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THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Thomson Reuters' third-quarter 2009 earnings call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, giving instructions at that time. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to our host, Vice President, Investor Relations, Frank Golden. Please go ahead.

Frank Golden - *Thomson Reuters Corporation - SVP IR*

Good morning and thank you for joining us. We will begin today with Thomson Reuters' CEO, Tom Glocer, who will be followed by our CFO, Bob Daleo. Following Tom and Bob's presentations, we will open the call for questions.

Before we begin, I'm pleased to point out that for the first time since the Reuters acquisition, we are reporting actual growth rates for the quarter, not pro forma results -- something I'm sure will please you as much as it has our accounting group.

Now, today's presentation contains forward-looking statements. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings that we provide to the regulatory agencies. You can access these documents on our website or by contacting our investor relations department.

It's now my pleasure to introduce the Chief Executive Officer of Thomson Reuters, Tom Glocer.

Tom Glocer - *Thomson Reuters Corporation - CEO*

Thank you, Frank, and thank you for joining us this morning. I plan to cover two topics today. First, I'll discuss our results for the quarter; and second, I'll provide an update on current trading.

Three-quarters of the way through the year, we continue to perform well in what remains a challenging environment. Our Tax & Accounting and Healthcare & Science businesses continue to perform well, and the recurring subscription parts of our Legal and Markets divisions held up well. Across the business, sequential quarterly net sales have improved, though they are still negative in Markets.

Now, although we believe that we're past the bottom in terms of real economic activity, our reported year-over-year growth figures have gone negative, but we expect this dip to be shallow and limited to the next few quarters. And this is the direct result of the mathematics of the subscription model which I discussed on last quarter's call and at our recent Investor Day in Toronto.

Let's now look at the results for the third quarter, keeping in mind that when we compare performance period-on-period we look at revenue growth rates before currency, as we believe this provides the best basis to measure the underlying performance of the business.

I'm never pleased with performance when the numbers are preceded by a minus sign, but compared to our peers and the industry as a whole, I believe that Thomson Reuters performed well in the third quarter. Total revenues declined 2%, with the Professional division up 2% and the Markets division down 4%. Markets' recurring subscription revenues excluding recoveries were down less than 1%; and Legal's recurring subscription revenues grew 6%. Together these categories represent over 60% of total Company revenues.

The more resilient Professional division performed well, given the challenging economic environment and tough year-ago comps, when revenues exceeded 10% that period. Our Professional products remain in demand, as evidenced by growth of 8% in each of Tax & Accounting and Healthcare & Science, and good growth in Legal subscription revenues.

Markets revenues were down 4% for the quarter, again against a tough third-quarter '08 comp when they were up 5%. And I will come back to this in a moment.

On a consolidated basis, the whole Company, underlying profit was up 3% and the margin was up 140 basis points, despite the decline in the top-line growth. This was driven by integration-related savings, strong cost controls across the Company, and the benefit of currency.

The integration and legacy efficiency programs continue to go very well, having achieved run-rate savings of $975 million for the first nine months of the year. We continue to expect run-rate savings of at least $1 billion by year-end 2009.

Adjusted earnings per share for the quarter were $0.43 per share compared to $0.47. This decline was due to higher integration costs, which were planned for this period -- and I should note here that we don't adjust out integration costs from the EPS line. If we had, if we gave you EPS less integration costs, EPS for the quarter would have been $0.57, so $0.14 higher than the $0.43 reported.

So despite the flowthrough into revenues of the weaker year-to-date net sales, we are again reaffirming our 2009 outlook.

Now over to the Professional division. The resiliency and diversity of our Professional businesses was again on display in the third quarter, with strong performances from each of Tax & Accounting and Healthcare & Science driving divisional growth. While revenues declined overall in Legal, subscription revenues were up 6%. And our international Legal units, and FindLaw and the Legal education business, all performed well. These helped to offset in part continuing weakness in Print, Ancillary, Enterprise software, Consulting Services, and Trademarks.

So these are no doubt challenging times for the Legal group, but we believe that we are continuing to take share and outperform the market.

Turning now to the Markets division, third-quarter revenues declined 4% as negative year-to-date net sales began flowing through into reported revenues. The good news here is that we appear to have past the bottom in Markets, as sequential quarterly net sales are improving. So these negative net sales months should eventually work their way through the system.

Recurring subscription revenues in the third quarter were essentially flat, down 0.7%, with transactional, recoveries, and outright revenues all down double-digits.

The transaction revenues are traditionally quite volatile. They are quick to fall during difficult markets, but they bounce back rapidly as volumes increase. In fact, we have begun to see transaction revenues pick up in October.

Now, the benefits associated with our geographic, customer, and product diversity cannot be underestimated in this environment. Revenue by geography showed that Asia was flat in the quarter, and the Americas and EMEA declined. But drilling down, we saw strong growth in China, India, Eastern Europe, the Middle East, and South America -- not enough to offset losses in other geographies, but good business nonetheless, with the ability to support growth when the other regions even turn flat.

The Enterprise segment again posted very strong revenue growth, driving revenues up 8% in the quarter with demand for the sophisticated plumbing and data that this unit provides being strong. Its fastest-growing unit, Enterprise Information, grew 15% in the quarter, driven by customers' need for pricing and reference data and low-latency feeds to power trading systems.

The Sales & Trading unit continued to see growth from Commodities & Energy and from the Tradeweb portion of the business; but they were not enough to offset declines in recoveries, transactions, and desktops, which were driven by headcount reductions.

Investment and Advisory achieved good growth in Asia, but cutbacks to buy-side firms in the first half are now flowing through into second-half results.

Meanwhile, trends within our Investment Banking segment continue to improve, as revenues only declined 1%, which was a substantial improvement from the double-digit declines earlier in the year.

Let me also point out Markets' continuing strong performance on the bottom line, with 280 basis points of margin expansion to nearly 20%.

I thought it would be helpful now to provide some context around the current market environment. With regard to the financial services market, it's now clear that the environment is improving, but clients remain cost-conscious nonetheless. However, emerging markets do seem to be decoupling again, with our business in China up nearly double-digit, Brazil growing 20%-plus, transactions beginning to pick up, and layoffs beginning to subside. Demand for our Enterprise services is still strong, so we really just need the cancellations to moderate in key centers for the good sales to drive positive growth over comps that will start getting easier for us.

In the Professional markets, both the Tax & Accounting and Healthcare & Science markets are performing very well all year, and we expect that this will continue into next year.

In the Legal market, while demand is down across all law firm practice areas except for bankruptcy, the Legal market does appear to have hit bottom in the first half of the year and begun to recover, with law firm billing rates up nearly 4% year-on-year in quarter three.

So the resilience of our Professional division and the depth and breadth of our Markets division have enabled us to perform well. While we'd welcome a quick return to revenue growth, we understand how to operate in challenging markets and we are confident that we're outperforming the competition.

So despite our slowing growth, I'm pleased with our results for the first nine months of the year. We continue to be prudent yet confident as we look to the fourth quarter.

I want to conclude with reiterating our strategy that we set out for you at our Investor Day in Toronto last month. There is no question that challenges remain in the markets, but there are also substantial opportunities.

We will continue to sharpen our focus on our core markets and remain faithful to operating in nondiscretionary professional markets. You're not going to get any style creep from us.

We will continue to invest through the down-trend in new products, such as our Cobalt and Utah platforms which we showed at Investor Day, and we believe that they will help us take share in down-markets and accelerate our growth as markets recover.

And, we will continue to use our strong cash flow to execute on opportunities for profitable growth and maintain leading and scalable positions in our chosen markets.

We do need to traverse a few negative quarters as year-to-date weaker net sales flow through into year-over-year reported revenue figures. But we can already see our way clear to the other side. And on that note, let me turn over to Bob Daleo.

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Thank you, Tom. Good morning, everyone. As a reminder again, throughout today's presentation I will speak to revenue before currency, just as Tom did; and reported revenues are also highlighted, though, on each slide.

So, consolidated revenues for the third quarter were $3.2 billion, down 2%. Underlying operating profit was up 3% to $711 million and the corresponding margin rose 180 basis points. Margin expansion was driven by integration-related savings, our tight cost controls, and the benefit of currency.

Year-to-date revenues of $9.6 billion are up 1%, and underlying operating profit is up 5% to $2.1 billion. The corresponding margin is up 180 basis points.

Despite the improvement in margins year-to-date, I'll remind you our full-year margins are subject to the impact of timing and seasonality. As we reminded you last quarter, margins will trend downwards in the second half of the year relative to last year, largely attributable to slowing top-line growth, but also revenue mix and increased corporate expenses primarily related to higher pension expense arising from our conversion to GAAP -- from GAAP to IFRS, which we pointed out on that call.

Nonetheless, we expect margins for the full year will be comparable to 2008.

Now I would like to turn to the performance of the businesses. The Professional division revenues were $1.4 billion, a 2% increase in the quarter, half from organic growth and half from acquisitions.

Segment operating profit declined 2% and the margin decreased 70 basis points over the prior year. Efficiency initiatives and cost controls across division were insufficient to offset slowing revenue growth, the changing business mix of that revenue, and the impact from dilution of acquisitions.

Year-to-date revenue is up $4 billion, up 4% -- again half organic and half from acquisitions. The year-to-date operating profit for the division is up 1% to $1.1 billion and the corresponding margin is flat.

Now as I have pointed out several times this year, beginning with our Q4 '08 earnings call, we expected full-year operating margins for the Professional division to decline slightly due to the shift to higher growth but lower margin software and service products, due to acquisition dilution and some investments in global expansion initiatives. These items will also impact the fourth-quarter margins. In addition to the fact, I'll remind you, that we do face from Q4 of last some difficult comparables, where revenue grew 6% organically and the margin expanded by 170 basis points.

Now I think this next slide is a good way to think about revenue performance and the revenue mix for the Professional. So we're providing it for a better understanding of our underlying performance.

This slide breaks out Print and nonsubscription services from our Legal business, which were down 5% and 15%, respectively. Excluding these two components, the remaining 75% of the business actually grew 6%.

Legal subscriptions, which include Westlaw, Westlaw Business, and FindLaw, also rose 6%. And our Healthcare & Science and Tax & Accounting businesses continue to see good growth, with both up 8%. These businesses are well positioned in markets that are somewhat insulated from the broader economic environment.

The two significant areas that impeded growth were Print and non-subscription services within the Legal business. We continue to expect Print to be a drag on the business.

The falloff in non-subscription revenues included double-digit declines in Westlaw Ancillary revenues, Enterprise software, Consulting Services, and Trademarks. So while we certainly are pleased by the resiliency of our core subscription business, we remain cautious about the prospects for Print and nonsubscription as they are unlikely to rebound until the overall economy improves.

Now let me turn to talking about the specific segments. The Legal segment declined 1% in the third quarter. It was a minus 2% organic decline offset by 1% positive from acquisitions. Within our subscription products, FindLaw was up 11% and Westlaw was up 3%. The global businesses continued to perform well, led by 9% growth in online services. This growth offset softness in our intellectual property solutions, which were down 1%.

By customer type, revenues from large law and medium-sized law firms declined, as they have been earlier in the year. Corporate and academic segments also saw some slight declines. Small law firms and our government units continue to perform solidly. Year-to-date Legal revenues are up 1%.

Tax & Accounting revenues grew 8% in the quarter, half organic, half from acquisitions. Both the Corporate and Professional Software and Services segments performed well, growing 10% and 8%, respectively.

Research & Guidance declined 2%, primarily resulting from a double-digit decline in Print revenues. And in Tax & Accounting the Print revenues are entirely located in this segment.

However, Checkpoint continued to grow; it grew 7% in the quarter. Year-to-date revenues are $695 million, up 9% versus the prior year, split evenly between organic growth and acquisitions. We continue to expect revenues to accelerate over the remainder of the year.

Healthcare & Science revenues rose 8%, all organic driven, by a 19% growth in Payer which, as Tom mentioned, continues to benefit from significant demand in both the federal and employer segments, where business is so well positioned.

Our Scientific and Scholarly Research business was up 6% due to good growth from the ISI Web of Knowledge and Life Sciences, which was up 8%. Year-to-date revenues were $627 million, up 8%, and it's all organic.

Now, we do anticipate a slight step-down in growth for Healthcare & Science in Q4 given the tough comps when revenue grew 7% organically last year.

Now let's turn to the operating profit for the Professional division. Legal operating profit for the quarter declined 5%. The margin decreased 100 basis points. Benefits from efficiency initiatives were offset by lower revenue from the highly profitable Print business. Year-to-date operating profit is down 1%, and the margins are up 30 basis points due to the benefit of currency.

Tax & Accounting's operating profit declined 10% for the quarter, and margins decreased 300 basis points. Flow-through on revenue was offset by dilution from acquisitions, a shift towards higher growth but lower margin businesses, and technology-related product investments. Year-to-date operating profit is down 4%, and the margin declined 200 basis points.

However, I want you to note that the EBITDA margin for this business is actually flat year-to-year, suggesting that the growth in revenues is translating before amortization into increased profits. This is a growing business, and we continue to make significant investments to build share and market position globally. Understandably, the margin in short-term is not indicative of -- we believe is the long-term potential for this business.

Healthcare & Science operating profit increased 32% with the corresponding margin increasing 450 basis points. Margin gains were attributable to strong flow-through on revenues, synergies realized from combining several business units, and the timing of certain expenses. About 100 basis points of the increase was due to the benefits of currency. Year-to-date operating profit is up 23% and the margins are up 300 basis points.

Now turning to our Markets division, where revenues declined 4% in the third quarter, impacted by weaker year-to-date net sales as well as continued softness in areas such as recoveries and transactions, as Tom has mentioned. I will be discussing these factors in a bit more detail later. But excluding one-time sales and pass-through revenues, our core subscription business declined only modestly, down less than 1%.

By region, organic revenues in Asia were flat; however, Americas and EMEA declined 6% and 3%, respectively. Operating profit rose 10% to $369 million, and the margin increased 280 basis points. Half of the increase reflects the benefits coming from integration-related savings and effective cost management, with the balance coming from currency.

On a year-to-date basis, operating profit grew 9% and the margins also expanded by 280 basis points. Approximately 160 basis points of the improvement was due to cost savings and efficiency, with the balance from currency. Given the decline in the top line that we experienced in the quarter, we are pleased to be able to protect and grow the bottom-line margin. This achievement is the result of delivering on integration savings and tightly managing costs while continuing to make prudent investments in the future of our business.

As I mentioned last quarter, I'll remind you, we really are probably at a high point on margins in this business cycle. However, when growth eventually returns, we believe margins will have even more room to expand.

Now I want to discuss the drivers of Market division results in a bit more detail. As I previously mentioned, core subscription revenues declined less than 1% in the quarter, led by the growth in Enterprise, which was offset by declines in Sales & Trading and Investment & Advisory.

This is a really remarkable performance given the challenging markets. However, our revenues were dragged down by one-time sales and certain -- I'd call them more volatile services.

First we experienced 11% decline in recoveries. I'll remind you, recoveries are low-margin revenues that we collect and forward to third-party providers, such as exchanges. This decline is being driven by cost control among users and certain exchanges moving toward direct billing of their customers. Most of these revenues are in Sales & Trading.

Second, a 15% decline in transaction revenues. This trend should be familiar to you, and it's primarily driven by declines in revenues from our spot foreign exchange transactions against very, very tough year-ago comparables. 2008 was a record year for foreign exchange trading volumes, and the third quarter was particularly strong last year.

The volume of foreign exchange transacted over the platforms is down 17% last year, but is beginning to rebound from the lows of the first half of the year and average daily volume in October marked a high for the year.

Third, a decline in outright revenues of 19%, while small in context of the division as a whole, these one-off sales tend to be quite lumpy.

So we are pleased by the resiliency of our core subscription business and we expect transactional -- we expect subscription business -- we expect transactional and one-time sales to improve as our markets recover.

Now let me review the performance of the Markets' four business units.

Sales & Trading third-quarter revenues declined 6% in the quarter. Half of this decline was driven by lower recovery of revenues with the balance due to weakness in foreign exchange transactions, as I discussed previously, and declines in desktop products. Decline in desktop revenues was due to the flow-through of cancellations received early in the year as well as decisions we have made on our part of our integration to sunset certain low-margin products.

I'll remind you that in this environment we are in the midst, lest you forget, of an important business integration. And some of these products, which certainly have -- the right move is to sunset them, have contributed to the decline. I will just remind you, these things like Bridge and GlobalTopic and ILX, which we have been systematically moving -- trying to move many of our customers to more efficient and more effective platforms.

However, in Sales & Trading we also saw encouraging pockets of growth from Commodities & Energy and Tradeweb.

Investment & Advisory's third-quarter revenues declined 5% organically. The buy-side customer base continues to be impacted by [fee] pressure resulting in cost management and headcount reductions. As a result Investment Management and Wealth Management both saw revenue declines. Despite this tough environment, we made good progress with sales of high-value analytics. Cost containment on the part of our customers also impacted the Corporates segment, which declined 4% in the quarter.

The trend within our Investment Banking segment continues to improve. Although revenues declined 1% in the quarter, this represents a substantial improvement from the double-digit declines that we saw at the start of the year. We are particularly heartened by sales of our product targeted at boutique advisors, which continues to perform extremely well.

Enterprise once again delivered excellent growth, 8%, all organic. We continue to enjoy healthy customer demand for data feeds and our suite of solutions. Enterprise Information grew double-digits, driven by demand for pricing information from front, middle, and back office solutions as customers look to reduce costs and manage complexity. Within information management systems, we saw good sales of our hosted solutions, particularly in Asia. The trade and risk management business revenues grew double-digits.

Finally, Media's third-quarter revenues declined 10%. Our agency business was down 6% in the quarter, driven by consolidation in traditional media outlets and softness in transactions. We continue to see declines in our Professional Publishing segment and weakness in our advertising-driven consumer businesses. However, these two advertising-driven niches are small relative to our business as a whole.

Now let me turn to our adjusted earnings per share. Within the quarter, we initiated the move of an intercompany asset from one legal entity to another. While there is absolutely no cash impact from this transaction, there are two recorded accounting impacts.

First, since this will be a tax-free transaction, we are required under IFRS to recognize the benefits of certain existing tax losses via the tax line on our income statement. Second, since the tax loss we were using were acquired in the Reuters acquisition but not established as an asset at that time, we had to reduce an equal amount of goodwill, which appears under the nonoperating expense line.

Since these two entries cancel out, the result has no impact on reported earnings. As you can see on this schedule, we've moved both entries from adjusted earnings.

Additional adjustments to our reported earnings in the quarter include the removal of fair value adjustments of embedded derivatives which negatively impacted operating profit by $47 million in the quarter. I'll remind you this has no cash impact. The normalization of our reported tax figure in conjunction with our expected full-year rate of roughly 22%. And finally, the removal of amortization of intangible assets related to acquisitions.

The result is $359 million of adjusted earnings in the quarter, $0.43 per diluted share versus $0.47 per share last year. This decline was entirely due to an incremental $52 million of integration-related costs. Year-to-date adjusted diluted earnings per share are $1.41 versus last year's $1.31.

Now moving on to cash flow, year-to-date reported free cash flow is $1 billion, slightly less than the prior year. However, excluding the one-time integration of legacy program costs, underlying free cash flow is $1.4 billion.

I will remind you again that the 2008 free cash flow figures are not pro forma and that these headline numbers mask a very strong performance for two reasons. First, the 2008 figures did not include the first-quarter cash outflow of approximately $100 million from the legacy Reuters business. And second, net interest payments were $300 million higher in the first nine months of this year as compared to last year, primarily due to the interest payments on the incremental $3 billion of the Reuters acquisition debt. And at the same time last year we had interest income from Thomson Learning proceeds. Excluding these two items, normalized free cash flow is tracking well ahead of the prior year driven -- due to higher operating profit and our lower cash tax payments.

Now let me just also stop and say that during the quarter, the Company continued to strengthen its capital structure with the redemption of $600 million of outstanding debt financed through cash on hand and the issuance of $500 million of 4.7% notes due in 2019.

Year-to-date, the Company has refinanced $1.1 billion of long-term debt, reflecting its continued ability to access and take advantage of favorable capital markets.

Turning now to our integration synergy programs, as in the third quarter we've achieved a combined run-rate savings of $975 million. Given this progress the Company continues to make on integration programs, we expect to achieve at least $1 billion of run-rate savings by this year-end. Savings were principally achieved through elimination of redundant positions and the retirement of some legacy products, as I mentioned.

We spent $148 million on integration and synergy costs in the quarter, bringing the year-to-date total to $343 million. The majority of these costs relate to people and technology.

As Tom mentioned, we are firming up full-year outlook. Nine-month revenues were up 1% and are expected to grow for the full year. Our reported margin is currently running ahead of last year by 180 basis points, of which 100 basis points is due to the benefits of currency.

For the reasons I outlined earlier in this presentation, the full-year underlying operating profit margin is still expected to be comparable to last year. We remain on track this year to deliver free cash flow comparable to last year.

To summarize then, before I turn it over for questions, we feel quite good about the current positioning of the business. We are also encouraged by the early indicators suggesting the sales environment is improving. Nevertheless, we recognize the difficult sales environment we have faced all year will have an impact on our revenues in the near term, as our core subscription business has slowed down and our nonsubscription services await the broader economic recovery.

I will remind you that the quality of our business is reflected in the quality of the earnings which have always been underpinned by strong cash generation. As we expected, the strength of our business model and our balance sheet are providing strategic and tactical advantages in this challenging environment. With that, now let me turn it back over to Frank for questions.

Frank Golden - *Thomson Reuters Corporation - SVP IR*

Thanks very much, Bob. Okay. That concludes our presentation, so I would like to ask the operator if we could open this portion of the session for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Paul Steep, Scotia Capital.

Paul Steep - *Scotia Capital - Analyst*

Thanks. I guess big-picture question first for Tom, and then maybe a clarification for Bob.

Tom, maybe you could talk a little bit about Cobalt, what the opportunity is beyond price inflation in terms of cross-selling and getting clients to get more involved in the platform. It looked like that was a highlight of the Investor Day.

Tom Glocer - *Thomson Reuters Corporation - CEO*

Yes, I mean it's a very innovative platform. What we've seen in our Legal business is the more touch points we have, the more of our various services that we can deliver into a law firm, a given law firm, the greater the reported growth we get from that firm. So the very positive thing is we're not taking anything away in the existing, very successful competitive Westlaw product. Right? It's not bad to have something that is going up at 6% in terms of subscription sales, in terms of the carnage we've seen out there in the market.

What we are doing is layering on a next-generation approach. I'm really pleased in terms of the implications for the people coming out of law schools and what their expectations are in terms of product friendliness, and also because of the sophistication of really the analytics and the search that are in Cobalt. I think we will be able to extend our share leads in the current market. As you mentioned, improve on pricing, although it ends up being a very sort of close working with the customer to make sure that they're valuing from the additional efficiency and we are participating in the value that the platform brings.

But yes, it's a very positive, exciting thing for us. And it will be coming at a very appropriate time in 2010.

Paul Steep - *Scotia Capital - Analyst*

Great. The certification for Bob is, Tom talked a lot about the subscription; I think he handled that. The recoveries the bit that I think I would love some clarification on in terms of what is the amount of the headwind we face into the next couple quarters from these sort of pass-through changes that are happening? Thanks.

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Well, first of all they do represent a small part of the business and a very small part of profit. Very low-margin business. So while it certainly affects the headline revenue growth, it has little if any impact on the profitability or cost structure of the business.

We have seen recoveries challenged all year long. They represent -- I would hesitate, what 2%? 10% of Markets' overall revenues. It is hard for us to predict that.

There are two things that -- this is -- what you are seeing in recoveries is the revenue challenges of some of the exchanges. And also, some of these exchanges are simply moving to direct billing, which is fine with us, too.

So it's something that we report on. I think you should know about it; but you should also know that, of all of the issues that we have, this certainly isn't one that is significant.

But I think it could last, certainly throughout the balance of this year and maybe into 2010. But I really don't have a window on that.

Tom Glocer - *Thomson Reuters Corporation - CEO*

And I would just jump in to say I totally agree with Bob. The thing that I have always looked at and take as a healthy sign is -- when we compare our growth rate, or in this case decline of 4%, versus the double-digit decline in recoveries, what that tells me is our share of wallet is increasing. And in the day-to-day work by the sales force with customers, there is a substitution effect. Because it's exchange fees and it's certain third-party data, and we are doing exactly what I would expect us to do, which is in making sure that when there are reductions, we keep more of whatever budget is available at a given client.

Paul Steep - *Scotia Capital - Analyst*

Great. Thanks, guys.

Operator

Vince Valentini, TD Newcrest.

Vince Valentini - *TD Newcrest - Analyst*

Thanks very much. Wanted to make sure I understand your outlook on the Legal segment completely. You said that the subscription revenues are up 6%, and you have now told us that net sales have turned back to being positive in the third quarter. Is this -- should we read through into that that 6% is a sustainable type of number?

I would have thought there was still some lag effect to come from all the headcount reduction earlier in the year as contracts come up for renewal. Would you expect to see some pain on that 6% subscription number before it turns back up again?

Tom Glocer - *Thomson Reuters Corporation - CEO*

Yes, I feel good about the subscription number, 6%. You're right; every quarter there are new contracts coming up. The Legal market seems really to have bottomed early in the year, more in the first quarter, and we've been seeing improvement.

You know, the overall environment isn't brilliant in the Legal world. I think it will be a long, slow improvement. But then again, that's why I am really pleased we haven't been sitting still and we have Cobalt coming onstream next year.

So I feel real good about the core of our business, that electronic subscription business. I think we will continue to see attrition in Print; and we have that baked into our numbers going forward. But this is a really good business, and strategically and structurally that market remains sound.

Vince Valentini - *TD Newcrest - Analyst*

Thanks.

Operator

Patrick Wellington, Morgan Stanley.

Patrick Wellington - *Morgan Stanley - Analyst*

Yes, afternoon, everybody. Tom, a couple of questions. Could you give us a bit more feel for the scale of Markets' net new sales? How has that gone between the first couple of quarters? We know they were down in Q1 and Q2, but can you give us a bit more color about the direction there?

And secondly, you may made a few references as we went through to -- it will be a few more quarters before revenues for the Group pick up. I think you said that the calculation is mathematical. So for those of us weak with our math, exactly how many quarters are you showing of negative revenue growth on your forecast at the moment?

Tom Glocer - *Thomson Reuters Corporation - CEO*

Patrick, I've never thought you were weak on your math, though I think you were prescient and right on in the market when you wrote about the shallow dip several quarters ago, as I remember. Let me try and help a bit.

So there are obviously two factors that impact the timing of what does a few mean. One is what I have been calling the mathematics of the subscription model. You understand well, everyone on this call understands well, which is just what happens when you full-year effects, let's say next year, on sales activity that's been spread or cancellation activity that has been spread through 2009.

Were that the only factor at all, it would be relatively straightforward. There tends to be a three-quarter lag; and you can figure out what that means.

The complicating factor is obviously the environment as a whole isn't constant. What underlies our outlook and the discussion Bob and I have is our business -- we're not trying to predict what the overall economy does. Is it U, V, W? We are basically saying, look, we have reasonably good visibility because of the nature of our business; and therefore we have seen a marked improvement in the sales activity second half of the year versus first half of the year. And unless the overall economy lurches down badly or there is some terrible event, that should result in, let's say, a stronger reported set of revenues in the second half of 2010 than in the first half. So a better exit rate than an entry rate.

But calling the exact quarter is difficult. I think we were gutsy early in the year when we went out with guidance in this most difficult year. We are trying to give you as good a sense of where the business is. We feel it's under good control, and we understand the trends. But neither Bob nor I can control the sort of underlying macro economies we operate in.

In terms the game I used to enjoy playing with you in Reuters, which is -- exactly what is the net sales month on month? I would describe it in words as a significant improvement in Q3 versus Q2 in terms of Markets' net sales. They are still negative, but they are much less negative. And all other things being equal, I would expect that trend to continue. But again, subject to no guarantees on the macro environment.

Patrick Wellington - *Morgan Stanley - Analyst*

Tom, that's great. Thanks much.

Operator

Drew McReynolds, RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets - Analyst*

Thanks very much and good morning. Maybe just a follow-up to that, Tom. That was good color on the underlying trend.

When you talk about needing cancellations in key centers to obviously improve, can you just maybe give us a little bit more color on what conditions out there are really required to be put in place specifically within Markets division in order for that to happen? Again just strictly talking about cancellations in the key centers.

Tom Glocer - *Thomson Reuters Corporation - CEO*

Sure. It's obviously one of the great benefits of this business and why it has performed well is that in fact it isn't just one center or one type of business; it's nicely diversified by geography and product. But I'll try nonetheless to tackle it.

I've been impressed through this entire year with how the Markets team has been able to continue to sell. So their gross sales are very good. And not only in places like China and India, where the whole world recognized it is more of a V shape. But if you look at the Enterprise group, that they could right through this year be selling or growing their revenue 8% and plus in earlier quarters, is a testament to how valuable what they do is. Because I can tell you, having been to a ton of clients over the last 18 months, no one is spending a penny on anything that they don't absolutely need.

THOMSON REUTERS

So now back to answer your question in that context, Drew, what I'm looking for is the cancellation activity to abate, to allow the strong trend in gross sales to pull up the overall result.

What would be required? Well, I think we're already beginning to see a stabilization in terms on headcount reductions. People have continued to trim a bit through the year, but not like they were year-end last year, into the first two quarters. So that's a trend I'd expect to continue.

I think we also need to see a little bit more clarity on the regulatory picture, right? Legislation in the US, it looks like Obama will get some form of financial reform legislation; changes going through in the UK as well. Once that is clearer, people will be able to do longer-term plans, and I think that will feed through to greater confidence in the market as well.

But beyond that, it's obviously very difficult to have clear visibility on the timing of when that will happen.

Drew McReynolds - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Thomas Singlehurst, Citigroup.

Thomas Singlehurst - *Citigroup - Analyst*

Good morning, Tom. Good morning, Bob. Tom here from Citigroup. I have one question that was general and then one relatively specific one.

The general one. I think, Bob, you mentioned when talking about the Markets revenue that the 3Q would mark the high point in terms of margins at this point in the cycle. One, could you just confirm that?

And two, is that a comment that would actually apply to the Group as a whole? And going into next year, how should we be thinking about margins? That was the first question.

The second question was actually very specifically on Investment & Advisory, the recent purchase of Hugin. I know it's very small, but does this signal more of a direct attempt to get into the newswire distribution market?

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Yes, Tom, in terms of margins I was very specific to certainly the Markets division simply in the sense that obviously we operate highly leveraged businesses and so that when revenues soften you will see some decline. We've done a great job, they have done a terrific job of pulling costs out and doing the integration. But it is likely that that kind of a margin will be the high point for them, without a doubt.

And the implications for the Company as a whole, Markets represents a substantial amount of the business. We also signaled that we thought Professional would see a bit of margin erosion. We have been talking about that all year. So by implication, that is why we come back to -- even we're ahead through three quarters, we will be losing some of that in the fourth quarter and it will be comparable to 2008.

THOMSON REUTERS

As far as 2010, I think that there is a lot of work that needs to be done between now and then. We are very good, as Tom said, at managing these businesses. So certainly everything we will do will be to try to minimize any of the impact on soft revenues in terms of the bottom line.

But I think there is more to -- stay tuned, because we will talk about specifically about 2010 when we release our results at the end of the fourth quarter.

Tom Glocer - *Thomson Reuters Corporation - CEO*

And, Tom, just to pick up on Hugin, it certainly wasn't a large business. We purchased it in the Corporates segment of Investment & Advisory. And I think the -- it's a European-based and focused business that does connect, let's say, issuers of securities out with the audiences for their communication, which is very much part and parcel of the existing Corporates strategy and business.

I think the way you should see it is it's the next logical step in what our Corporates business can do. We understand the workflow of the Frank Golden position around the world. It also represents what has been today the successful strategy in Corporates, which is to globalize and bring some of the same services we have so we can cross-sell into their existing client base; we can take their capabilities global.

It's just one of those sort of middle of the fairway bolt-on acquisitions and so far looks good.

Thomas Singlehurst - *Citigroup - Analyst*

That's excellent. Thank you very much.

Operator

Randal Rudniski, Credit Suisse.

Randal Rudniski - *Credit Suisse - Analyst*

Thanks. I have a question on the outlook for the Legal division. Because in the outlook statement it sort of seems to -- maybe it's just my reading -- but it seems to tie a shallow dip in Legal to negative net sales in Legal subscription revenues. But your subscription revenues look like they've been quite strong all year. And even in the performance review of Legal, you indicate subscription revenues grew. So is there an inconsistency there?

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Well, the way you explain it, it does sound like an inconsistency, but I will try to make it not. You have to remember something. When you look at the Legal business of all the segments, I believe that only 60-something-% of that business is actually subscription revenues. The rest of it is Print, which we really don't count as subscription, and I will call them transaction, Ancillary, whatever you want to call nonsubscription services.

So what's happening is the growth in subscription in the early part of the year was sufficient to offset what has been a real challenging market in these other areas. What we are saying is that that growth moderates because our subscription sales, while positive, have not been as positive as they were prior years. So as that positive growth of subscriptions starts to wane a bit, the decline in the nonsubscription areas -- and particularly Print -- are what really will drag the business and has dragged the business to date. And that's what we expect when we talk about the longer term.

Randal Rudniski - *Credit Suisse - Analyst*

Okay. That makes sense. So when it comes to some of these Ancillary businesses, which were down I think 15% year-over-year in this quarter, and I think that's pretty consistent with the pace of decline in the first half, can you describe where you are seeing the pressure there?

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Well, it's a couple of areas. It's the areas -- for example, we are the largest provider of back-office software to law firms. In this environment you can imagine through Elite -- you can imagine that no one is doing much of that. The declines in Elite have been 20%-plus.

We have a consulting business that provides consulting services to law firms, and that has been significantly impacted. So those really are the kinds of areas where you see it.

They tend to be, I would say, certainly important services but in challenging times can be viewed as discretionary. And those are the areas where we've seen the greatest decline.

And obviously Print is one of those areas where we have done -- as we've talked about -- such a very good job of transitioning from print to electronic that we have made Print a little bit less essential to our customers in many areas. And that is where we have seen the decline.

Randal Rudniski - *Credit Suisse - Analyst*

Terrific. That makes a lot of sense. Thank you.

Operator

Mark O'Donnell, JPMorgan.

Mark O'Donnell - *JPMorgan - Analyst*

Hi, everyone. It's Mark O'Donnell from JPMorgan. You've got your free cash flow growing and you have done a lot of the Cobalt and Utah investment, and perhaps seen the worst of the net sales. What is the thinking then on the dividend and use of cash going into next year? Thanks.

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

That's a fair question. We talk about the dividend with our Board in early next year, once we have actually closed the books and seen the cash; and we make a decision at that time. I would remind you that our philosophy has always been that we view dividends as an important part of value creation for our shareholders, and we've consistently stuck to that.

I think earlier this year when a lot of other companies were obviously cutting their dividends tremendously, we came out with another increase, consistently, and to signal not only the fact that we have a strong Company but we have a very strong business model, and we recognize the linkage between that and creating value for our shareholders.

So I really don't want to comment on that. That is the Board's purview about dividend increases. But I think that as I said in my remarks, we have a very strong business model and a very strong balance sheet, and we will use those to our advantage during this period.

Mark O'Donnell - *JPMorgan - Analyst*

Okay. Thanks.

Frank Golden - *Thomson Reuters Corporation - SVP IR*

Operator, we would like to take one final question, please.

Operator

Mark Braley, Deutsche Bank.

Mark Braley - *Deutsche Bank - Analyst*

Good afternoon, guys, and thanks for taking the question. It was just on the subject of the full-year margin guidance. I'm afraid this is one of those analyst questions where I ask you whether you are being ridiculously conservative for the full year.

Your margin through the nine months is actually quite considerably ahead, so you're building in enough room for the fourth-quarter margin to be down a long way, something like a profit swing of about $150 million. You've given us a few reasons around that -- pensions, phasing, timing of investments, etc. I just want to clarify.

Those issues that you've identified could potentially impact profit year-over-year by as much as $150 million in the fourth quarter?

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Well, you need to remember that our guidance has always been excluding currency; and a substantial part of the improvement year-to-date has been in currency. So while we may show at the end of the year improvement year-to-year, we believe a substantial part of that will be currency.

So when you do that math, I don't know if you calculated that into it. But I remind you, the fourth quarter is a big quarter for Thomson Reuters. We've got a lot of moving parts, A lot of, a number of corporate expenses get booked in that quarter which have not shown yet.

And we have a large portion of our revenues in the fourth quarter, and a large portion of our margin comes in the fourth quarter. Last year, as I said, that fourth quarter we saw a 170 basis point improvement year-over-year, fourth-quarter '08 on '07.

So there are a lot of moving parts in this. And frankly that's why we continue to stick with our guidance that we will be comparable and leave it at that.

Mark Braley - *Deutsche Bank - Analyst*

Okay. Just on sort of two of the issues, the pensions and the other corporate costs, does what is coming through on pensions this year, does that kind of get you to where you need to be in terms of funding levels? So allowing -- if markets stay where they are that wouldn't be either a contributor or a positive -- or a drag, rather, into next year?

And the corporate costs, are we basically there talking about incentivization because of what the share price has done over the last 12 months?

Bob Daleo - *Thomson Reuters Corporation - EVP, CFO*

Well, the answer to that second question is yes.

And the first question, the pension costs have very little to do if anything with our pension. Okay? Since they are fully funded. We don't have an issue.

I will remind you of the difference here is that in GAAP, US GAAP or Canadian GAAP, you are able to take gains or losses, right? You take them to the balance sheet and smooth them over time. In IFRS you take them to the P&L. So what we're seeing here is that substantial full year over $30 million of impact of this effect of our investments. It means investment asset values taken directly to the P&L.

So that is what we've seen. That is what we will see again in the fourth quarter.

Mark Braley - *Deutsche Bank - Analyst*

Okay. That's great. Thank you.

Frank Golden - *Thomson Reuters Corporation - SVP IR*

That concludes our call, so we appreciate you joining us and we will speak to you again in February on the fourth-quarter results. Thanks.

Tom Glocer - *Thomson Reuters Corporation - CEO*

Thank you all.

Operator

And ladies and gentlemen, this conference will be available for replay after 10:30 a.m. today until midnight on November 11. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 118498. International participants dial 320-365-3844. (Operator Instructions) That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.
