The Economist Group

Interim report 2008

Interim report

Six months ended September 30th 2008

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Chairman's statement

In the first half of the year, the Group made an operating profit of £22.3m, up 7% on last year. Revenues in the period were £139.6m, an increase of 12% on the same period last year. The underlying performance was even stronger, with a number of factors affecting the reported profit. First, EuroFinance's main and highly profitable event took place in October, whereas in 2007 it fell in the first half of the year. Second, we have reorganised the Group to reflect a more regional structure, and the one-off costs for this are reflected in the results. The impact of these has been somewhat mitigated by a stronger dollar compared with last year.

In line with our policy of setting the interim dividend at one third of the prior year's full dividend (before any special dividend), the Board has raised the interim dividend from 25.2p to 30.1p.

In July we acquired Capitol Advantage, based in Washington, DC, for £21.3m. The company provides information and tools to help organisations understand the workings of Congress, manage their contact with policymakers and mobilise their grass roots. Alongside *Roll Call* and GalleryWatch, the legislature-tracking business that we bought two years ago, the enlarged Roll Call Group is well placed to help organisations reach the people, politics and processes on Capitol Hill. The first half of this year has been slow for *Roll Call* because, as tends to happen in presidential election years, there were fewer congressional sessions (and therefore fewer issues of *Roll Call*) than usual and fewer legislative areas around which our clients want to advertise. With a new president and many new members of Congress, we expect 2009 to be strong for the Roll Call Group.

The Economist continues to thrive. For the January-June 2008 ABC period, circulation was 1,337,184, 6% up on the year before, with all regions growing. The fastest growth was once again in North America, where circulation rose by 8% to 747,254. Advertising at *The Economist* and Economist.com was up 22% compared with last year, and circulation revenues increased 10%.

Operating profit
+7%
to £22.3m

Revenues
+12%
to £139.6m

We have been executing our plans to achieve deeper penetration of the Economist Intelligence Unit's markets, and revenues there have grown 15%. We are also investing in new products such as the China Province Outlook, which analyses the prospects for ten of China's 31 provinces, with the rest to follow. We have also improved our ability to offer bespoke research alongside the off-the-shelf products we sell.

At Economist.com, we have launched a number of products that allow our readers to participate. A series of Oxford-style debates introduced earlier this year, on subjects ranging from the West's response to a newly assertive Russia to how to balance security and the erosion of individual privacy, has proved so popular that we are developing a new platform for the site. We redesigned the homepage at Economist.com and added the capability for our readers to comment on all our articles. Page views at Economist.com have risen 48% compared with last year.

The CFO businesses have improved modestly in the first half following two disappointing years. Revenues grew 9% compared with last year, with all the revenue increase dropping to operating profit.

Last year we opened our first commercial offices in India (in Mumbai, Delhi and Bangalore) and we now have 17 staff there. The circulation of *The Economist* in India is now approaching 20,000. This year, we opened an office in Dubai to capitalise on the growing opportunities in the Middle East.

Andrew Rashbass took over from Helen Alexander as chief executive after the annual general meeting in July. He has changed the organisation of the business to reflect a regional rather than business-unit focus. Our customers increasingly ask us to serve them across the Group, and the new structure makes this easier. It also allows us to use our resources more efficiently.

Circulation of *The Economist*	Economist.com page views
+6%	+48%
year-on-year, to 1.34m (Jan-Jun 2008, ABC)	year-on-year, to 134m (IBM SurfAid)

The economic outlook is deteriorating rapidly and we expect the second half and beyond to be challenging for advertising and sponsorship. Nonetheless, we expect our results for the full year to show progress over last year. Looking further ahead, we believe that our business will continue to fare better than most of our competitors because of our strong brands and the mix of our revenue, in terms of geography, the wide range of sectors we serve and the balance between advertising and content sales in our business model. Having said that, we are reducing costs in anticipation of a prolonged advertising downturn.

Shareholders will note that we are not proposing a special dividend at the end of the calendar year. It simply seems unwise to contemplate one in this highly unpredictable economic environment. And whilst we have increased the interim dividend in line with our existing policy, we will obviously review the final dividend in light of the circumstances which then prevail.

Finally, my term as chairman of this company expires at the annual general meeting in 2009. I am very pleased to report that the Board has decided that Rupert Pennant-Rea, who is well known to most shareholders, will be my successor.

Robert Wilson
Chairman

Profit and loss account

	NOTES	Six months to Sept 30th 2008 £000	Six months to Sept 30th 2007 £000	Twelve months to March 31st 2008 £000
Turnover		**139,560**	124,574	266,399
Operating profit		**22,311**	20,845	44,319
Profit on sale of fixed asset investments	4	**-**	-	730
Profit on ordinary activities before finance income		**22,311**	20,845	45,049
Net finance income		**269**	1,296	2,040
Profit on ordinary activities before taxation		**22,580**	22,141	47,089
Taxation on profit on ordinary activities		**(7,000)**	(7,306)	(14,856)
Profit on ordinary activities after taxation		**15,580**	14,835	32,233
Basic earnings per share (pence)	5	**62.2**	59.2	128.7
Dividends per share (pence)	6	**65.2**	54.5	171.0

Balance sheet

	NOTES	**As at Sept 30th 2008 £000**	As at Sept 30th 2007 £000	As at March 31st 2008 £000
Fixed assets				
Intangible assets	7	**38,491**	15,970	15,032
Tangible assets		**23,088**	23,681	23,374
		61,579	39,651	38,406
Current assets				
Stocks and work-in-progress		**3,261**	2,884	2,800
Debtors due within one year		**52,776**	44,826	48,980
Deferred taxation		**6,515**	6,089	6,309
Cash and deposits		**10,503**	15,730	20,107
		73,055	69,529	78,196
Creditors due within one year		**(46,665)**	(40,679)	(55,283)
Unexpired subscriptions and deferred revenue		**(79,179)**	(63,059)	(71,384)
Net current liabilities		**(52,789)**	(34,209)	(48,471)
Total assets/(liabilities) less current liabilities		**8,790**	5,442	(10,065)
Creditors due after one year		**(26,328)**	(2,844)	(2,522)
Provisions for liabilities and charges		**(232)**	(365)	(281)
Net (liabilities)/assets excluding pension and other post-retirement liabilities		**(17,770)**	2,233	(12,868)
Pension and other post-retirement assets/(liabilities) net of deferred tax		**2,509**	(1,258)	5,261
Net (liabilities)/assets including pension and other post-retirement liabilities		**(15,261)**	975	(7,607)
Capital and reserves				
Called-up share capital		**1,260**	1,260	1,260
Profit and loss account		**(16,521)**	(285)	(8,867)
Equity shareholders' (deficit)/funds		**(15,261)**	975	(7,607)

Cashflow statement

	Notes	Six months to Sept 30th 2008 £000	Six months to Sept 30th 2007 £000	Twelve months to March 31st 2008 £000
Net cash inflow from operating activities		**9,759**	5,150	45,647
Returns on investments and servicing of finance				
Interest received		**170**	392	691
Interest paid		**(294)**	(51)	(425)
Finance lease interest paid		**(104)**	(104)	(208)
		(228)	237	58
Taxation				
UK corporation tax paid		**(2,847)**	(5,889)	(11,595)
Overseas tax paid		**(2,409)**	(68)	(452)
		(5,256)	(5,957)	(12,047)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(958)**	(932)	(2,052)
Acquisitions and disposals				
Purchase of subsidiary undertaking		**(21,743)**	-	(245)
Cash acquired with subsidiary undertaking		**479**	-	-
Sale of fixed asset investment	4	**-**	-	730
		(21,264)	-	485
Equity dividends paid		**(16,337)**	(13,653)	(42,851)
Cash outflow before use of liquid resources and financing		**(34,284)**	(15,155)	(10,760)
Management of liquid resources				
Cash drawn from short-term deposits		**5,462**	9,907	11,744
Financing				
Capital element of finance lease rental payments		**(1)**	(1)	(2)
Sale/(purchase) of own shares		**430**	263	(288)
Loan of more than one year		**22,089**	-	-
Drawdown of unsecured loan facility		**15,000**	3,000	17,700
Repayment of unsecured loan facility		**(13,079)**	(3,000)	(17,700)
		24,439	262	(290)
(Decrease)/increase in net cash		**(4,383)**	(4,986)	694

Reconciliation of net cashflow to movement in net funds

	Six months to Sept 30th 2008	Six months to Sept 30th 2007	Twelve months to March 31st 2008
	£000	£000	£000
(Decrease)/increase in cash	**(4,383)**	(4,986)	694
Cash inflow from decrease in liquid resources	**(5,462)**	(9,907)	(11,744)
Cash inflow from financing	**(24,010)**	-	-
Cash outflow from decrease in lease financing	**1**	1	2
Change in net (debt)/funds resulting from cashflows	**(33,854)**	(14,892)	(11,048)
Exchange translation differences	**(1,477)**	(641)	(106)
Movement in net (debt)/funds in period	**(35,331)**	(15,533)	(11,154)
Net funds at beginning of period	**17,584**	28,738	28,738
Net (debt)/funds at end of period	**(17,747)**	13,205	17,584

Statement of total recognised gains and losses

	Six months to Sept 30th 2008	Six months to Sept 30th 2007	Twelve months to March 31st 2008
	£000	£000	£000
Profit after taxation	**15,580**	14,835	32,233
Exchange translation differences arising on consolidation	**(3,224)**	254	293
Actual return less expected return on pension scheme assets	**(16,702)**	(1,218)	(14,389)
Experience gains/(losses) arising on the pension scheme liabilities	-	5	(191)
Changes in assumptions underlying the present value of the scheme liabilities	**11,003**	12,245	31,294
Actuarial loss on other post-retirement benefits	-	-	(496)
UK deferred tax attributable to the actuarial loss/(gain)	**1,596**	(3,310)	(4,766)
Total recognised gains for the period	**8,253**	22,811	43,978

Reconciliation of movement in equity shareholders' funds

	Six months to Sept 30th 2008	Six months to Sept 30th 2007	Twelve months to March 31st 2008
	£000	£000	£000
Profit for the half-year/year	**15,580**	14,835	32,233
Dividends paid	**(16,337)**	(13,653)	(42,851)
Retained (loss)/profit	**(757)**	1,182	(10,618)
Net sale/(purchase) of own shares	**430**	263	(288)
Other recognised (losses)/gains	**(4,103)**	7,722	11,452
Exchange translation differences arising on consolidation	**(3,224)**	254	293
Net (deduction from)/addition to shareholders' funds	**(7,654)**	9,421	839
Opening shareholders' deficit	**(7,607)**	(8,446)	(8,446)
Closing shareholders' (deficit)/funds	**(15,261)**	975	(7,607)

Analysis of results by class of business

	Six months to Sept 30th 2008	Six months to Sept 30th 2007	Twelve months to March 31st 2008
	£000	£000	£000
Turnover by business			
The Economist brand family	**117,720**	100,995	221,080
CFO brand family	**10,154**	12,795	24,673
Government brands	**9,729**	8,768	16,775
Other businesses	**1,957**	2,016	3,871
	139,560	124,574	266,399
Operating profit by business			
The Economist brand family	**18,923**	15,078	35,736
CFO brand family	**(763)**	1,359	1,408
Government brands	**3,100**	3,253	4,845
Other businesses	**1,682**	1,586	3,186
Goodwill amortisation	**(631)**	(431)	(856)
	22,311	20,845	44,319

Notes to the financial information

1. The interim financial information for the six months to September 30th 2008 was approved by the Board of directors on November 25th 2008 and is unaudited.

2. The financial information for the year ended March 31st 2008 has been extracted from the full accounts for that period which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report. The report did not contain a statement under section 237 of the Companies Act 1985.

3. The interim financial information for the six months ended September 30th 2008 has been prepared on the basis of the accounting policies set out in the 2008 annual report.

4. The profit on the sale of an investment for the year ended March 31st 2008 relates to cash released from escrow following the sale of the Group's 18.6% convertible preference shareholding in Commonwealth Business Media, Inc.

5. The shares held by the Employee Share Ownership Plan (ESOP) are excluded from the calculation of earnings per share. Earnings per share before non-operating exceptional items are 62.2p (2007: 59.2p) and are based on profit after tax of £15.6m (2007: £14.8m). Diluted earnings per share are 62.2p (2007: 59.1p).

6. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2007: £0.1m).

   The dividend per share of 65.2p for the six months to September 30th 2008 is the final dividend for the year ending March 31st 2008 paid in July 2008 (2007: 54.5p). The dividends per share of 171.0p for the 12 months to March 31st 2008 include interim and final dividends of 79.7p paid in that year and a special dividend of 91.3p paid in December 2007.

7. On July 31st 2008 the Group acquired Capitol Advantage for £21.3m, creating a provisional goodwill of £24.1m. In the two months to September 30th 2008 Capitol Advantage generated £0.3m of operating profits.

The Economist Newspaper Limited and its subsidiary companies
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