annual contributions referred to above. Custodial responsibility for the assets of the plan rests with two substantial and independent UK investment managers.

### Defined benefit plans

Reuters also operates 33 defined benefit plans covering approximately 16% of employees. Individually, these plans are of a relatively minor nature. They are subject to regular valuations based on the accepted actuarial practice and standards within the country in which the plan is established. The largest plans are directly invested and others are invested in insurance contracts. The remainder are internally funded in accordance with local practice with provisions in the subsidiary undertakings to recognise the pension obligations.

Where necessary, additional provisions have been established for the group's plans in accordance with UK Statement of Standard Accounting Practice 24 based on independent actuarial advice.

### Post-retirement medical benefits

In the US, Reuters provides unfunded post-retirement medical benefits to certain US employees. The principal assumptions used in the most recent actuarial valuation undertaken at 31 December 1998 were that health care costs would increase by 8% per annum per head over the next year decreasing to 6% over the following two years and remain at 6% thereafter.

The movement on pension provisions and similar obligations was as follows:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Opening balance	28	30	27
Profit and loss account (see note 3):			
Defined contribution plans	35	32	29
Defined benefit plans	14	11	14
Post-retirement medical benefits	1	1	1
Utilised in the year	(42)	(46)	(41)
Closing balance	36	28	30



## 25. DEFERRED TAXATION LIABILITIES/(ASSETS)

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Opening balance	(58)	(48)	(85)
Arising on acquisitions	-	-	18
Profit and loss account	7	(10)	19
Closing balance	(51)	(58)	(48)
The closing balance is analysed below:			
Timing differences:			
Fixed asset related	7	(1)	13
Other	(58)	(57)	(61)
	(51)	(58)	(48)

Reuters has provided for all potential deferred tax liabilities in respect of timing differences and has provided for deferred UK income and foreign withholding taxes that will be triggered by the expected future remittance of earnings by overseas subsidiary undertakings. Reuters has not provided for deferred UK income and foreign withholding taxes relating to unremitted earnings where remittance of these earnings is not currently anticipated in the foreseeable future. Reuters estimates that these unrecognised taxes would total approximately (pound)117 million at 31 December 1998.

	ASSETS (pound)m	VALUATION ALLOWANCE (pound)m	LIABILITIES (pound)m	NET (pound)m
Total timing differences at 31 December 1998				
Fixed asset related	(46)	32	21	7
Unrecognised tax losses	(16)	14	--	(2)
Other	(85)	19	10	(56)
	(147)	65	31	(51)

The valuation allowance increased by (pound)21 million during 1998. Where appropriate deferred tax assets and liabilities are netted for balance sheet presentation purposes. The net deferred tax balance has been analysed as:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Deferred tax debtor (included in debtors - see note 20)	(65)	(74)	(69)
Deferred tax liability (included in provisions for liabilities and charges)	14	16	21

## 26. CAPITAL AND RESERVES

	CALLED-UP SHARE CAPITAL (pound)m	SHARE PREMIUM ACCOUNT (pound)m	OTHER RESERVE (pound)m	PROFIT AND LOSS ACCOUNT RESERVE (pound)m	SHARE- HOLDERS' EQUITY (pound)m
31 December 1995 (proforma - see note 1)	408	--	(370)	1,173	1,211
Shares issued during the year	--	--	45	(22)	23
Translation differences	--	--	--	(28)	(28)
Retained earnings for the year (restated)	--	--	--	252	252
31 December 1996 (proforma - see note 1)	408	--	(325)	1,375	1,458
Shares issued during the year	--	--	35	(13)	22
Shares repurchased during the year	--	--	--	(21)	(21)
Translation differences	--	--	--	2	2
Retained earnings for the year	--	--	--	200	200
31 December 1997 (proforma - see note 1)	408	--	(290)	1,543	1,661
Capital reorganisation (see note 1)	(55)	--	(1,427)	--	(1,482)
Shares issued during the year	1	16	--	(4)	13
Retained earnings for the year	--	--	--	181	181
Translation differences	--	--	--	(1)	(1)
31 December 1998	354	16	(1,717)	1,719	372

Cumulative translation losses at 31 December 1998 totalled (pound)28 million (1997 - (pound)27 million, 1996 - (pound)29 million).

During 1998 (pound)17 million was received by Reuters Group PLC on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid (pound)13 million to the group for the issue of these shares and the balance of (pound)4 million comprised contributions to the qualifying employee share trust (QUEST) from subsidiary undertakings.

## 27. NON-EQUITY MINORITY INTERESTS

Non-equity minority interests comprise convertible preferred stock issued by TIBCO Software Inc., a US subsidiary. The holders of these securities, which are non-redeemable, have no rights against group undertakings other than the issuing entity. Dividends on the preferred stock are only payable when declared.

## 28. SHARE CAPITAL

	PROFORMA		
	1998 (pound)m	1997 (pound)m	1996 (pound)m
-----			
AUTHORISED			
One Founders Share of (pound)1	--	--	--
49,998 redeemable preference shares of (pound)1 (see note 35)	--	--	--
2,100 million ordinary shares of 25p each	525	525	525
	-----	-----	-----
	525	525	525
-----			
ALLOTTED AND CALLED-UP			
One Founders Share of (pound)1	--	--	--
Redeemable preference shares of (pound)1 (see note 35)	--	--	--
Ordinary shares of 25p each	354	408	408
	-----	-----	-----
	354	408	408
-----			
Number of ordinary shares of 25p each (millions)	1,421.6	1,635.4	1,635.4
-----			
SHARES ALLOTTED/(REPURCHASED) DURING THE YEAR IN MILLIONS			
	1998	1997	1996
Capital reorganisation	(218.1)	--	--
Shares in Reuters Group PLC issued for cash under employee share schemes at prices ranging from 118p to 601p per share since 18 February 1998	4.3	--	--
	-----	-----	-----
	(213.8)	--	--
-----			

Proforma ordinary shares allotted and called-up at 31 December 1997 and 31 December 1996 represents the nominal value of shares in issue of Reuters Group PLC immediately prior to the capital reorganisation on 18 February 1998. Consequently, there are no share movements shown for 1996 and 1997.

## 29. CONTINGENT LIABILITY

In January 1998 Reuters was notified that Reuters Analytics Inc. ("Reuters Analytics"), one of its US subsidiaries, is the subject of a grand jury investigation in New York arising out of an arrangement that Reuters Analytics had with a New York-based consultant. The consultant subscribed to Bloomberg L.P.'s service, which included the associated data and analytics.

Reuters is co-operating with the investigation and has engaged external legal counsel to conduct a thorough internal inquiry. At this time Reuters is unable to predict the impact the investigation or related events may have on its business or financial condition.

30. EMPLOYEE SHARE OPTION PLANS

Reuters operates share plans for the benefit of employees as explained in the report on remuneration. Since the flotation of Reuters Holdings PLC in 1984, Reuters has issued 89 million shares under these plans.

Share option activity for the two years ended 31 December 1998 was as follows:

	SAVE AS YOU EARN PLANS	EXECUTIVE PLANS	PLAN 2000	TOTAL	WEIGHTED AVERAGE EXERCISE PRICE (POUND)
-----					
Ordinary shares under option in millions (including ADSs):					
31 December 1996	21.7	6.4	--	28.1	3.52
Granted	4.8	--	--	4.8	5.01
Exercised	(5.9)	(2.7)	--	(8.6)	2.57
Expired, cancelled or lapsed	(3.4)	(0.3)	--	(3.7)	4.86
-----					
31 December 1997	17.2	3.4	--	20.6	4.05
Granted	5.1	--	25.7	30.8	5.43
Exercised	(3.0)	(1.7)	--	(4.7)	2.88
Expired, cancelled or lapsed	(2.2)	(0.1)	--	(2.3)	4.70
-----					
31 December 1998	17.1	1.6	25.7	44.4	5.10
-----					
Number of participants at 31 December 1998	8,285	125	12,869		
-----					

The following table summarises information relating to the number of shares under option and those which were exercisable at 31 December 1998.

RANGE OF EXERCISE PRICES	TOTAL SHARES UNDER OPTION (MILLIONS)	WEIGHTED AVERAGE PERIOD REMAINING TO FULL VESTING (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES EXERCISABLE AT 1 DECEMBER 1998 (MILLIONS)	WEIGHTED AVERAGE EXERCISE PRICE
-----					
Ordinary shares					
(pound) 1.00 - (pound) 3.00	0.2	-	(pound) 2.54	0.2	(pound) 2.54
(pound) 3.01 - (pound) 5.00	10.7	18	(pound) 4.13	1.0	(pound) 4.32
(pound) 5.01 - (pound) 7.00	30.9	32	(pound) 5.46	-	-
ADSs					
\$20.01 - \$40.00	0.2	-	\$29.55	0.2	\$29.55
\$40.01 - \$60.00	2.4	24	\$51.85	0.2	\$43.72
-----					
	44.4			1.6	
-----					

In August 1990 and January 1994, Reuters established employee share ownership trusts with the power to acquire shares in the open market. The trustee of both trusts, an off-shore subsidiary of Reuters, is being managed under contract by an independent management company. Shares purchased by the trusts will be used to meet obligations under the company's restricted share plans described in the report on remuneration on pages 26-28. Shares may also be used to satisfy the exercise of options granted, or to be granted, under the employee share option plans. Alternatively, new shares may be issued to satisfy these option obligations.

### 31. OPERATING LEASES

Minimum payments for non-cancellable operating leases for terms in excess of one year from 31 December are as follows:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Year ended 31 December			
1997	-	-	62
1998	-	62	58
1999	70	60	47
2000	64	51	42
2001	61	45	35
2002	54	38	30
2003	46	30	27
Thereafter	295	119	117
<b>Total minimum lease payments</b>	<b>590</b>	<b>405</b>	<b>418</b>

At 31 December Reuters had commitments to make payments during the following year under non-cancellable operating leases as follows:

	LAND AND BUILDINGS			OTHER		
	1998 (pound)m	1997 (pound)m	1996 (pound)m	1998 (pound)m	1997 (pound)m	1996 (pound)m
Operating leases which expire:						
Within one year	7	5	5	1	1	5
In the second to fifth years	36	26	27	8	8	7
Over five years	26	28	28	--	--	--

### 32. ACQUISITIONS

During 1998 Reuters acquired a number of subsidiary undertakings including 100% shareholdings in Lipper Analytical Services Inc., Liberty SA, Agence de Presse Medicale and Citywatch Limited. Investments in associated undertakings included a 33.5% shareholding in GL Trade, 27.5% shareholding in Datamonitor Plc and 42% of The Riskmetrics Group, LLC. The cost, consolidated net assets and goodwill arising was as follows:

	SUBSIDIARY UNDERTAKINGS (pound)m	ASSOCIATED UNDERTAKINGS (pound)m	TOTAL (pound)m
Paid in the year	89	47	136
Deferred	1	-	1
<b>Net assets acquired</b>	<b>90</b>	<b>47</b>	<b>137</b>
<b>Goodwill</b>	<b>3</b>	<b>6</b>	<b>9</b>
	87	41	128

Contribution to group revenue of acquisitions made during 1998 was immaterial. Had these companies been acquired on 1 January 1998, their impact on the group's results would have been immaterial.

### 33. SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings at 31 December 1998, all of which are included in the consolidated financial statements, are shown below. The shares in Reuters Investments Limited are held by Reuters Group PLC. The shares in the other companies are held by Reuters Investments Limited or its wholly-owned subsidiaries.

SUBSIDIARY UNDERTAKINGS	COUNTRY OF INCORPORATION	PRINCIPAL AREA OF OPERATION	PERCENTAGE OF EQUITY SHARES HELD
Instinet Corporation	USA	USA	100
Reuters AG	Germany	Germany	100
Reuters America Inc.	USA	USA	100
Reuters Asia Pte Limited	Singapore	Asia/Pacific	100
Reuters Australia Pty Limited	Australia	Australia	100
Reuters Eastern Europe Limited	Great Britain	Russia	100
Reuters Espana SA	Spain	Spain	100
Reuters Hong Kong Limited	Cook Islands	Hong Kong	100
Reuters Investments Limited	Great Britain	Great Britain	100
Reuters Italia SpA	Italy	Italy	100
Reuters Japan Kabushiki Kaisha	Japan	Japan	100
Reuters Limited	Great Britain	Worldwide	100
Reuters Nederland BV	Netherlands	Netherlands	100
Reuters SA	Switzerland	Continental Europe	100
Reuters Services SARL	France	France	100
Reuters Singapore Pte Limited	Singapore	Singapore	100
Reuters Transaction Services Limited	Great Britain	Worldwide	100
TIBCO Finance Technology Inc.	USA	Worldwide	100
TIBCO Software Inc.	USA	Worldwide	95*

The activities of the subsidiary undertakings listed above are set out on page 9. The financial years for the above subsidiary undertakings end on 31 December. Associated undertakings are not listed as their carrying value is only (pound)15 million.

\*Excludes the impact of non-equity stock (see note 27).

## BALANCE SHEET OF REUTERS GROUP PLC at 31 December

	notes	1998 (pound)m	1997 (pound)m	1996 (pound)m
Fixed asset investment	34	8,640	--	--
Amounts owed by group undertakings		1,144	--	--
Other borrowings		(989)	--	--
Proposed dividends		(155)	--	--
Net assets		8,640	--	--
Capital and reserves:	35			
Called-up share capital		354	--	--
Share premium		16	--	--
Merger reserve		6,788	--	--
Profit and loss account reserve		1,482	--	--
Capital employed		8,640	--	--
Profit attributable to ordinary shareholders	--	343	--	--

This balance sheet was approved by the directors on 12 February 1999.

--((signature))--

Peter Job, Chief Executive

--((signature))--

Rob Rowley, Finance Director

Advantage has been taken of the provisions of section 230(3) of the Companies Act 1985 not to produce a separate profit and loss account for Reuters Group PLC.

## 34. FIXED ASSET INVESTMENT

The investment represents the shareholding of Reuters Group PLC in Reuters Investments Limited.

## 35. CAPITAL AND RESERVES

	CALLED-UP SHARE CAPITAL (pound)m	SHARE PREMIUM ACCOUNT (pound)m	MERGER RESERVE (pound)m	PROFIT AND LOSS ACCOUNT RESERVE (pound)m	TOTAL (pound)m
31 December 1997	-	-	-	-	-
Shares issued during the year	354	16	8,270	-	8,640
Transfer arising on receipt of pre-acquisition dividend	-	-	(1,482)	1,482	-
Retained profit for the year	-	-	-	-	-
31 December 1998	354	16	6,788	1,482	8,640

Reuters Group PLC was incorporated on 24 December 1996 as Nayatronics Limited and was reregistered as a public limited company on 12 December 1997. On 2 December 1997, the authorised share capital of Reuters Group PLC was increased from (pound)100 to (pound)50,000 by the creation of 49,900 redeemable preference shares of (pound)1 each and on 12 December 1997 was further increased to (pound)525,000,001 by the creation of 2,099,800,000 ordinary shares of 25p each and one Founders Share of (pound)1.

On 18 February 1998, 1,417,331,693 ordinary shares of 25p each (together with cash of (pound)1,482 million) were issued and credited as fully paid, following the approval of a High Court Scheme of Arrangement to acquire the majority of the issued share capital of Reuters Holdings PLC. For further detail see note 1. The merger reserve and profit and loss account reserve of (pound)1,482 million arose as a result of this transaction.

On 28 February 1998 the 49,998 redeemable preference shares were redeemed and converted into 199,992 ordinary shares of 25p each.

Dividend distributions of (pound)343 million charged through the profit and loss account of Reuters Group PLC in 1998 comprise a first interim dividend paid in April 1998, a second interim dividend paid in September 1998 and the recommended final 1998 dividend payable in April 1999. The first interim dividend represents the final dividend charged through the 1997 group profit and loss account of Reuters Holdings PLC prior to the capital reorganisation.



## ACCOUNTING POLICIES

### ACCOUNTING BASIS

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. As set out in note 1, the capital reorganisation has been accounted for using merger accounting principles in order to show a true and fair view.

### BASIS OF CONSOLIDATION

The consolidated financial statements include:

- a. The financial statements of Reuters Group PLC and its subsidiaries to 31 December. The results of subsidiaries are included for the period during which they are a member of the group.
- b. Reuters share of the post-acquisition results of associated undertakings. Investments in associated undertakings are included at Reuters share of the tangible net assets at the dates of acquisition plus the group's share of post-acquisition reserves.

### FOREIGN CURRENCY TRANSLATION

Where it is considered that the functional currency of an operation is sterling the financial statements are expressed in sterling on the following basis:

- a. Fixed assets are translated into sterling at the rates ruling on the date of acquisition as adjusted for any profits or losses from related financial instruments.
- b. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the foreign exchange rates ruling at the balance sheet date.
- c. Revenue and expenses in foreign currencies are recorded in sterling at the rates ruling for the month of the transactions.
- d. Any gains or losses arising on translation are reported as part of profit.

For other operations and associated undertakings, assets and liabilities are translated into sterling at the rates ruling at the balance sheet date. Revenue and expenses in foreign currencies are recorded in sterling at the rates ruling for the month of the transactions and gains or losses arising on translation are dealt with through reserves.

### TREASURY

Reuters receives revenue and incurs expenses in more than 60 currencies and uses financial instruments to hedge a portion of its net cash flow and operating profit. Profits and losses from hedging activities are matched with the underlying cash flows and profits being hedged. Those relating to trading cash flows are reported as part of profit and those relating to Reuters capital expenditure programme are adjusted against the cost of the assets to which they relate.

Reuters uses financial instruments to hedge a portion of its interest exposure. Profits and losses on financial instruments are reported as part of profit for the period to which they relate.

Financial instruments hedging the risk on foreign currency assets are revalued at the balance sheet date and the resulting gain or loss offset against that arising from the translation of the underlying asset into sterling.

### REVENUE

Revenue represents the turnover, net of discounts, derived from services provided to subscribers and sales of equipment applicable to the year. Short-term contracts are accounted for on a completed contract basis.

### INSTINET TRANSACTIONS

Securities transactions between Instinet counterparties which pass through Instinet in its role as an agency broker are recorded on a settlement date basis and, therefore, are only reflected in the balance sheet if there is a failure to settle.

Revenues and related expenses arising from such securities transactions are accrued from the date of the transaction.

### DEVELOPMENT

Development expenditure is charged against profit in the year in which it is incurred.

PENSIONS AND SIMILAR OBLIGATIONS

The expected cost of pensions and other post-retirement benefits is charged against profit so as to spread the cost over the service lives of the employees affected.

RESTRICTED SHARE AND INSTINET LONG-TERM INCENTIVE PLANS

Costs of the restricted share and Instinet long-term incentive plans are charged to profit over the vesting period of the awards.

TANGIBLE FIXED ASSETS

Depreciation is calculated on a straight line basis so as to write down the assets to their residual values over their expected useful lives:

Freehold land.....	Not depreciated
Freehold buildings.....	Normally 50 years
Leasehold property.....	Over the term of the lease
Computer systems equipment, office equipment and motor vehicles.....	3 to 5 years

STOCKS

Stocks and contract work in progress are valued at the lower of cost and net realisable value less progress payments received and receivable from clients. Progress payments in excess of the value of work carried out are included within creditors.

Cost is calculated on a first in first out basis by reference to the invoiced value of supplies and attributable costs of bringing stocks to their present location and condition.

Net realisable value is the estimated market value less selling costs.

#### SHORT-TERM INVESTMENTS

Government securities are stated in the balance sheet at the lower of cost plus accrued capital appreciation and market value. Income from these securities and any adjustment for changes in their market value during the year are reported as part of profit.

Interest on certificates of deposit is calculated at the yield at which the certificate was purchased and is reported as part of profit over the life of the certificate. Certificates of deposit are stated in the balance sheet at the lower of cost plus accrued interest and market value.

Movements in short-term investments are reported under the heading of management of liquid resources in the cash flow statement.

#### LEASING

Assets acquired under a finance lease are recorded in the balance sheet as tangible fixed assets with corresponding obligations to pay future rentals. The assets are valued at the present value of the minimum lease payments at the rate implicit in the lease.

Rentals payable are apportioned between a finance charge and a reduction of the outstanding obligation for future amounts payable. The total finance charge is allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the outstanding obligation throughout the lease.

Operating lease rentals are charged against profit on a straight line basis over the period of the lease.

#### DEFERRED TAXATION

Tax deferred or accelerated by the effect of timing differences is accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. The only exception to this is in respect of deferred tax assets relating to provisions for pensions and other post-retirement benefits which are recognised in full.

#### GOODWILL AND INTANGIBLE ASSETS

Purchased goodwill and intangible assets are capitalised and amortised through the profit and loss account over their estimated lives which are between five and 20 years.

#### INTEREST IN SHARES OF REUTERS GROUP PLC

Shares held by the employee share ownership trusts are recorded in the balance sheet within fixed asset investments at cost including expenses less amounts written off.

SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. A description of the relevant accounting principles which differ materially is given below:

SOFTWARE REVENUE RECOGNITION

Under UK GAAP, revenue and related direct costs from contracts for the outright sale of software systems are recognised at the time of client acceptance. Under US GAAP, specific rules were introduced from January 1998 for the determination of client acceptance in cases where future significant modifications or upgrades to the software are considered to be part of the client's overall acceptance of the product. Under these rules, an amount of revenue is required to be deferred until these software upgrades have been delivered and accepted by the client. Warranties provided by Reuters in connection with the delivery of millennium versions of software fall within these rules and consequently an element of revenue and related direct cost has been deferred under US GAAP. This policy has not been adopted under UK GAAP.

GOODWILL AND OTHER ACQUISITION ACCOUNTING ADJUSTMENTS

UK GAAP require purchased goodwill to include an estimate of the fair value of any deferred consideration. Under US GAAP, contingent consideration is recognised as a component of goodwill when the contingency is resolved.

SOFTWARE DEVELOPMENT COSTS

Under UK GAAP, costs of developing computer software products are expensed in the year in which they are incurred. Under US GAAP, the costs of developing computer software products subsequent to establishing technical feasibility are capitalised. The amortisation of the capitalised costs is based on the estimated future revenues or remaining estimated useful economic lives of the products involved.

EMPLOYEE COSTS

Options under Reuters save-as-you-earn plans are granted at a 20% discount. Under UK GAAP, the share issues are recorded at their discounted price when the options are exercised. Under US GAAP, the discount is regarded as employee compensation and is accrued over the vesting period of the grants.

TAXES ON INCOME

Under UK GAAP, deferred taxes are accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised. Deferred tax also arises in relation to the tax effect of the other US GAAP adjustments.

DIVIDENDS

Under UK GAAP, dividends are provided for in the year in respect of which they are declared or proposed. Under US GAAP, dividends and the related advance corporation tax are given effect only in the period in which dividends are formally declared.

SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUSTS (ESOTS)

Under UK GAAP, shares held by the ESOTs are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, those shares not fully vested are regarded as treasury stock and recorded at cost as a deduction from shareholders' equity.

FIXED ASSET INVESTMENTS

Under UK GAAP, fixed asset investments are held in the balance sheet at the lower of cost or net realisable value. Under US GAAP, fixed asset investments which are available for sale are stated at fair value with unrealised gains or losses included in shareholders' equity.

The effects of these differing accounting principles are shown in notes 36-39.

CASH FLOW STATEMENTS

The cash flow statement set out on pages 57-59 has been prepared in conformity with UK Financial Reporting Standard 1 (Revised) "Cash Flow Statements". The principal differences between this statement and cash flow statements presented in accordance with US Financial Accounting Standard number 95 are as follows:

1. Under UK GAAP net cash flow from operating activities is determined before considering cash flows from (a) returns on investments and servicing of finance and (b) taxes paid. Under US GAAP, net cash flow from operating activities is determined after these items.
2. Under UK GAAP, capital expenditure is classified separately while under US GAAP, it is classified as an investing activity.
3. Under UK GAAP, dividends are classified separately while under US GAAP, dividends are classified as financing activities.
4. Under UK GAAP movements in short-term investments are not included in cash but classified as management of liquid resources. Under US GAAP, short-term investments with a maturity of three months or less at the date of acquisition are included in cash.
5. Under UK GAAP movements in bank overdrafts are classified as movements in cash while under US GAAP they are classified as a financing activity.

Set out below is a summary consolidated cash flow statement under US GAAP:

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Net cash inflow from operating activities	795	817	866
Net cash outflow from investing activities	(431)	(400)	(501)
Net cash outflow from financing activities	(764)	(85)	(5)
Net (decrease)/increase in cash and cash equivalents under US GAAP	(400)	332	360
Net (decrease)/increase in cash under UK GAAP (see notes 4 and 5 above)	(8)	(31)	52

## 36. ADJUSTMENTS TO NET INCOME

	1998 (pound)m	1997 (pound)m	1996 (pound)m
Profit attributable to ordinary shareholders in accordance with UK GAAP (restated)	384	390	442
US GAAP adjustments:			
Software revenue recognition	(2)	-	-
Acquisition accounting adjustments (see note below)	(3)	(3)	2
Software development costs	(2)	(2)	(2)
Employee costs	(1)	(3)	(7)
Taxes	16	4	5
Approximate net income in accordance with US GAAP	392	386	440
	1998 pence	1997 pence	1996 pence
Earnings and dividends (see note (ii) below)			
Basic earnings per ADS in accordance with US GAAP	166.6	164.5	188.3
Diluted earnings per ADS in accordance with US GAAP	166.0	163.4	185.8
Dividend paid per ADS (including UK advance corporation tax credit)	99.8	104.7	88.7
Deemed special dividend paid per ADS	627.7	-	-
Total dividend paid per ADS	727.5	104.7	88.7
Weighted average number of shares used in basic EPS calculation (millions)	1,411	1,407	1,401
Issuable on conversion of options	5	10	19
Used in diluted EPS calculation	1,416	1,417	1,420

## (i) Employee costs

The company has complied with Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation (FAS 123). Reuters has continued to apply the methodologies set out in APB Opinion 25, Accounting for Stock Issued to Employees, and other US GAAP literature in calculating its US GAAP adjustments for share option plans and awards of share rights. Had Reuters elected to recognise compensation expense based upon the fair value at grant date for awards made in 1995 to 1998 under these plans consistent with the alternative methodology set out in FAS 123, net income and earnings per ADS in accordance with US GAAP would not have been materially different from those shown above. This position may not be representative of future disclosures since the estimated fair value of share options is amortised to expense over the vesting period and additional options may be granted in future years.

## (ii) Capital reorganisation

As explained in note 1, Reuters Holdings PLC completed a capital reorganisation in February 1998. Under US GAAP this transaction was deemed a share consolidation combined with a special dividend and, accordingly, earnings per share and per ADS and dividends per share and per ADS have been retroactively restated. Under UK GAAP no restatement of earnings per share was deemed necessary as the cash payment was considered to be equivalent to a repurchase of shares at market value and the number of new shares in Reuters Group PLC was set to facilitate comparability of earnings with those of Reuters Holdings PLC.

## 37. ADJUSTMENTS TO SHAREHOLDERS' EQUITY

	1998 (pound)m	1997 (pound)m	1996 pound)m
Capital employed before minority interest in accordance with UK GAAP	372	1,661	1,458
US GAAP adjustments:			
Software revenue recognition	(2)	--	--
Goodwill and other acquisition accounting adjustments	14	11	8
Capitalised software development costs net of amortisation	6	8	10
Fixed asset investments	42	14	--
Shares held by employee share ownership trusts	(45)	(39)	(28)
Liabilities	(28)	(25)	(19)
Taxes	(10)	(16)	(13)
Dividends not formally declared or paid during the year	155	140	145
Shareholders' equity in accordance with US GAAP	504	1,754	1,561

## 38. STATEMENT OF COMPREHENSIVE INCOME

	1998 (pound)m	1997 (pound)m	1996 pound)m
Approximate net income in accordance with US GAAP	392	386	440
Other comprehensive income, net of tax:			
Unrealised gains on certain fixed asset investments:			
Arising during year	37	8	--
Less gains in net income	(19)	--	--
Foreign currency translation differences	(1)	2	(28)
Approximate net income in accordance with US GAAP	409	396	412

## 39. SUMMARISED BALANCE SHEET (US GAAP BASIS)

	1998 (pound)m	1997 (pound)m	1996 pound)m
<b>Assets</b>			
Fixed tangible assets	859	858	800
Current assets	1,565	1,809	1,506
Other assets	42	58	40
Software development costs	6	8	10
Goodwill and other intangibles	250	174	206
Total assets	2,722	2,907	2,562
<b>Liabilities and shareholders' equity</b>			
Current liabilities	2,102	1,017	884
Long-term liabilities	75	86	84
Deferred taxes	24	32	32
Minority interest	17	18	1
Shareholders' equity before deductions	562	1,889	1,684
Treasury stock	-	(82)	(82)
Shares held by employee share ownership trusts	(58)	(53)	(41)
Total shareholders' equity	504	1,754	1,561
Total liabilities and shareholders' equity	2,722	2,907	2,562

Goodwill and other intangibles are net of accumulated amortisation of (pound)337 million (1997 - (pound)322 million, 1996 - (pound)270 million). Software development costs are net of accumulated amortisation of (pound)13 million (1997 - (pound)11 million, 1996 - (pound)9 million).

OTHER INFORMATION FOR SHAREHOLDERS

ORDINARY SHARES

A register of shareholders' interests is kept at the company's head office and is available for inspection on request. The register includes information on nominee accounts and their beneficial owners.

A newspaper for investors, 'News from Reuters', is published several times a year. To obtain copies, contact the Investor Relations department in London or New York (addresses on page 90).

Hoare Govett and Cazenove & Co. offer low cost share dealing services for existing and potential Reuters shareholders. Further information can be obtained from Hoare Govett Limited's Low Cost Dealing Department, 4 Broadgate, London EC2M 7LE (tel: 0171 601 0101) and Mrs Nancy Young, Postal Dealing Department, Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN (tel: 0171 606 1768).

Reuters offers a single company Personal Equity Plan (PEP) and a general PEP for UK residents wishing to hold Reuters shares in such plans. However, PEPs will be replaced by the new Individual Savings Account (ISA) from 6 April 1999. Further information on PEPs and deadline dates for opening new PEPs can be obtained from Bank of Scotland, PEP Unit, 101 George Street, Edinburgh EH2 3JH (tel: 0131 243 8053). Bank of Scotland is regulated in the conduct of PEP business by the Investment Management Regulatory Organisation (IMRO).

REGISTRAR

On 28 January 1999 Bank of Scotland and Lloyds TSB Group announced that they had reached an agreement for Lloyds TSB Registrars to acquire Bank of Scotland's Registrar Services business. The transaction is expected to be completed during the first quarter of 1999.

Reuters expects to transfer the administration of its share register to Lloyds TSB Registrars sometime during the second quarter. Shareholders should continue to contact the registrar at the address and telephone number listed on page 90. Following the transfer, telephone calls and mail will be forwarded automatically to Lloyds TSB Registrars.

DIVIDENDS AND EARNINGS

Ordinary shareholders have received the following dividends in respect of each financial year:

	1998	1997	1996	1995	1994
Interim	3.4p	3.1p	2.75p	2.3p	1.9p
Final (1998 proposed)	11.0p	9.9p	9.0p	7.5p	6.1p
	14.4p	13.0p	11.75p	9.8p	8.0p
Basic earnings per ordinary share	26.7p	24.0p	27.3p	23.2p	19.9p

Ordinary shareholders living in selected countries outside the United Kingdom can have their dividends paid directly into their bank accounts in local currency. Any shareholders interested in this service, for which there is a small charge, should contact the registrar (address on page 90).

ANALYSIS OF SHAREHOLDINGS AT 31 DECEMBER 1998

Excluding Reuters ordinary shares held by employee share ownership trusts, there were 1,409 million shares in issue, analysed as in the chart opposite. There were 24,395 shareholders on the ordinary share register.

Note 1: Includes UK unit trusts and US mutual funds

Note 2: Includes all holdings below 100,000 shares, except for individuals, whose holdings are analysed below this level.

[CHART]

Pension funds	32%
Insurance companies	17%
American Depositary Shares	15%
Investment funds and trusts (note 1)	13%
Individuals	5%
Corporate holdings	2%
Foreign governments	1%
Non-profit organisations	1%
Others (note 2)	14%



AMERICAN DEPOSITARY SHARES (ADSS)

Each ADS represents six ordinary shares.

ADS holders receive the annual and half-yearly reports issued by Reuters Group PLC.

Reuters Group PLC is subject to the informational requirements of the US securities laws applicable to foreign companies and in accordance therewith files an annual report on Form 20-F and other information with the US Securities and Exchange Commission. The Form 20-F is also available from the Investor Relations departments in London or New York.

ADS DIVIDENDS

ADS holders are eligible for all stock dividends or other entitlements accruing on the underlying Reuters Group PLC shares and receive all cash dividends in US dollars. These are normally paid twice a year.

Dividend cheques are mailed directly to the ADS holder on the payment date if ADSs are registered with Reuters US depository. Dividends on ADSs that are registered with brokers are sent to the brokers, who forward them to ADS holders. Reuters US depository is Morgan Guaranty Trust Company of New York (address on page 90).

Dividends per ADS, including any UK tax refunds but before US tax credits, in respect of each financial year are set out below.

	1998	1997	1996	1995	1994
-----					
IN STERLING					
Interim	21.7p	19.8p	17.5p	14.7p	12.1p
Final (1998 proposed)	66.0p	63.1p	57.4p	47.8p	38.9p
-----					
	87.7p	82.9p	74.9p	62.5p	51.0p
-----					
IN DOLLARS					
Interim	36.1c	31.2c	27.3c	22.7c	18.9c
Final (1998 proposed)	*	104.2c	93.1c	72.2c	62.6c

\*Final 1998 dividend will be converted to US dollars from sterling at the rate prevailing on 26 April 1999.

The figures above which have not been restated for the capital reorganisation, include any refund of UK tax, less a withholding tax on the total dividend and tax credit. Following the abolition of UK advance corporation tax credits from 6 April 1999, the amount of the refund of UK tax is restricted to one-ninth of the dividend paid. Dividends will continue to be subject to a UK withholding tax. This will either be 15% on the total of the dividend and the tax refund or the value of the tax refund, whichever is the lower.

For the 1998 final dividend which is payable on 30 April 1999, the total of the declared dividend per ADS is 66.0p, the related tax credit per ADS is 7.3p and the withholding tax per ADS is 7.3p, giving no net tax refund per ADS and a total cash payment of 66.0p per ADS.

For dividends paid to qualifying US residents before 6 April 1999, the tax credit was one-quarter of the amount of dividend on the ordinary shares. For the 1998 interim dividend, which was paid in September 1998, the total of the declared dividend per ADS was 20.4p, the related tax credit per ADS was 5.1p and the 15% withholding tax per ADS was 3.8p, giving a net tax refund of 1.3p per ADS and a total cash payment of 21.7p per ADS.

ADS holders who are US residents for tax purposes may normally credit the withholding tax against their federal income tax liabilities.

Dollar amounts paid to ADS holders depend on the sterling/dollar exchange rate at the time of payment.

FINANCIAL DIARY FOR 1999

Tuesday 9 February	Results for year 1998 announced
Friday 5 March	Annual report posted to shareholders
Monday 15 March	Ordinary shares go ex-dividend
Wednesday 17 March	ADSs go ex-dividend
Tuesday 20 April	First quarter trading statement issued
	Annual general meeting at One Whitehall Place, Westminster, London SW1A 2HD
Monday 26 April	Final dividend for 1998 payable to ordinary shareholders on the register as at 19 March 1999
Friday 30 April	Final dividend for 1998 payable to ADS holders on the register as at 19 March 1999
Tuesday 20 July	Results for the first six months of 1999 announced
Monday 2 August	Ordinary shares go ex-dividend
Wednesday 4 August	ADSs go ex-dividend
Tuesday 7 September	Interim dividend for 1999 payable to ordinary shareholders on the register as at 6 August 1999
Monday 13 September	Interim dividend payable to ADS holders on the register as at 6 August 1999
Thursday 21 October	Third quarter trading statement issued

PRESERVING REUTERS INDEPENDENCE

CUSTOMERS IN ALL PARTS OF THE WORLD DEPEND ON REUTERS TO PROVIDE THEM WITH RELIABLE AND OBJECTIVE NEWS AND INFORMATION.

REUTERS THEREFORE HAS A SPECIAL NEED TO SAFEGUARD ITS INDEPENDENCE AND INTEGRITY AND AVOID ANY BIAS WHICH MAY STEM FROM CONTROL BY ANY PARTICULAR INDIVIDUALS OR INTERESTS. REUTERS SHARE STRUCTURE INCLUDES TWO MECHANISMS SPECIFICALLY DESIGNED TO PREVENT THIS HAPPENING:

NO SHAREHOLDER MAY OWN 15% OR MORE SHARES.

THERE IS A SINGLE FOUNDERS SHARE, IN ADDITION TO THE PUBLICLY TRADED ORDINARY SHARES. THIS MAY BE USED TO OUTVOTE ALL ORDINARY SHARES IF OTHER SAFEGUARDS FAIL AND THERE IS AN ATTEMPT TO SEIZE CONTROL OF THE COMPANY. "CONTROL", FOR THIS PURPOSE, MEANS 30% OF THE SHARES.

THE REUTERS TRUST PRINCIPLES, WHICH ARE PROTECTED BY THE FOUNDERS SHARE, ALSO IMPOSE FURTHER OBLIGATIONS. THE PRINCIPLES AND A LIST OF THE TRUSTEES ARE PRINTED ON PAGE 86.

- --(picture)--

From Sir Frank Rogers, Chairman of the Reuter Trustees

In 1941 amid the upheavals of wartime and following wide-ranging parliamentary and public discussions, the then controlling shareholders of Reuters: The Press Association Limited and The Newspaper Publishers Association Limited, entered into an Agreement of Trust.

The Australian Associated Press and the New Zealand Press Association joined in the Reuter Trust Agreement after the two agencies became shareholders of Reuters in 1947.

In 1984 the Trustees approved the proposals for a corporate reorganisation of the company into Reuters Holdings, clearing the way for its flotation as a public limited company.

The Trustees carry out their responsibilities and obligations by discussion, usually in London, of the general administration of the Trustees.

In addition, I, and my colleagues, regularly visit Reuters establishments to meet with journalists for a discussion on the role of the Trustees. Also, we meet with Reuters managers and senior editorial staff wherever in the world we are visiting, to answer any questions we may be asked about the purposes of the Trustees and the way we operate.

In summary, the Trustees are the custodians of the Reuter Trust Principles.

## THE REUTER TRUST PRINCIPLES

Reuters is dedicated to preserving its independence, integrity and freedom from bias in the gathering and dissemination of news and information. The Reuters Founders Share Company Limited, of which all Reuter trustees are directors, was established to safeguard those qualities. The trustees have a duty to ensure that, as far as they are able by the proper exercise of the powers vested in them, the Reuter Trust Principles are observed. These are:

- o That Reuters shall at no time pass into the hands of any one interest, group or faction;
- o That the integrity, independence and freedom from bias of Reuters shall at all times be fully preserved;
- o That Reuters shall supply unbiased and reliable news services to newspapers, news agencies, broadcasters and other media subscribers and to businesses, governments, institutions, individuals and others with whom Reuters has or may have contracts;
- o That Reuters shall pay due regard to the many interests which it serves in addition to those of the media; and
- o That no effort shall be spared to expand, develop and adapt the news and other services and products of Reuters so as to maintain its leading position in the international news and information business.

If the trustees believe that any person, together with any associates, is seeking to obtain or has obtained control of Reuters Group PLC, a majority of the Reuter trustees may require the votes attaching to the Founders Share to be exercised. "Control" means the ability to control the exercise of 30% or more of the votes which may be cast on a poll at general meetings of Reuters Group PLC. In such circumstances, the Founders Share Company has the right at any general meeting of Reuters Group PLC to cast sufficient votes to pass any resolution supported by, and to defeat any resolution opposed by, the Founders Share Company.

Any two Reuter trustees may require the votes attaching to the Founders Share to be cast against any resolution which would alter any of the articles of association of Reuters Group PLC relating to the Reuter Trust Principles and the rights of the Founders Share. In such circumstances, the Founders Share confers upon the Founders Share Company the right to cast sufficient votes to defeat that resolution.

The Reuter trustees are: Sir Frank Rogers (Chairman); Len Berkowitz; The Rt Hon the Lord Browne-Wilkinson; Sir Michael Checkland; David Cole CBE; Christopher Dicks OBE; Pehr Gyllenhammar; Sir Christopher Mallaby; Dame Sheila Masters; Kenneth Morgan OBE; Sir William Purves CBE DSO; Michael Robson; Arthur Ochs Sulzberger; Lyle Turnbull AO; Richard Winfrey.

Following the capital reorganisation the Founders Share in Reuters Holdings PLC has been cancelled and a Founders Share with like rights has been issued by Reuters Group PLC to the Reuters Founders Share Company Limited.

GLOSSARY

TERM USED IN ANNUAL REPORT	US EQUIVALENT OR BRIEF DESCRIPTION
Advance corporation tax	No direct US equivalent. Taxpaid on company distributions recoverable from UK taxes due on income
Allotted	Issued
Associated undertakings	Affiliates accounted for under the equity method
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Class of business	Industry segment
Combined Code	A set of corporate governance principles and detailed code of practice
Creditors	Accounts payable
Creditors: Amounts falling due after more than one year	Long-term debt
Creditors: Amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
Destination (of revenue)	The geographical area to which goods or services are supplied
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest in shares of Reuters Group PLC	Treasury stock
Origin (of revenue)	The geographical area from which goods or services are supplied to a third party or another geographical area
Profit	Income
Profit and loss account (statement)	Income statement
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit attributable to ordinary shareholder	Net income
Proposed dividend	Dividend declared by directors but not yet approved by shareholders
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories
Tangible fixed assets	Property and equipment

ELEVEN YEAR CONSOLIDATED FINANCIAL SUMMARY for the year ended 31 December

ORDINARY SHARES HIGHS/LOWS 1998

pence

	J	F	M	A	M	J	J	A	S	O	N	D
low	549	520	608.5	634.5	625.5	674.5	609	499	437	418.5	584	523.5
high	682	631	663	679	707.5	765	688	608	542	616	629.5	635

The highest price in 1998 was 770p, the lowest 412p.

ADSS HIGHS/LOWS 1998

(US dollars)

	J	F	M	A	M	J	J	A	S	O	N	D
low	53.375	50.6875	60.5	63.563	61.625	67.5	58.5	47.625	44.875	43.125	57.5	52.125
high	66.25	61.75	65.25	68.438	68.938	74.625	68.313	58.625	56	61.313	62.5	63.75

The highest price in 1998 was \$74-3/4, the lowest \$42-1/8.

REVENUE PER EMPLOYEE

(pound) 000

98	97	96	95	94	93	92	91	90	89	88
182	180	195	191	182	173	151	136	129	118	101

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m	(pound)m
<b>RESULTS</b>											
Revenue	3,032	2,882	2,914	2,703	2,309	1,874	1,568	1,467	1,369	1,187	1,003
Net interest receivable	2	80	61	60	51	60	66	49	30	19	9
Profit before tax	580	626	652	558	510	440	383	340	320	283	208
Taxation	196	236	210	185	162	140	123	110	112	102	81
Profit attributable to ordinary shareholders	384	390	442	373	347	299	236	230	207	181	126
<b>NET ASSETS</b>											
Fixed assets	1,098	1,046	1,026	999	687	571	499	488	531	484	408
Net current (liabilities) /assets	(643)	714	525	387	176	151	419	289	81	(33)	(46)
Long term creditors	(16)	(37)	(41)	(135)	(87)	(32)	(26)	(30)	(27)	(22)	(77)
Provisions	(50)	(44)	(51)	(39)	(36)	(32)	(23)	(25)	(30)	(20)	(11)
	389	1,679	1,459	1,212	740	658	869	722	555	409	274

<b>TANGIBLE FIXED ASSETS</b>											
Additions	296	361	372	304	319	268	199	159	196	193	229
Depreciation	331	312	283	250	221	204	186	193	140	110	95
DEVELOPMENT EXPENDITURE	200	235	202	191	159	110	79	67	62	60	55
FREE CASH FLOW	490	449	494	455	321	224	276	339	227	54	30

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>RATIOS</b>											
Basic earnings per ordinary share	26.7p	24.0p	27.3p	23.2p	21.7p	18.0p	14.0p	13.7p	12.4p	10.9p	7.6p
Adjusted earnings per ordinary share(1)	30.3p	29.1p	30.4p	25.8p	21.7p	18.0p	14.0p	13.7p	12.4p	10.9p	7.6p
Dividends per ordinary share	14.4p	13.0p	11.75p	9.8p	8.0p	6.5p	5.3p	4.25p	3.75p	3.25p	2.25p
Cash flow per ordinary share(2)	67.9p	61.0p	60.7p	52.7p	45.6p	40.3p	33.6p	31.7p	27.4p	23.6p	18.3p
Book value per ordinary share(3)	23.3p	99.9p	88.3p	73.7p	44.7p	40.6p	51.2p	42.7p	32.9p	24.5p	16.4p
Cash flow/book value(4)	292.0%	61.0%	68.8%	71.5%	102.0%	99.2%	65.7%	74.2%	83.5%	96.2%	111.4%
Profit before tax as a percentage of revenue	19.1%	21.7%	22.4%	20.6%	22.1%	23.5%	24.4%	23.2%	23.4%	23.8%	20.7%
Return on tangible fixed assets(5)	48.2%	49.0%	60.0%	55.2%	57.6%	57.2%	53.2%	45.4%	41.3%	40.9%	37.2%
Return on equity(6)	78.5%	25.6%	33.7%	34.8%	50.8%	39.5%	29.9%	36.2%	43.2%	53.6%	51.8%
UK corporation tax rate	31.0%	31.5%	33.0%	33.0%	33.0%	33.0%	33.0%	33.25%	34.25%	35.0%	35.0%
<b>INFRASTRUCTURE</b>											
shares issued (millions)	1,422	1,694	1,689	1,677	1,668	1,662	1,753	1,743	1,735	1,724	1,686
Employees	16,938	16,119	15,478	14,348	13,548	11,306	10,393	10,450	10,731	10,071	10,064
User accesses	498,500	435,000	362,000	327,100	296,700	227,400	200,800	201,800	200,900	194,800	169,100

#### NOTES.

1995 and 1996 have been restated to reflect the effect of FRS 10 issued in 1997 which required purchased goodwill and intangible assets to be capitalised and amortised through the profit and loss account.

1988 to 1994 have not been restated for FRS 10.

1988 has not been restated to reflect the effects of the prior year adjustment for pensions made in 1989.

1988 to 1991 have not been restated to reflect the effects of the prior year adjustment for post-retirement medical benefits made in 1992.

1988 to 1991 have not been restated to reflect the change to reporting user accesses in 1994.

1988 to 1993 have been restated for the subdivision of every ordinary share of 10 pence each into four new ordinary shares of 2.5 pence each in April 1994.

1988 has been restated to reflect the cost of discontinuing operations at IDR Inc. as an exceptional item rather than an extraordinary item.

1990 to 1994 fixed assets have been restated to reflect the effect of UITF abstract 13 issued in 1995.

Free cash flow is defined as net cash inflow from operating activities plus net interest received less tax paid and expenditure on tangible fixed assets.

RATIOS.

(1) Adjusted earnings per share are based on profit attributable to ordinary shareholders excluding capital reorganisation costs and goodwill amortisation.

(2) Cash flow per ordinary share represents profit before taxation, goodwill amortisation and depreciation divided by the number of shares in issue after deducting shares held by employee share ownership trusts. In 1998 to 1997 shares in Reuters Holdings PLC held by group companies are also deducted.

(3) Book value per ordinary share represents adjusted shareholders' equity divided by the number of shares in issue after deducting shares held by employee share ownership trusts. In 1988 to 1997 shares in Reuters Holdings PLC held by group companies are also deducted from shares in issue.

(4) Cash flow/book value represents profit before taxation, goodwill amortisation and depreciation as a percentage of adjusted shareholders' equity.

(5) Return on tangible fixed assets represents profit after taxation as a percentage of average tangible fixed assets. The average is calculated by adding tangible fixed assets at the start and the end of each year and dividing by two.

(6) Return on equity represents profit attributable to ordinary shareholders divided by the average adjusted shareholders' equity. The average is calculated by adding adjusted shareholders' equity at the start and the end of each year and dividing by two. In 1998 a weighted average has been used to reflect the capital reorganisation.



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LISTINGS:

London Stock Exchange and NASDAQ Washington D.C. (American Depositary Share  
Symbol RTRSY)

Options on ordinary shares are traded on the London Traded Options Market. The  
American Stock Exchange in New York and the Chicago Board Options Exchange list  
options on American Depositary Shares of Reuters.

SHARE PRICE INFORMATION:

Share price information about Reuters Group PLC is available on the Reuters  
Securities 3000, Securities 2000, Equity Focus products. The Reuters Instrument  
Codes (RICs) and Reuters Plus/Quotron codes are as follows (additional Equity  
Focus codes in brackets):

	Equity Focus	Reuters Plus
	Securities 2000	Quotron
	Securities 3000	
Ordinary shares	RTRS.L (RTR.L)	RTRU.EU
ADSs traded on NASDAQ	RTRSY.O	RTRSY
ADSs traded on the London Stock Exchange	RTRSY.L (RTRY.L)	RTRAU.EU

Within the UK, information on ordinary shares is available by telephone. Dial  
0906 2500 233 for the mid-market price quoted on the London Stock Exchange.  
There is a charge of 13p per call (correct as at 12 February 1999).

This annual report is available on the Internet at  
<http://www.reuters.com/ar1998/>

FORM 20-F:

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\*see page 82

Ric Gemmell took the photographs on pages 11, 13, 16 and 17.

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[INSIDE BACK COVER]

PICTURE

The World Cup trophy is held aloft by the hand of team captain Didier Deschamps. France beat Brazil 3-0 to become World Champions.  
Photo by Charles Platiau REUTERS.

... to win.

[BACK COVER]

FINANCIAL DATA SCHEDULE

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION  
 EXTRACTED FROM THE FINANCIAL STATEMENTS CONTAINED  
 IN THE BODY OF THE ACCOMPANYING FORM 20-F AND IS  
 QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH  
 FINANCIAL STATEMENTS.

1,000,000  
 UK STERLING

12-MOS		
	DEC-31-1998	
	DEC-31-1998	
	1	44
	962	
	197	
	28	
	6	
	1,607	2,248
	1,469	
	2,705	
2,250		0
0		0
	0	354
		18
2,705		0
	3,032	0
	2,482	
	0	
	0	
	72	
	580	
	196	
384		0
	0	
	0	0
	384	
pence	26.7	
pence	26.6	