



Managing Foreign Exchange Risk

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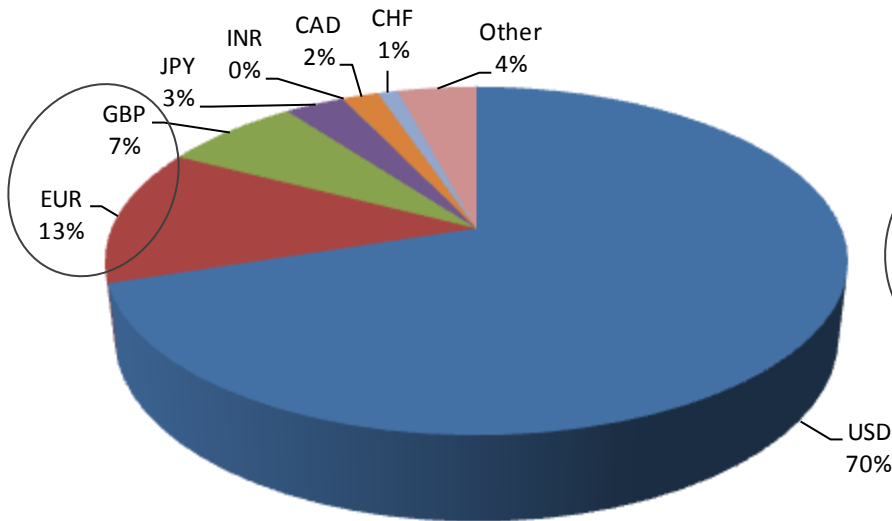


THOMSON REUTERS

Background

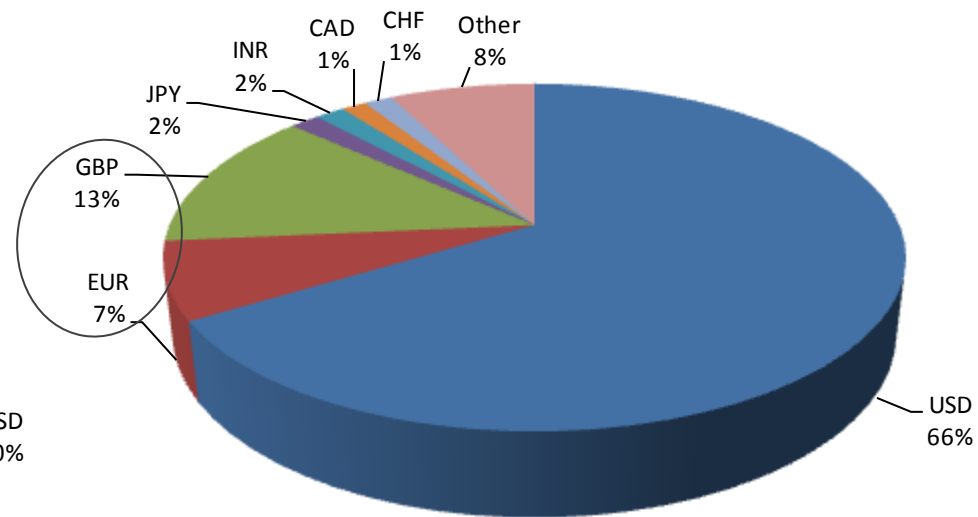
- Business operating model reflects currency profile mismatch between revenues, expenses, and capital expenditures
 - With the acquisition of Reuters, TR's global FX footprint has expanded significantly
 - Largest mismatch associated with meaningful Euro revenues and large Sterling cost base

Revenues



~30% non-USD

Expenses and Capital Expenditures



~35% non-USD

Challenge was to measure the true economic/cash flow risk driven by FX operating exposures, and develop a program to manage this risk

Measuring Our FX Risk

- Built a portfolio risk model to measure the Value at Risk¹ from our operating exposures
 - Takes into account the differing directions and magnitudes of exposures as well as correlations among currencies
- While the gross operational FX exposures are large, annual cash flow risk is significantly reduced once the diversification benefits arising from TR's FX footprint are considered
 - Worst case (95% confidence) annual cash flow impact related to TR's top exposures, considered individually, is estimated at over \$350M
 - When consider the portfolio as a whole, worst case annual cash flow impact is reduced by ~65% to about \$125M
 - This can also be viewed as the maximum year-over-year impact due to FX on TR's operating profit

Managing Our FX Risk – Two Approaches

1. Commercial Policy

- *Work closely with operations to better align FX footprint via commercial policy over the long term*
 - Optimal means to permanently reduce foreign exchange exposure
 - Identify potential pricing policies for both customers and vendors
 - Use portfolio risk model to help evaluate the impact of proposals and focus commercial policy efforts on most beneficial actions for global FX footprint

2. Hedge Program

- *Created an effective and efficient hedge program to reduce near-term economic risk associated with our FX footprint in an accounting-friendly way*
 - Created a portfolio risk model to evaluate impact of hedging approaches on cash flow and earnings
 - Resulted in hedging our 3 largest currencies which provided nearly same CF risk reduction as hedging most exposures
 - Executed and managed the program at corporate to reduce complexity, facilitate global netting of exposures and minimize the burden on operations
 - Although nature of exposures (i.e., translational) make it difficult to obtain hedge accounting, program still reduces FX related P&L volatility

Key Program Benefits

1. Organizational engagement

- Operating divisions take greater ownership of global exposure forecast & work with Treasury on commercial policy initiatives to improve footprint over the long term
- Management better understands our global FX exposures, risk associated with these exposures, and how this risk is mitigated by commercial policy initiatives and the new hedge program
- FX related metrics are regularly monitored and reported to management

2. Real risk reduction

- Commercial policies implemented to permanently eliminate exposure
- Hedge program expected to reduce annual cash flow risk by about **50%** and net earnings volatility by about **25%**
- Created useful portfolio risk model to continually assess TR's global footprint and revise hedging approach accordingly

3. No longer a business distraction

- FX hedge program executed and managed centrally enabling operating divisions to focus on the business rather than short term FX risk management

4. Zero cost to implement

- No additional costs have been incurred to develop, implement, or run our FX risk management program