The Economist Group

Annual report 2009

Annual report 2009

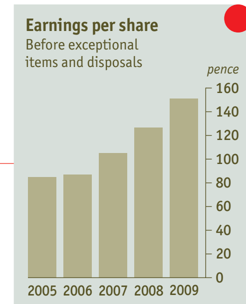
## ANNUAL REPORT

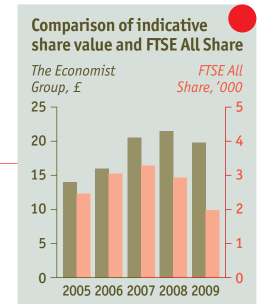


## REPORT AND ACCOUNTS



The Economist Newspaper Limited registered number 236383


## FIVE-YEAR SUMMARY

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Profit and loss** | £m | £m | £m | £m | £m |
| Turnover | 313 | 266 | 248 | 218 | 197 |
| **Operating profit** | **56** | **44** | **36** | **28** | **24** |
| Non-operating exceptional items | - | 1 | 11 | 1 | 1 |
| Profit on ordinary activities before finance income | 56 | 45 | 47 | 29 | 25 |
| Net finance income | - | 2 | 2 | 2 | 2 |
| Profit before taxation | 56 | 47 | 49 | 31 | 27 |
| Profit after taxation | 38 | 32 | 34 | 22 | 27 |
| **Balance sheet and cashflow** | | | | | |
| Fixed assets | 69 | 38 | 41 | 38 | 24 |
| Net cash balance | 13 | 20 | 31 | 55 | 73 |
| Net current (liabilities)/assets | (50) | (48) | (36) | (5) | 27 |
| Long-term creditors and provisions | (34) | 2* | (13) | (29) | (27) |
| Net (liabilities)/assets | (15) | (8) | (8) | 4 | 24 |
| Net cash inflow from operating activities | 57 | 46 | 33 | 29 | 24 |
| **Margin and earnings per share** | 2009 | 2008 | 2007 | 2006 | 2005 |
| Operating profit to turnover | 17.8% | 16.6% | 14.6% | 13.1% | 12.4% |
| Basic earnings per share | 151.2p | 128.7p | 134.9p | 88.4p | 109.1p |
| Earnings per share before non-operating exceptional items | 151.2p | 126.7p | 105.2p | 87.1p | 84.9p |
| **Dividends and shares** | | | | | |
| Final and interim dividends per share† | 95.3p | 79.7p | 64.8p | 59.0p | 57.5p |
| Special dividend per share | - | 91.3p | 139.0p | 79.4p | - |
| Total dividends per share† | 95.3p | 171.0p | 203.8p | 138.4p | 57.5p |
| Times covered (before non-operating exceptional items) | 1.6 | 0.7 | 0.5 | 0.6 | 1.5 |
| Indicative share value | £19.75 | £21.50 | £20.50 | £16.00 | £14.00 |

* Balance includes surplus on defined benefit pension scheme.
† For definition, see note 9 on page 40.

**REVENUE**

↑ 17%
to £313m

**OPERATING PROFIT**

↑ 26%
to £56m

**OPERATING MARGIN**

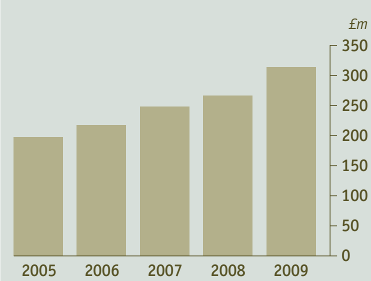
↑ 1.2%
to 17.8%

3

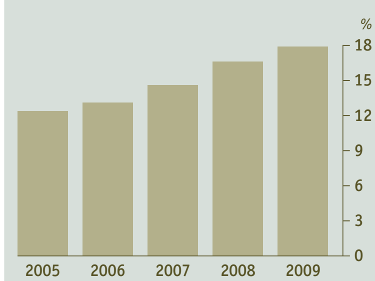
# GROUP OVERVIEW

### Group operating profit


### Group turnover

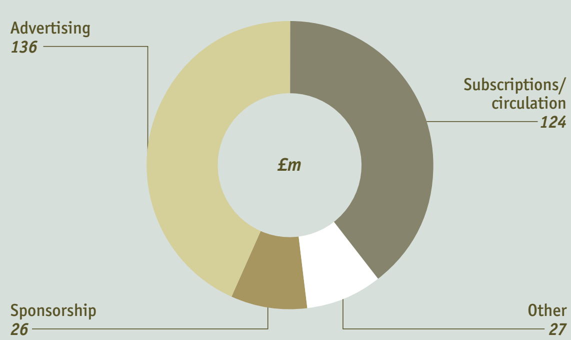



### Operating profit margin



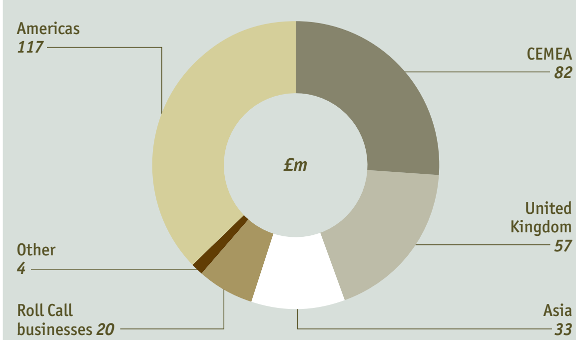

### Group revenue breakdown

2009



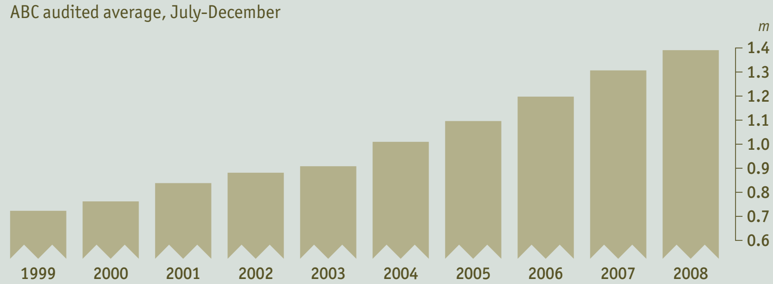

### Turnover by regional business

2009



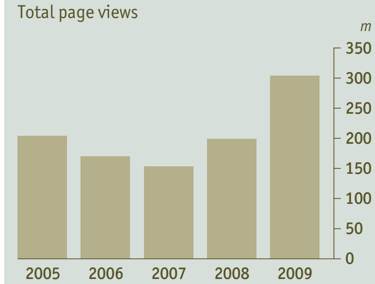

### *The Economist* global circulation

ABC audited average, July-December




### Economist.com

Total page views



THE ECONOMIST GROUP HAS ACHIEVED ANOTHER RECORD OPERATING PROFIT. THE YEAR AHEAD WILL BE CHALLENGING, BUT WE ARE WELL PLACED TO CONTINUE TO OUTPERFORM THE MARKET

## FROM THE CHAIRMAN

OPERATING profit rose 26%, compared with the previous year, to £55.7m, on turnover up 17% at £312.8m. Profit before tax of £55.7m was up 18%. Net earnings were £37.9m, an 18% increase on last year's £32.2m. Operating cashflow was £56.7m, an increase of £11.0m. The results were bolstered by the relative strength of the US dollar compared with the previous year. However, the results also include costs relating to restructuring the business with a more regional focus and the severance costs from a reduction in staffing levels in the current economic climate. The Board is recommending a final dividend of 67.2p, 3% higher than last year, resulting in a dividend for the full year of 97.3p, an 8% rise over the previous year (excluding special dividend).

The Group's strong performance was led by *The Economist* itself, where circulation continued to rise (to 1,390,780) and our position in our advertising markets strengthened further. In July 2008 we bought Capitol Advantage, a business based in Washington, DC, which provides information and web services to help organisations mobilise grassroots activists. It has performed beyond expectations in the first months of our ownership.

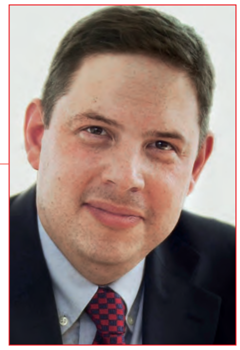
Most markets in which we operate are in economic turmoil, and these results show the strengths of our brands and our business. However, we will inevitably see significant pressure on advertising and sponsorship revenues in the coming year. That said, I believe that the Group will outperform its competition. The market in which Roll Call Group operates depends more on the amount of legislation before Congress, which is likely to be high given a new president and largely new Congress, than on the overall economy. *The Economist* is benefiting from a flight to quality among advertisers, its great relevance to readers and our business model, which emphasises profitable circulation growth. I am therefore confident that the Group will weather the current storm, even though we cannot expect to match the record results we have seen this year, while so many of the world's major companies, on which much of our revenue depends, struggle.

> *"The Group's strong performance was led by The Economist itself, where circulation continued to rise"*

At the AGM, I shall step down from the Board after six years as chairman. I have greatly enjoyed my involvement with this remarkable company. There is no doubt in my mind that we can attract and retain many more talented people than would normally be possible for a company of this size. I refer here not only to the two exceptional chief executives with whom I have worked—Helen Alexander and, now, Andrew Rashbass—but to their management teams. The depth and quality of our editorial and management talent should reassure shareholders about future prospects, even in these turbulent times.

Rupert Pennant-Rea will succeed me as chairman and needs no introduction to shareholders. He is not only a former editor, but is now a highly experienced businessman. I wish him and the Group every success in the future.

**ROBERT WILSON**



THE GROUP'S RESULTS SHOW THE QUALITY AND RELEVANCE OF OUR BRANDS AND THE EXCEPTIONAL COMMITMENT AND SKILLS OF THE PEOPLE WHO WORK HERE. THE YEAR AHEAD WILL BE TOUGH, BUT WE ARE WELL PLACED TO IMPROVE OUR COMPETITIVE POSITION

## FROM THE CHIEF EXECUTIVE

IT HAS been a year of progress in many areas. At *The Economist*, worldwide circulation rose 6.4% in the year to 1,390,780. John Micklethwait observes: "Editorially, the year was dominated by the economic crisis. Much of our coverage was dictated by the dramatic weekly news, but we used our covers to spotlight the underlying trends such as the collapse of manufacturing, the debt crisis in eastern Europe and the emerging debate about the future of capitalism. The global nature of the crisis played to our strengths, and our finance and economics team won a string of awards. Our endorsement of Barack Obama garnered huge interest. In Britain we campaigned against the extension of Heathrow. We began a new Asia column called Banyan, who, like his peers—Charlemagne, Lexington, Bagehot and Buttonwood—now has a blog online. This reflects the beginning of a quiet revolution within the editorial department: the integration of print and online teams."

We are making Economist.com the place for intelligent discussion on the web. For example, we have run debates on the effectiveness of carbon offsets and on whether brand America will regain its shine. This is resonating with readers and advertisers, with page views up 53% year-on-year and advertising revenue up 29%.

Organisations increasingly look to the research capabilities of the Economist Intelligence Unit to help them operate more effectively as they investigate where to invest and how to grow. An example is the recently-launched forecasting service on China's provinces.

We acquired Capitol Advantage, a suite of data-rich products that helps people and organisations communicate with Congress and manage their relationships with policymakers, to sit alongside *Roll Call* and GalleryWatch.

CFO has struggled somewhat in the economic climate, and we closed *CFO Asia* and, more recently, *CFO Europe*. Year-on-year profits at CFO in America fell slightly. EuroFinance performed strongly again, while *European Voice* recorded its first full-year profit.

*"Unlike many media companies, we enter a period of recession the most profitable we have ever been"*

In July 2008 we reorganised to have a more regional focus. This makes it easier for clients to work with us, and allows us to use resources more efficiently. As a way of introducing this new structure, I have asked the managing directors to share their perspectives on their businesses in the pages that follow.

We expect lower advertising and sponsorship revenues in the year ahead. However, we have reduced our costs, and other parts of our business should be strong. Unlike many media companies, we enter a period of recession the most profitable we have ever been. Our results in the coming year may not achieve that level, but I am confident that the business will remain in robust health.

Finally, I should like to thank Robert Wilson for his great contribution to the Group over the past six years. I cannot imagine a new CEO having a more supportive and expert chairman.

**ANDREW RASHBASS**
andrewrashbass@economist.com

FOLLOWING THE REGIONALISATION OF THE ECONOMIST AND CFO BUSINESSES, WE'VE RESTRUCTURED OUR OPERATIONS IN THE AMERICAS FOR EACH BRAND SO THAT WE CAN FOCUS ON OUR DIFFERENT CUSTOMERS

## AMERICAS

OUR revenues come from selling directly to readers and from selling access to those readers to advertisers and sponsors. We see opportunity, driven by demand, in aligning our resources and skills around these customer groups so that we can market and sell them all the products and services within a brand family.

At *The Economist* we've integrated our sales teams across print, online, event, research and content sales, enabling us to offer customers any of our products. In marketing we've integrated all reader acquisition and sales support activities to ensure we operate effectively and efficiently. We've separated all of our Latin America businesses under one management team and have unified our branding across all products. At CFO, we've integrated our print and online sales and have started to allocate resources from the magazine to online, events and research where we see growth.

*The Economist* continues to thrive. *The Economist* ABC audited circulation in North America grew by 9.2% to 786,977 for the July-December 2008 period, with circulation passing the milestone of 900,000 copies for the first time with our Christmas double issue. In recognition of the growth in advertising and circulation, *Advertising Age* for the first time named *The Economist* Magazine of the Year, and *Adweek* placed *The Economist* at the top of its Hot List for the second year running.

*CFO* magazine won more national editorial awards from the American Society of Business Press Editors (ASBPE) than any other publication.

The advertising market will be tough for the foreseeable future, but we will continue to focus on growing market share in print and online activities while developing bigger integrated solutions for key clients.

We put on 40 conferences across the Americas, with both *CFO* and *The Economist* earning a top-ten place on Burson-Marsteller's Most Valued Podiums Survey of venues for business leaders to speak. For the coming year, we've planned to reduce the number of conferences so that we can focus on events which are closer to our brands and ones which are delegate- rather than sponsor-led, such as the recently launched online CFO Masterclass series, which relies solely on paid attendees and has no sponsors.

*"The Economist, with its spot-on coverage of global affairs and business, delivers on all counts"*

**Adweek on The Economist's Hot List win**

Our research businesses conducted 116 research projects for organisations during the year, ranging from white papers to custom research to help business decision-makers. We'll be investing in our research businesses as we see an opportunity to take market share in this segment.

Looking forward, the economic climate is obviously challenging, but we have adjusted our costs accordingly. I believe that with our well-balanced revenue mix, strong brands and talented people, we're well placed to perform strongly.

**PAUL ROSSI** MANAGING DIRECTOR AND EVP, AMERICAS
paulrossi@economist.com

IN THE PAST FEW YEARS, ASIA HAS DELIVERED STRONG REVENUE AND PROFIT GROWTH, LARGELY THROUGH THE PERFORMANCE OF THE ECONOMIST. THIS HAS ALLOWED THE TEAM TO GENERATE A GOOD RETURN AND AT THE SAME TIME INVEST IN OUR BUSINESS IN ASIA FOR THE LONG TERM

# ASIA

THE FIRST half of 2008-09 saw this strong performance continue, with revenues up 23% and, even after a significant investment in India, profit contribution up, too. Although the global economic slowdown took longer to reach Asia, it hit the export-dependent region hard. From November 2008 all our businesses in Asia showed a marked downturn; those relying on advertising and sponsorship were the worst affected. In some months advertising revenues declined 40% year-on-year. Even so, the region was able to grow revenues and contribution significantly for the full year.

In March 2009 we decided to close *CFO Asia* and *CFO China* due to the weak advertising market. The conference and research services provided by CFO in Asia continue to operate and are now integrated into the Economist Conferences and Economist Intelligence Unit research businesses. On a positive note *The Economist*'s circulation has not been affected by the global downturn: the July-December 2008 audited circulation figure for Asia was up 5% year-on-year at 133,846 copies per week. Our strategy of investing in India is also showing good results. As of March 2009, circulation of *The Economist* in India has grown by 37% year-on-year to over 23,000 copies. This has helped deliver a substantial increase in advertising pages in the South Asia advertising edition.

Internally, November 2008 marked a turning point in the way the Group runs its business in Asia. A structure based around four sub-regions (China, Japan, India and rest of Asia) will allow us to serve our customers better and identify and develop new revenue opportunities.

For 2009-10 and beyond, we have identified three sources of revenue growth. First, we'll help Western multinational companies understand and do business in Asia. Second, we'll help Asian companies and individuals understand and do business outside their domestic boundaries. Third, we'll capitalise on the opportunities that developing economies will present.

India and China represent two significant opportunities for growth in the coming year. In India this lies in potential advertising and circulation growth of *The Economist*, revenue from conferences and meeting the increasing need in India for research and information. Although the small number of English speakers limits the circulation potential of *The Economist* in China, we still have a relatively untapped opportunity from Chinese companies for international advertising, business intelligence and custom research. We also expect a big increase in demand for the China Regional Forecasting Service, which is now providing data and research at the provincial and prefecture level, not just for China as a whole.

*"India and China represent two significant opportunities for growth in the coming year"*

Our long-term goal remains to make Asia a significant contributor to the Group's worldwide profit. Conditions in 2009-10 will undoubtedly slow our progress towards achieving this objective. However, as a company, we remain optimistic about the potential of Asia.

**TIM PINNEGAR** MANAGING DIRECTOR, ASIA
timpinnegar@economist.com

OVER THE PAST THREE YEARS, CEMEA'S MOST IMPORTANT CLIENT—A EUROPEAN FINANCIAL INSTITUTION—SPENT ALMOST £5M WITH ECONOMIST GROUP BUSINESSES IN THE REGION. FROM SEVEN EUROPEAN COUNTRIES, IT BOUGHT SUBSCRIPTIONS TO THE ECONOMIST, PRINT AND ONLINE ADVERTISING, CORPORATE NETWORK AND EVENT SPONSORSHIPS; EIU RESEARCH AND DATA SERVICES; ADVERTISING IN EUROPEAN VOICE AND CFO EUROPE AND EUROFINANCE EVENTS. BY ANY DEFINITION, A GOOD CLIENT

8

THIS CUSTOMER asked us for a more joined-up approach. Meeting this request—more possible now, following last summer's restructure—is allowing us to discover why this company isn't buying from more countries in Europe, or at all in the Middle East or Africa.

## CONTINENTAL EUROPE, MIDDLE EAST AND AFRICA (CEMEA)

Our region derives strength from a strong team and a diverse customer base as well as from a broad foundation of brands and products, offered across 117 countries. *The Economist*'s circulation in CEMEA grew by 2% to 267,311 in the July-December 2008 ABC period, with dramatically improved circulation margin delivered through price rises for new readers and more efficient marketing. Total revenues for The Economist Group CEMEA grew by 14%. Newspaper circulation revenues grew by 18% and newspaper advertising revenues by 11%. Advertising revenues from our Middle East and Africa region grew by 39% after we opened an office in Dubai in August 2008.

Revenues from our Country and Industry subscriptions and Corporate Network businesses grew by 15% and 30% respectively. EuroFinance produced record revenues, up 12%, with the most successful International Treasury conference ever in Barcelona in October 2008. *European Voice* made a profit for the first time, driven by revenue growth of 23%.

The restructure has revealed that our businesses share many clients, each having strong relations with these clients. Now, we're transferring knowledge across businesses to make working with us better for customers and more profitable for us. With most of the hard work of the restructure behind us, in 2009-10 the team will focus on a strategy that leverages our brands' unique ability to help customers profit from a better understanding of the connection between business and politics. With so many countries in the region, where the government–business spectrum is often fluid, we see great opportunity for profit through products that offer intelligence, insight and interaction to a broad range of clients operating across markets.

*"We're transferring knowledge across businesses to make working with us better for customers and more profitable for us"*

The coming year promises to be one of the toughest ever. Significant declines in the business-to-business advertising market have led us to close *CFO Europe*. In our other businesses we'll continue to focus on operational efficiency, for example, migrating all conference operations to one conference system so all conference teams in CEMEA can support each other. We are also moving as quickly as we can to improve digital delivery so that we can improve service and improve profitability.

We are fortunate to have a strong, determined and stable team in CEMEA, as well as regional diversity that will help us withstand the worst effects of the economic downturn. We are confident of delivering results not "while also" but "because of" focusing on improving the experience of doing business with The Economist Group for all of our customers.

**SUSAN CLARK** MANAGING DIRECTOR, CEMEA AND GROUP MARKETING DIRECTOR
susanclark@economist.com

9

IT HAS BEEN A YEAR OF EXCITING GROWTH FOR ECONOMIST.COM—IN SALES, IN TRAFFIC AND IN SITE DEVELOPMENT. IT WAS ALSO THE YEAR WE ESTABLISHED A DISTINCTIVE AND POWERFUL MISSION ONLINE

## ECONOMIST.COM

OUR STRATEGY is to build a place where our journalists, readers and guest experts can engage with each other in global, intelligent analysis and debate. For success, we need the right technologies, the right design, the right editorial content and the right audience. Over the past year we have made good progress on all four.

In July 2008 we made the decision to adopt a new publishing technology called Drupal. We chose Drupal because of its strength in managing large, distributed communities of contributors. In September we began our first project in Drupal, which we launched in March 2009—the site functionality which allows our readers to publish to Economist.com and to recommend content to each other.

In the coming months we will rebuild the entire site in Drupal. We also plan to launch reader profile pages, reader-to-reader connections and new formats for organising reader conversations. By the end of this past year our reader-contributors had published a quarter of a million comments to Economist.com, with 25,000 new comments published to our site every month. Clearly, our audience finds the interactive experience we are building to be both distinctive and in keeping with our brand and our values. In the past year we have grown page views to Economist.com by 53%. We can make great strides on this good start.

We are very fortunate to have such stimulating editorial content to spark debate. Our daily coverage of the credit crisis and the American presidential campaign attracted large numbers of readers throughout the week. Our audio podcasts rank consistently in the Top 15 shows on iTunes. Our newspaper columnists are now blogging online via reporters' "notebooks". Our blog on American politics, Democracy in America, won a Webby award. Over the coming year we will fully integrate our online editorial operations with print and organise publishing through a dynamic new set of online "channels".

*"Over the past year, we grew our online advertising sales by 29%"*

In print, we sell the newspaper to advertisers as a vehicle for premium brand communications. We have exactly the same strategy online. Over the past year we grew our online advertising sales by 29%. We plan for more growth in the coming year.

In addition, many future subscribers sample *The Economist*'s writing at Economist.com. More than 80,000 readers bought their subscription to *The Economist* through Economist.com during the year.

We also want to build a more compelling paying reader experience over the course of the coming year. The two halves of this balanced revenue model are complementary: the better we do at engaging our audience in intelligent debate, the more willing they will be to pay for a premium experience. The more engaged the audience, the more valuable we will become to our advertising clients.

**BEN EDWARDS** PUBLISHER AND EVP, ECONOMIST.COM
benedwards@economist.com

ROLL CALL GROUP IS IN THE MIDDLE OF AN EXCITING TRANSFORMATION, AS THE COMPANY COMPLETES ITS INTEGRATION OF TWO RECENT ACQUISITIONS

## ROLL CALL GROUP

GALLERYWATCH, purchased in 2006, is a legislation-tracking service that continues to show strong year-on-year growth, with a 20% increase in revenues in 2009. Capitol Advantage, a subscription-based grassroots political mobilisation business, was acquired in 2008: it has already exceeded expectations, though it is, of course, early days. Both additions will create significant long-term value and growth for Roll Call and The Economist Group.

Although our optimism about Roll Call Group's future has never been stronger, the turmoil in the economy has made it a challenging year, particularly for our advertising-supported businesses. Print display advertising in *Roll Call* newspaper ended the year 17% below the previous year. This reflects the lower volume of legislation passing through Congress in a presidential election year. On a brighter note, online display advertising grew by 34%.

Tough times also often yield the best journalism, and *Roll Call*'s editorial performance has been stellar. Over the past year we've ramped up our 24/7 news coverage and, thanks to our unique access to lawmakers and the lobbying community, we regularly broke news during the autumn elections and the battle over a financial rescue package. We led the way in scoops about leadership shuffles and intrigues, and we covered—and uncovered—a flurry of ethics scandals.

Looking ahead, having two premium-priced subscription businesses in our arsenal will allow us to be less reliant on advertising. In fact, in the coming year we expect revenue to be equally distributed between advertising, which carries a higher margin but is more volatile, and more stable subscription services. Our chief goal in the 2009-10 financial year will be to forge *Roll Call*, GalleryWatch and Capitol Advantage into a seamless, one-stop resource for clients. To this end, we've reorganised Roll Call Group by unifying our editorial, technology and finance operations across the company so that they serve two new revenue-producing divisions. One, called Information Services, will include sales, marketing and support for our subscription-based businesses, GalleryWatch and Capitol Advantage. The other, called Advertising and Community, will include our advertising- and sponsorship-supported enterprises: *Roll Call* newspaper, Rollcall.com and Congress.org, which we're planning to re-launch as an exciting new kind of social networking, news and advocacy website.

*"…Roll Call's editorial performance has been stellar"*

These changes will help Roll Call Group further distinguish itself in an increasingly competitive market. Nowhere else can clients receive savvy journalism about Congress, comprehensive legislative tracking and opportunities to reach an elite market through advertising and grassroots mobilisation.

No doubt these will continue to be challenging times economically. But our market will continue to be important and vibrant. We believe we're in position not only to hold our own through the turbulence, but also to extend our reach, creating unique value for our clients and producing steady growth for shareholders.

**LAURIE BATTAGLIA** MANAGING DIRECTOR AND EVP, ROLL CALL GROUP
lbs@rollcall.com

ALL OF THE BUSINESSES MANAGED BY THE UK REGIONAL TEAM CARRY THE ECONOMIST BRAND. DESPITE THE ECONOMIC DOWNTURN AND THE RESULTING IMPACT ON THE MARKET FOR ADVERTISING, REVENUE IN THE UK REGION ROSE BY 7% DURING THE YEAR

## UNITED KINGDOM

*THE ECONOMIST'S* UK circulation reached 186,995 in the July-December ABC audit, an increase of 3% on the previous year and the 54th consecutive rise. Circulation revenue was up 9% year-on-year through volume growth and price rises. Our coverage of the US elections and global credit crunch led to increases in news-stand sales and heightened interest from other news organisations. Over nine days in October 2008, journalists from *The Economist* were interviewed 23 times in the UK by broadcasters such as the BBC, ITN News, CNN and Sky News.

Print advertising revenue in the UK fell 3% year-on-year, although advertising revenue at Economist.com grew by 22%. The quality of our circulation story and the efficiency of our advertising teams helped defend our position in a depressed market. Our Ideas People presentation, showing advertisers how our readership comprises intellectually curious people who lead opinion, won a gold medal at the International Visual Communications Association Awards. Our readership performance in the 2008 British Business Survey also improved; in three years, readership has grown by 19%.

Under the Group's new regional structure links between the commercial teams for *The Economist* and the Economist Intelligence Unit have strengthened, and instances of joint sales are increasing. One sale involved advertising, conference sponsorship and research in a package worth over £3m. We have established a sales unit dedicated to encouraging this sort of combined selling.

Customised research at the Economist Intelligence Unit delivered strong growth. Projects on industry and management topics, which are often commissioned for public distribution, grew in value by 26%. Projects dealing with country economics grew in value by 76%.

Revenue at Economist Conferences was up 11% year-on-year. New events included the first Economist City Lecture given by Lord Adair Turner, chairman of the Financial Services Authority, at the height of the banking crisis.

*"... links between the commercial teams for The Economist and the Economist Intelligence Unit have strengthened"*

*Intelligent Life* completed its first year of publishing each quarter and recorded a 30% increase in revenue. *The World in...*, which the UK management team co-ordinates globally, had another record year, with revenue growing by 38%. Syndication of Economist-branded content is also handled through the UK team, and revenue globally was up 19% on the previous year.

We believe that *The Economist* is far from the limit of its universe for UK readership, and are working on a promotional plan to develop its appeal among an intellectually curious audience. We expect advertising markets to be challenging and have taken steps to reduce costs accordingly. However, by continuing to invest in our brand we can build readership for *The Economist* and prepare to take advantage of the recovery in advertising markets when it comes.

**NIGEL LUDLOW** MANAGING DIRECTOR, UK
nigelludlow@economist.com

# REPORT AND ACCOUNTS

# REPORT AND ACCOUNTS

**Sir Robert Wilson**
Appointed as non-executive chairman in July 2003, having served as a non-executive director since May 2002. Chairman of BG Group and a non-executive director of GlaxoSmithKline. Previously executive chairman of Rio Tinto. He will retire from the Board after the AGM.

**Andrew Rashbass**
Appointed as Group chief executive on July 16th 2008. Formerly publisher and managing director of *The Economist*. Before that, he was Group chief information officer and managing director of Economist.com, having joined the Group in December 1997 from Associated Newspapers.

**Sir David Bell**
Appointed as a non-executive director in August 2005. He retired as an executive director of Pearson in May 2009 and is chairman of the Financial Times. He is also chairman of Sadler's Wells and of Crisis.

**Rona Fairhead**
Appointed as a non-executive director in July 2005. Chairman and chief executive of the Financial Times Group, chairman of Interactive Data Corporation, an executive director of Pearson and a non-executive director of HSBC Holdings.

**John Gardiner**
Appointed as a non-executive director in April 1998. Previously chairman of Tesco.

**Philip Mengel**
Appointed as a non-executive director in July 1999. Operating partner of Snow Phipps Group. Director of Electro Motive Diesel and previously chief executive officer of US Can Corporation, English Welsh & Scottish Railway and Ibstock.

**John Micklethwait**
Appointed as a director in May 2006, and editor of *The Economist* since April 2006, having joined the editorial staff in July 1987. Previously US editor.

**Nigel Morris**
Appointed as a non-executive director in May 2004. Co-founder of Capital One Financial Services and former chief operating officer and president of Capital One Financial Corporation. Member of the board of governors of London Business School and the board of directors of Venture Philanthropy Partners, Network Solutions, Clearspring and Mobile Posse.

**Rupert Pennant-Rea**
Appointed as a non-executive director in August 2006, and will become chairman after the AGM. Chairman of Henderson Group, and a non-executive director of Go-Ahead Group, Gold Fields and Times Newspapers. Editor of *The Economist* from 1986 to 1993 and deputy governor of the Bank of England from 1993 to 1995.

**Simon Robertson**
Appointed as a non-executive director in July 2005. Non-executive chairman of Rolls-Royce Group, a non-executive director of HSBC Holdings, the Royal Opera House and Berry Bros & Rudd, and a partner of Simon Robertson Associates. Trustee of the Eden Project Trust.

**Lynn Forester de Rothschild**
Appointed as a non-executive director in October 2002. Chief executive of EL Rothschild and a non-executive director of the Estée Lauder Companies. A director of the Outward Bound Trust and a trustee of the Eranda Foundation and of the Peterson Institute for International Economics. Chair of the American Patrons of Tate.

**Lord Stevenson of Coddenham**
Appointed as a non-executive director in July 1998. Previously chairman of Pearson and HBOS.

**Chris Stibbs**
Joined the company as Group finance director in July 2005. A non-executive director of Motivcom. Previously corporate development director of Incisive Media, finance director of the TBP Group and managing director of the FT Law and Tax Division.

**Helen Alexander CBE**
Retired from the Board in July 2008, having served as Group chief executive since January 1997.

## TRUSTEES

**Lord Renwick of Clifton** Trustee since 1995. British ambassador to South Africa (1987-91) and to the United States (1991-95). Vice-chairman, Investment Banking of JPMorgan Europe and vice-chairman of JPMorgan Cazenove, a director of Compagnie Financière Richemont, SABMiller and Kazakhmys. Chairman of Fluor.

**Baroness Bottomley of Nettlestone PC, DL** Trustee since October 2005. Heads the board practice of Odgers Berndtson. Member of the House of Commons (1984-2005). Member of the Cabinet (1992-97), serving as Secretary of State, first for Health and then for National Heritage. Chancellor of the University of Hull, pro-chancellor of the University of Surrey and governor of the London School of Economics. Member of the UK Advisory Council of the International Chamber of Commerce and the Supervisory Board of Akzo Nobel NV. Non-executive director of BUPA.

**Clayton Brendish CBE** Trustee since 1999. Non-executive chairman of Anite, Echo Research, GlobeOp Financial Services and Close Beacon Investment Fund. Non-executive director of British Telecommunications and Herald Investment Trust, a trustee of the Foundation for Liver Research and a director of the Test and Itchen Association.

**Bryan Sanderson** Trustee since May 2006. Chairman of the Florence Nightingale Foundation, chairman of Home Renaissance Foundation, a governor of the London School of Economics and a director of Durham CCC.

## BOARD COMMITTEES

### Audit committee

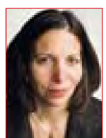
**John Gardiner, chairman**
**Nigel Morris**
**Rupert Pennant-Rea**
**Lynn Forester de Rothschild**
**Sir Robert Wilson**

### Remuneration committee

**Sir Robert Wilson, chairman**
**Nigel Morris**
**Lord Stevenson of Coddenham**

## GROUP MANAGEMENT COMMITTEE (GMC)

**Andrew Rashbass**
**Helen Alexander (retired July 15th 2008)**
**Chris Stibbs**
**John Micklethwait**



**Laurie Battaglia**
Managing director, Roll Call Group. Joined The Economist Group in 1992 when *Roll Call* was acquired. Served as publisher of *Roll Call* until 2008. Appointed to the GMC on July 16th 2008.

**Susan Clark**
Managing director, CEMEA, and Group marketing director. Joined the Group in July 2005 from Le Méridien Hotels & Resorts as global marketing director of *The Economist*. In 2007 she took on the additional role of publisher, CEMEA, and was appointed to the GMC on July 16th 2008.

**Ben Edwards**
Publisher and executive vice-president, Economist.com. Joined the Group in 2007 as publisher of Economist.com. Formerly worked for IBM and as a financial journalist for *The Economist*. Appointed to the GMC on July 16th 2008.

**Oscar Grut**
Group general counsel and company secretary, director of property. Joined the company in 1998 from Linklaters.

**Nigel Ludlow**
Managing director, UK. Joined the marketing team of *The Economist* in January 1984. Subsequently became global marketing director and later managing director of the Economist Intelligence Unit.

**Paul McHale**
Group HR director. Joined the company in 1999 from United Biscuits, where he was an HR manager at McVitie's. Began his career at J Sainsbury, working chiefly in management development.

**Tim Pinnegar**
Managing director, Asia. Joined *The Economist* in May 2001 as regional sales manager, having worked for Leo Burnett Asia. He subsequently became publisher, Asia-Pacific. Appointed to the GMC on July 16th 2008.

**Paul Rossi**
Managing director and executive vice-president, Americas. Since joining the Group in 1987, he has held various roles, including advertising director, commercial director of Economist.com and publisher of *The Economist* in North America. Appointed to the GMC on July 16th 2008.

**Matthew Batstone**
Group marketing and strategy director. Joined the Group in January 2001, having worked at Carlton Communications and J Walter Thompson. Left the company on August 1st 2008.

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 2009.

## Developments and principal activities

The principal activities of the Group consist of publishing, the supply of business information, conferences and the letting of property. Further information about the activities, developments and likely future developments of the Group are referred to on pages 4-11.

## Results and dividends

The profit after tax for the financial year to March 31st 2009 was £37.9m (2008: £32.2m). A final dividend of 67.2p per share (2008: 65.2p) is proposed for the year to March 31st 2009. Together with the interim dividend already paid, this makes a total proposed dividend for the year of 97.3p (2008: 181.7p including a special dividend of 91.3p paid in December 2007). The final dividend will be paid on July 29th 2009 to shareholders on the register at the close of business on June 16th 2009.

## Property values

The directors have been advised that the open-market value of the Economist Complex at March 31st 2009 was £55m; the balance sheet value is £14.6m. Based on this information, the directors consider that the aggregate market value of all the Group's properties exceeds their book value.

## Transactions with related parties

Details of transactions with related parties, which are to be reported under FRS 8, are set out in the notes to the financial statements on page 52.

## Charitable and political donations

During the financial year, the Group made contributions to charities amounting to £686,027 (2008: £302,043), including services provided in kind, for example advertising. No contributions were made for political purposes (2008: £nil).

## Directors

Profiles of the directors appear on page 16. All executive directors have contracts of employment.

## Corporate information

The share capital of the company is divided into ordinary shares, "A" special shares, "B" special shares and trust shares. The trust shares are held by trustees (who are described on page 17), whose consent is needed for certain corporate activities. The rights attaching to the trust shares provide for the continued independence of the ownership of the company and the editorial independence of *The Economist*. Apart from these rights, they do not include the right to vote, receive dividends or have any other economic interest in the company. The appointments of the editor of *The Economist* and of the chairman of the company are subject to the approval of the trustees, as are transfers of "A" special and "B" special shares.

The general management of the business of the company is under the control of the Board of directors. There are 13 seats allowable on the Board, seven of which may be appointed by holders of the "A" special shares and six by the holders of the "B" special shares. There are over 90 "A" special shareholders. The "B" special shares are all held by The Financial Times Limited. Sir Robert Wilson, John Micklethwait, Nigel Morris, Rupert Pennant-Rea, Simon Robertson, Lynn Forester de Rothschild and Chris Stibbs were appointed by the "A" special shareholders. The "B" special shareholders appointed Andrew Rashbass, Sir David Bell, Rona Fairhead, John Gardiner, Philip Mengel and Lord Stevenson.

The ordinary shareholders are not entitled to participate in the appointment of directors, but in most other respects rank pari passu with the other shareholders. The transfer of ordinary shares must be approved by the Board of directors.

## Corporate governance

As a private company, the company is not bound by the Listing Rules of the Financial Services Authority to report on compliance with the Principles of Good Governance and Code of Best Practice ("the Combined Code"), but has always sought to run its corporate affairs in line with best practice. It therefore follows the main principles of the Combined Code as closely as is felt to be reasonably practicable and useful to shareholders. The directors' report, including the directors' report on remuneration, which has been considered and approved by the Board, describes how the company has applied and complied with these principles, with the following main exceptions:

- Given the calibre and experience of the non-executive directors, the Board does not believe it is necessary to identify a senior independent director.

- The directors' contracts of employment do not explicitly provide for compensation commitments in the event of early termination.

- Some AGM procedures do not comply.

- In view of the company's unique

capital structure which gives the "A" special and "B" special shareholders the right to appoint directors, the directors do not stand for re-election under the company's articles of association. However, in June 2007 the Board decided that henceforth "A" special shareholders would be given the opportunity to vote on the renewal of the appointment of directors elected by them on each three-year anniversary of such appointments. This does not apply to the chairman.

- The Board did not undertake a formal evaluation of its performance or that of its committees and individual directors.

## Board

The Board currently comprises ten non-executive directors and three executive directors. The non-executive directors have a breadth of successful commercial and professional experience and they exercise independent judgment. Sir David Bell is chairman of the Financial Times. Rona Fairhead is chief executive of the Financial Times Group and an executive director of Pearson plc. Lynn Forester de Rothschild and her spouse, Sir Evelyn de Rothschild, are each interested in a significant number of shares (see page 22). Details of directors' interests and, in relation to the executive directors only, their interests in the employee share ownership trust, are given in the directors' report on remuneration on pages 22-24.

The Board is chaired by Sir Robert Wilson and has met for regular business seven times in the 12 months to March 31st 2009. The Board also convenes at other times on an ad hoc basis or in committee when events warrant. It is responsible for the overall direction and strategy of the Group and for securing the optimum performance from the Group's assets. It also exercises control by determining matters specifically reserved for it in a formal schedule which only the Board may change: these matters include significant acquisitions and major capital expenditure. The Board carries out regular reviews of matters undertaken by management under delegated authority. The company's articles of association require the approval of the trustees for some actions.

## Board committees

The audit committee is made up of five non-executive directors. It is chaired by John Gardiner, and the other members are Nigel Morris, Rupert Pennant-Rea, Lynn Forester de Rothschild and Sir Robert Wilson. The committee assists the Board to ensure that the published financial statements give a true and fair view of the business and also to ensure reliable internal financial information. The committee is also responsible for reviewing the suitability and effectiveness of the Group's internal financial controls, the work and findings of both internal and external auditors, and key accounting policies and judgments. The remuneration committee is made up of three non-executive directors: Sir Robert Wilson, Nigel Morris and Lord Stevenson.

## Internal control

The Board is responsible for the company's systems of internal control and considers that the company has put in place processes which follow closely the main recommendations of the Turnbull Committee and which focus on managing the Group's key business risks.

Our annual review of risk highlighted the following principal areas: changes to our market (both the secular changes related to the migration of advertising spend to the internet and the continued cyclicality of the advertising market, as well as competitive activity); failure to attract or retain the best people for the company; volatility of the surplus/deficit on the UK defined benefit pension scheme; integration of new businesses the company is acquiring; business continuity (including the breakdown of operational systems from external attack, the failure of key suppliers or a global disaster like a flu pandemic); brand and reputational risk (from libel action or infringement of our intellectual property rights); regulatory risk, such as changes to privacy or employment laws; and the financial operations of the company, specifically foreign exchange, cash management, inaccuracies in financial reporting, and tax.

The internal financial control system has been designed and developed over a number of years to provide the Board with reasonable but not absolute assurance that it can rely upon the accuracy and reliability of the financial records, and its effectiveness has been reviewed by the Board. The control system includes the following key features:

- The Board reviews the Group's strategy and long-term plan annually. The strategies of specific businesses are reviewed from time to time. Long-term goals are approved by the Board.

- A budgeting system which includes an annual budget and forward projections is approved by the Board. Monthly actual results are reported against the annual budget and revised forecasts are prepared as necessary.

The company reports to shareholders at least twice a year.

- Financial policies and procedures exist and senior managers and finance staff are responsible for ensuring that all relevant staff are familiar with their application.

- Written treasury procedures cover banking arrangements, hedging instruments, investments of cash balances and borrowing procedures. These procedures include staff responsibilities, segregation of duties and levels of delegated authority for treasury matters.

- The company has an audit and risk management function which has a dual role: it advises on and reviews the regular updating of business risk registers at both Group and business levels, and also carries out an independent risk-based programme of internal audit work in all parts of the Group. The manager reports to the Group finance director but also has direct access to the chairman of the audit committee. He attends all audit committee meetings and makes formal reports to the committee. The register of key business risks is reviewed by the Board.

- The company has clearly defined guidelines for the review and approval of capital and development expenditure projects, which include annual budgets, project appraisals and designated levels of authority.

## The Economist Group's guiding principles

The Board wishes the Group to operate in a clear and ethical context and has therefore approved the following guiding principles:

- We aim to offer insight, analysis and services that are valued by our customers.

- Underpinning our ability to fulfil this objective is our commitment to independence, integrity and delivering high quality in everything we do. These values govern our relationships with readers, customers and clients, shareholders, staff, suppliers and the community at large.

- We believe in conducting business with common decency. We are opposed to bribery and do not engage in corrupt practices. We abide by strict guidelines governing the acceptance of gifts and the disclosure of potential conflicts of interest.

- As an international company, we conduct business in many different markets round the world. In the countries in which we operate, we abide by local laws and regulations. We make an active contribution to local charities by charitable giving. We encourage our people to participate in charitable and community activities and we permit them to take time off for this purpose.

- We respect environmental standards and comply with relevant local laws. We take environmental issues seriously. The Group has investigated the viability of becoming carbon-neutral. We believe that this is what readers, advertisers and staff increasingly expect from us and that the ensuing cost savings would also represent a benefit.

- We have reviewed the environmental impact of our operations, specifically carbon emissions, and are now developing plans at both global and regional levels to reduce or mitigate those emissions.

- Every year we ask our printers and paper manufacturers whether they conform to ISO 14001 standard, FSC (Forest Stewardship Council) accreditation or their regional equivalent. This year, 96% of our annual expenditure on printing and paper was with companies which comply and are certified.

- We value our colleagues and treat each other fairly. The Group is committed to equality of opportunity in all employment practices and policies. We do not discriminate against employees or job applicants based on the grounds of age, sex, sexual orientation, marital status, race, colour, religion, national origin or disability. For the last few years, we have had a regular programme of equal opportunities training for staff round the world. In addition, all new staff are required to participate in an induction programme, which includes equal opportunities training. We support staff who through disability or illness are unable to perform their duties, by adapting the work environment and hours of work to suit the employee where it is reasonable for the business.

The Group is committed to increasing staff diversity. We particularly focus on ensuring that we recruit from the widest possible pool of talent. We are also keen that people feel comfortable and valued at work, regardless of their background.

We recognise that it is essential to keep employees informed of the progress of the Group. We regularly provide employees with information on the Group's activities and its financial performance through staff meetings and communication through our intranet. We have a strong consultative culture and we follow legal and regulatory requirements to consult with staff on major issues affecting the company. The Group regularly carries out staff surveys on a variety of topics.

### Payment of suppliers

The company aims to pay all of its suppliers within a reasonable period of their invoices being received and within any contractually agreed payment period, provided that the supplier also complies with all relevant terms and conditions. Subsidiary companies are responsible for agreeing the terms on which they trade with their suppliers. Trade creditors as at March 31st 2009 for the company represented on average 26 days of purchases (2008: 33 days).

### Annual general meeting

The notice convening the annual general meeting, to be held at 12.15pm on Thursday July 16th 2009 at the Institute of Directors, can be found on page 59.

### Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company, and a further resolution to authorise the directors to fix their remuneration, will be proposed at the annual general meeting.

### Auditor independence

In line with best practice, the audit committee operates a policy that defines those non-audit services that the independent auditors may or may not provide to the Group. The policy requires the provision of these services to be approved in advance by the audit committee. A statement of the fees for audit and non-audit services is provided in note 5 on page 38.

### Disclosure of information to auditors

As far as each of the directors is aware, there is no relevant information that has not been disclosed to the company's auditors, and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the company's auditors have been made aware of that information.

### Directors' statement of responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements, and that the financial statements have been prepared on a going-concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
**Oscar Grut**
Secretary
June 16th 2009

## The committee

The remuneration committee of the Board is made up of three non-executive directors, Sir Robert Wilson, Nigel Morris and Lord Stevenson. The quorum necessary for the transaction of business is two members. The committee is responsible for the remuneration policy for senior executives of the Group and the policy and structure of Group bonus schemes. In determining remuneration, the committee follows a policy designed to attract, retain and motivate high-calibre executives, aligned with the interests of shareholders.

## Directors' interests as at March 31st

| **Table 1** | 2009 | | 2008 | |
|---|---|---|---|---|
| **Beneficial holdings** | "A" Special | Ordinary | "A" Special | Ordinary |
| Sir Robert Wilson | - | 19,390 | - | 14,390 |
| Helen Alexander (retired July 15th 2008) | 25,785 | 20,715 | 25,785 | 22,215 |
| Sir David Bell | - | - | - | - |
| Rona Fairhead | - | - | - | - |
| John Gardiner | - | 1,000 | - | 1,000 |
| Philip Mengel | - | 1,000 | - | 1,000 |
| John Micklethwait | 300 | 12,000 | - | 12,000 |
| Nigel Morris | - | 11,444 | - | 9,444 |
| Rupert Pennant-Rea | 75,000 | 2,450 | 75,000 | 2,450 |
| Andrew Rashbass (appointed July 16th 2008) | 400 | 7,142 | 400 | 4,975 |
| Simon Robertson | - | 2,000 | - | 2,000 |
| Lynn Forester de Rothschild[1] | 240,440 | 2,966,000 | 240,440 | 2,966,000 |
| Lord Stevenson | - | 1,000 | - | 1,000 |
| Chris Stibbs | - | 2,867 | - | 700 |
| **Holding as a trustee** | | | | |
| John Micklethwait[2] | - | 50,000 | - | 50,000 |
| Rupert Pennant-Rea[2] | - | 50,000 | - | 50,000 |
| Lynn Forester de Rothschild[1] | - | 2,012,550 | - | 2,012,550 |

[1] Includes the interests of her spouse, Sir Evelyn de Rothschild.

[2] Held as a joint trustee of the Marjorie Deane Financial Journalism Foundation.

Helen Alexander exercised the right to acquire 23,750 ordinary shares at a nominal price under the restricted share scheme described on the next page. She has no further rights to acquire shares under the scheme. Chris Stibbs and Andrew Rashbass each exercised the right to acquire 3,672 ordinary shares, and each has the right to acquire a further 3,672 shares under the scheme (2008: 3,672).

The executive directors of the company, together with all employees, are beneficiaries of the company's employee share ownership trust. As such, the directors are treated as interested in the 167,554 ordinary shares (2008: 164,605) held by the trustee of the trust.

**The Group operated a number of annual bonus and long-term bonus plans during the year, providing performance-based bonuses for executive directors and employees.**

### (a) Annual bonus plans

Executive directors and employees participated in annual bonus plans in which rewards were linked to Group performance and to improvements in key areas of the business which they could influence.

### (b) Executive long-term plan

Executive directors and some other senior employees were awarded performance units under the executive long-term plan. The units are equivalent in value to the company's ordinary shares. After a three-year performance period, participants may receive payments depending on the Group's performance against EPS hurdles and its total shareholder return compared with a selected group of companies.

### (c) The Economist editorial long-term plan

Some senior journalists who do not participate in the executive long-term plan participate in this three-year cash bonus scheme designed to help us retain key editorial staff. The size of the bonus pool is a percentage of Group cumulative operating profit at the end of three years. The amount paid to each participant is determined by the number of units awarded to the participant at the start of the three-year period. Payout is also contingent on the Group achieving an earnings hurdle.

### (d) The Group long-term plan

Some senior staff who do not participate in the executive long-term plan participate in this three-year cash bonus scheme designed to help us retain key staff. The size of the bonus pool is a percentage of Group cumulative operating profit at the end of three years. The amount paid to each participant is determined by the number of units awarded to the participant at the start of the three-year period. Payout is also contingent on the Group achieving an earnings hurdle.

### (e) Restricted share scheme

The Group also has in place a restricted share scheme under which a small number of key employees have been awarded a right to acquire ordinary shares at a nominal price between two and five years after the date of the award. The Group has the discretion to pay out shares or cash on exercise.

### (f) Succession pool long-term plan (discontinued)

Some staff were identified as having the potential to fill key senior positions in the medium to long term, or as having specialist skills that were very important for the business. This three-year cash bonus scheme was designed to help us retain them. The size of the bonus pool is a percentage of Group cumulative operating profit at the end of three years. The amount paid to each participant is determined by how many units have been awarded to the participant at the start of the three-year period. Payout is also contingent on the Group achieving an earnings hurdle. The last awards under this scheme were made in 2007.

Directors' remuneration and benefits are shown in the following table. Non-executive directors do not participate in any bonus scheme, any long-term incentive scheme or any of the company's pension plans. This table shows salaries/fees, annual bonuses and benefits earned in and charged to the profit and loss account in the year unless otherwise noted. Except for the annual bonus, the table does not include any uncashed or future entitlements under any of the bonus or incentive schemes.

**Table 2**
**Remuneration for the years ended March 31st**

| | Salary/fees | Annual bonus | Long-term plan payments [1] | Benefits | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2009 | 2009 | 2009 | 2009 | 2008 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Sir Robert Wilson | 90 | - | - | - | 90 | 90 |
| Helen Alexander (retired July 15th 2008)[2] | 390 | 84 | 678 | 5 | 1,157 | 1,648 |
| Sir David Bell[3] | 35 | - | - | - | 35 | 35 |
| Rona Fairhead[3] | 35 | - | - | - | 35 | 35 |
| John Gardiner | 41 | - | - | - | 41 | 41 |
| Philip Mengel | 41 | - | - | - | 41 | 41 |
| John Micklethwait | 274 | 130 | 19 | 15 | 438 | 441 |
| Nigel Morris | 35 | - | - | - | 35 | 35 |
| Rupert Pennant-Rea | 35 | - | - | - | 35 | 35 |
| Andrew Rashbass (appointed July 16th 2008) | 270 | 189 | - | 11 | 470 | - |
| Simon Robertson | 35 | - | - | - | 35 | 35 |
| Lynn Forester de Rothschild | 35 | - | - | - | 35 | 35 |
| Lord Stevenson | 35 | - | - | - | 35 | 35 |
| Chris Stibbs | 278 | 167 | 285 | 13 | 743 | 385 |
| Total | 1,629 | 570 | 982 | 44 | 3,225 | 2,891 |

[1] The long-term plan payments, which were made in June 2008, relate to awards made in 2005 under an incentive plan which vested over a three-year period ending March 31st 2008, and were paid out following the end of that vesting period.
[2] Includes a contractual payment in lieu of notice of £264,000.
[3] Paid to Pearson plc.

## Directors' accrued pensions

The pensions which would be paid annually on retirement at age 62 based on service with the company to March 31st 2009 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

**Table 3**

| | Age at March 31st 2009 | Accrued pension at March 31st 2009 | Accrued pension at March 31st 2008 | Change |
|---|---|---|---|---|
| John Micklethwait | 46 | £107,997 | £94,741 | £13,256 |
| Andrew Rashbass (appointed July 16th 2008) | 43 | £73,625 | £57,094 | £16,531 |
| Chris Stibbs | The company contributed £33,893 to the defined contribution scheme (2008: £30,788). | | | |

## Operating result

Operating profit at £55.7m is 26% higher than last year, driven by increasing revenue, up 17% on the prior year, and improving operating margins. Operating margin increased by 1% to 18%. The results have been supported by the stronger US dollar. At constant US-dollar exchange rates revenue would have grown 9% and operating profit 11%.

## Costs

Costs rose by 16% in the year or 9% at constant rates. The Group continued to benefit from greater efficiency in marketing spend. Restructuring costs of £4.0m were incurred as a result of the change in the Group to a regional structure as well as in response to deteriorating economic conditions.

## Profit before tax

Profit before tax increased by £8.6m compared with 2008. Financing costs on the loan taken out to finance the acquisition of Capitol Advantage were offset by finance income on the defined benefit pension scheme.

## Taxation

The effective rate of tax has increased to 32.0% (2008: 31.5%), caused by the impact of the stronger dollar which masks the benefits from the reduction in the UK tax rate and a change to the holding structure for the US businesses. The underlying tax rate is 30% (2008: 33%).

## Earnings per share

Basic earnings per share increased from 128.7p to 151.2p. Normalised earnings per share, which exclude non-operating exceptional items, increased from 126.7p to 151.2p, a rise of 19%.

## Balance sheet

Our balance sheet remains in good shape with £42.4m of cash and deposits, and net cash (after debt of £29.4m) of £12.9m. Our principal asset, the Economist Complex, is carried at historic cost rather than current value. The net liability position reflects this, as well as the strong dividend payments of recent years and the levels of income received in advance from our subscription customers.

## Pensions

The Group operates a number of pension schemes. The UK defined benefit plan is the only defined benefit scheme. As at March 31st 2009 the defined benefit pension scheme had a deficit, net of deferred tax, of £4.0m, compared with a surplus of £7.6m at March 31st 2008. The movement is largely due to a fall in asset values, mitigated to a certain extent by the rise in corporate bond rates which reduces the value of the long-term liabilities. The pension deficit remains sensitive to equity, bond and property market conditions and changes in inflation and interest rates.

## Dividend

The Board has proposed increasing the final dividend to 67.2p (2008: 65.2p), giving a total full-year proposed dividend per share, before special dividends, of 97.3p (2008: 90.4p), an increase of 8%. The dividend is covered 1.6 times by current-year basic earnings per share. The cash dividend (£23.9m) accounted for in the annual report is lower than the prior year because a special dividend (£22.9m) was paid in that year.

## Treasury and treasury policy

The objective of treasury policy is to identify, monitor and manage financial risks. These risks relate principally to movements in foreign exchange and interest rates and to the management of cash balances and the risk of insolvency of counterparties. Treasury policies are agreed by the Board and implemented on a day-to-day basis by the central UK treasury department. A treasury committee, which includes two executive directors and which meets quarterly, provides guidance and acts as a monitor of treasury activities. The treasury department acts as a cost centre and not as a profit centre.

The Group had net cash of £12.9m at the year end (2008: £20.1m). This included a US-dollar denominated loan of $42.0m to fund the acquisition of Capitol Advantage and bearing interest at US LIBOR plus 1.2%, with 50% of the LIBOR element swapped out at a rate of 2.19%. The Group has a committed £50m facility (undrawn at the year end) expiring in January 2011 and undrawn overdraft facilities. Current facilities are considered to be adequate for the Group at this time. There is also a finance lease on the Economist Complex. Most of our cash not required as working capital is held in AAA-rated money market funds. These funds were yielding an average of 2.84% at the year end, reflecting a weighted average of the currencies concerned.

The main currency exposure of business transactions relates to US-dollar receipts from sales in the United States. The foreign exchange risk on this and other smaller currency exposures is managed by the treasury department mainly through use of forward foreign-exchange contracts and currency options. Foreign-exchange risk is only actively managed on currencies where the net exposure exceeds £3m, currency equivalent, per year. At present this includes US dollars. The split of net cash balances between dollars and sterling is kept under constant review. The Group does not hedge the translation of overseas profits or assets and liabilities into sterling.

Financial assets which potentially subject the Group to credit risk consist principally of debtors and cash. The concentration of credit risk associated with debtors is minimised due to distribution over many customers in different countries and in different industries. Risks associated with the Group's cash are mitigated by the fact that these amounts are placed with high-quality financial institutions. Counterparty limits approved by the treasury committee and notified to the Board are used to manage the risk of loss on deposits. The Group has not experienced any losses to date on its deposited cash.

The treasury department monitors the Group's exposure to changes in interest rates and an interest rate hedge was taken out during the year on the US-dollar loan.

### Cashflow

The Group demonstrated strong cash generation, with £56.7m of operating cashflow at a healthy conversion ratio to operating profits of 102%. After this year's acquisition payment, there was a Group cash outflow of £7.2m compared with an outflow last year of £11.2m, which included special dividend and pension payments.

### Foreign exchange

The translation of the Group's overseas trading results was affected by the stronger average US-dollar exchange rate. The average exchange rate was $1.73 in 2009, compared with $2.01 in 2008. Profit before tax was improved by approximately £6.4m.

### International Financial Reporting Standards

As a private company, the Group is able voluntarily to adopt International Financial Reporting Standards (IFRS). The Group has considered the potential impacts of IFRS adoption. The Board has again agreed to defer adoption until there is convergence with UK GAAP.

**Chris Stibbs**

We have audited the Group and parent company financial statements (the "financial statements") of The Economist Newspaper Limited for the year ended March 31st 2009, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cashflow statement, the consolidated and company statement of total recognised gains and losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards (UK generally accepted accounting practice) are set out in the directors' statement of responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

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 whether, in our opinion, the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented on pages 4-11 that is cross-referred from the section of the directors' report dealing with developments and principal activities.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement, the chief executive's statement and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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.

**Opinion**

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at March 31st 2009 and of the Group's profit and cashflows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
London

June 16th 2009

| NOTE | Years ended March 31st | 2009 £000 | 2008 £000 |
|---|---|---|---|
| 1 | **Turnover** | | |
| | Continuing operations | 306,725 | 266,399 |
| | Acquisitions | 6,072 | - |
| | | **312,797** | **266,399** |
| | Cost of sales | (90,517) | (77,273) |
| | **Gross profit** | **222,280** | **189,126** |
| | Distribution costs | (31,299) | (26,332) |
| 2 | Marketing, development and other administrative costs | (133,404) | (117,619) |
| 12 | Goodwill amortisation | (1,870) | (856) |
| 1 | **Operating profit** | **55,707** | **44,319** |
| | Continuing operations | 54,566 | 44,319 |
| | Acquisitions | 1,141 | - |
| | | **55,707** | **44,319** |
| 3 | Profit on sale of fixed asset investments | - | 730 |
| | **Profit on ordinary activities before finance income** | **55,707** | **45,049** |
| 4 | Net finance (charge)/income | (10) | 2,040 |
| 1,5 | **Profit on ordinary activities before taxation** | **55,697** | **47,089** |
| 8 | Taxation on profit on ordinary activities | (17,821) | (14,856) |
| | **Profit for the year** | **37,876** | **32,233** |

The final dividend proposed for the year is £16,822,000 (2008: £16,323,000). Dividends paid in the year were £23,879,000 (2008: £42,851,000).

| NOTE | | 2009 | 2008 |
|---|---|---|---|
| 11 | **Basic earnings per share (pence)** | **151.2** | **128.7** |
| 11 | Diluted earnings per share (pence) | 151.1 | 128.4 |
| 9 | Dividends paid per share (pence) | 95.3 | 171.0 |
| | Dividend cover (times) before non-operating exceptional items | 1.6 | 0.7 |

| NOTE | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| | **Fixed assets** | | |
| 12 | Intangible assets | 46,767 | 15,032 |
| 13 | Tangible assets | 22,482 | 23,374 |
| | | **69,249** | **38,406** |
| | **Current assets** | | |
| 14 | Stocks and work-in-progress | 2,686 | 2,800 |
| 15 | Debtors: due within one year | 55,624 | 48,980 |
| 16 | Deferred taxation | 6,349 | 6,309 |
| 22 | Cash and deposits | 42,354 | 20,107 |
| | | **107,013** | **78,196** |
| 17 | Creditors: due within one year | (60,928) | (55,283) |
| | Unexpired subscriptions and deferred revenue | (96,045) | (71,384) |
| | **Net current liabilities** | **(49,960)** | **(48,471)** |
| | **Total assets less current liabilities** | **19,289** | **(10,065)** |
| 18 | Creditors: due after one year | (27,753) | (2,522) |
| 19 | Provisions for liabilities and charges | (337) | (281) |
| | **Net liabilities excluding pension and other post-retirement liabilities** | **(8,801)** | **(12,868)** |
| 23 | Pension and other post-retirement obligations (net of deferred tax) | (6,292) | 5,261 |
| 1 | **Net liabilities** | **(15,093)** | **(7,607)** |
| | **Capital and reserves** | | |
| 20 | Called-up share capital | 1,260 | 1,260 |
| 21 | Profit and loss account | (16,353) | (8,867) |
| | **Equity shareholders' deficit** | **(15,093)** | **(7,607)** |

The company balance sheet is shown in note 29.

The financial statements were approved by the Board of directors and authorised for issue on June 16th 2009. They were signed on its behalf by:

**Robert Wilson**
**Chris Stibbs**
Directors

The notes on pages 32-58 form an integral part of these financial statements.

| NOTE | Years ended March 31st | 2009 £000 | 2008 £000 |
|---|---|---|---|
| 22 | **Net cash inflow from operating activities** | **56,690** | **45,647** |
| | **Returns on investments and servicing of finance** | | |
| | Interest received | 284 | 691 |
| | Interest paid | (832) | (425) |
| | Finance lease interest paid | (208) | (208) |
| | | (756) | 58 |
| | **Taxation** | | |
| | UK corporation tax paid | (8,248) | (11,595) |
| | Overseas tax paid | (4,058) | (452) |
| | | (12,306) | (12,047) |
| | **Capital expenditure and financial investment** | | |
| | Purchase of tangible fixed assets | (1,185) | (2,052) |
| | **Acquisitions and disposals** | | |
| 27 | Purchase of subsidiary undertakings | (22,204) | (245) |
| 27 | Cash acquired with subsidiary undertaking | 527 | - |
| 3 | Consideration on sale of fixed asset investment | - | 730 |
| | | (21,677) | 485 |
| | **Equity dividends paid to shareholders** | | |
| 9 | Amounts paid | (23,879) | (42,851) |
| | **Net cash outflow before use of liquid resources and financing** | **(3,113)** | **(10,760)** |
| | **Management of liquid resources** | | |
| 22 | Cash (placed on)/drawn from short-term deposits | (19,358) | 11,744 |
| | **Financing** | | |
| | Capital element of finance lease payments | (1) | (2) |
| | Purchase of own shares | (17) | (288) |
| | Drawdown of unsecured loan facility | 38,088 | 17,700 |
| | Repayment of unsecured loan facility | (17,427) | (17,700) |
| | | 20,643 | (290) |
| 22 | **(Decrease)/increase in net cash** | **(1,828)** | **694** |

| NOTE | Reconciliation of net cashflow to movement in net funds | 2009 £000 | 2008 £000 |
|---|---|---|---|
| | **(Decrease)/increase in cash in the year** | **(1,828)** | **694** |
| | Cash outflow/(inflow) from decrease in liquid resources | 19,358 | (11,744) |
| | Cash outflow from decrease in lease financing | 1 | 2 |
| | Cash inflow from debt financing | (20,661) | - |
| | **Change in net funds resulting from cashflows** | **(3,130)** | **(11,048)** |
| | Exchange translation differences | (4,064) | (106) |
| | Movement in net funds in the year | (7,194) | (11,154) |
| | Net funds brought forward at April 1st | 17,584 | 28,738 |
| 22 | **Net funds carried forward at March 31st** | **10,390** | **17,584** |

Cash and deposits at March 31st 2009 amounted to £42,354,000 (2008: £20,107,000).

## Statement of total recognised gains and losses

**Years ended March 31st**

| NOTE | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| | Profit for the year | 37,876 | 32,233 |
| | Exchange translation differences arising on consolidation | (7,112) | 293 |
| 23 | Actual return less expected return on pension scheme assets | (38,867) | (14,389) |
| 23 | Experience gains/(losses) arising on pension scheme liabilities | 1,430 | (191) |
| 23 | Changes in assumptions underlying the present value of pension scheme liabilities | 17,384 | 31,294 |
| | Actuarial gain/(loss) on other post-retirement benefits | 117 | (496) |
| | UK deferred tax attributable to the actuarial loss | 5,582 | (4,766) |
| | **Total recognised gains for the year** | **16,410** | **43,978** |

## Reconciliation of movements in equity shareholders' funds

**Years ended March 31st**

| | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| | Profit for the year | 37,876 | 32,233 |
| | Dividend paid | (23,879) | (42,851) |
| | Retained profit/(loss) | 13,997 | (10,618) |
| 21 | Other recognised (losses)/gains | (14,354) | 11,452 |
| 21 | Net purchase of own shares | (17) | (288) |
| 21 | Exchange translation differences arising on consolidation | (7,112) | 293 |
| | **Net (deduction from)/addition to shareholders' funds** | **(7,486)** | **839** |
| | Opening shareholders' deficit | (7,607) | (8,446) |
| | **Closing shareholders' deficit** | **(15,093)** | **(7,607)** |

**Note of historical cost profits and losses**

As the financial statements are based on the historical cost convention, no separate statement of historical cost profits and losses is necessary.

A summary of the more important Group accounting policies is set out below.

## Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 applicable accounting standards.

## Basis of consolidation

The consolidated accounts include the accounts of the company (The Economist Newspaper Limited) and its subsidiary undertakings (the Group/ The Economist Group) made up to March 31st. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes.

The subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post-acquisition profit and loss account. Acquisitions are accounted for using the acquisition method.

## Turnover

Turnover represents sales to third parties from circulation, subscriptions, advertising, sponsorship, delegate fees and rental income net of advertising agency commissions and trade discounts, and excluding intra-Group sales, value-added tax and other sales-related taxes.

Circulation and advertising revenue relating to a newspaper or other publication is recognised on the date it goes on sale, or is dispatched, in the case of free publications. Subscription revenues are recognised in the profit and loss account over the period of the subscription. Sponsorship and delegate revenue arising in the year relating to future events is deferred until those events have taken place.

Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an optional extra, turnover is recognised for each element as if it were an individual contractual arrangement.

## Foreign currencies

Balance sheets have been translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net investments to closing rates are recorded as movements on reserves. Exchange differences arising on the retranslation of borrowings taken out to finance overseas investments are taken to reserves, together with any tax-related effects. All other exchange differences are included in the profit and loss account. Profit and loss accounts and cashflows are translated into sterling at the average rate for the year. The Group enters into forward currency and option contracts to hedge currency exposures. Losses or realised gains arising from the closing of contracts are included within the trading results for the year. Other gains or losses on open contracts are deferred.

## Share-based payments

The Group awards certain employees entitlements to cash-settled share-based payments in accordance with its long-term incentive scheme arrangements. The fair value of these awards is measured and updated using an appropriate option pricing model. The key assumptions used in calculating the fair value of the awards are the discount rate, the Group's share price volatility, dividend yield, risk-free rate of return and expected option lives. These assumptions are set out in note 10. Management regularly performs a true-up of the estimate of the number of awards that are expected to vest. This is dependent on the anticipated number of leavers. In addition to the key assumptions above, the value of the awards is dependent upon the future profits of the Group and the Group's relative market performance, which management is required to estimate. A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

## Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised as an intangible asset and written off over its useful economic life. Goodwill arising on the acquisition of a foreign entity which has been funded by external borrowings is treated as an asset of the foreign entity and translated at the closing rate. Prior to April 1st 1998, purchased goodwill arising on consolidation was written off to reserves in the year in which it arose in accordance with the accounting standards then in force. From April 1st 1998, the provisions of FRS 10 "Goodwill and intangible assets" have been adopted, and such goodwill for new acquisitions is now required to be shown as an asset on the balance sheet and amortised over its useful economic life. Goodwill arising on acquisitions before April 1st 1998 has been deducted from reserves and is charged to the profit and loss account on disposal or closure of the business to which it relates.

Goodwill is provided to write off cost over the acquisition's useful economic life as follows:

| Subsidiary acquired | Useful economic life (years) |
|---|---|
| EuroFinance | 20 |
| GalleryWatch | 20 |
| Capitol Advantage | 20 |

Where there has been an indication of impairment of goodwill, it is the Group's policy to review its carrying value. In the case of goodwill previously written off directly against reserves, the impaired amounts are written back from reserves and then written off against the profit and loss for the year.

## Stocks and work-in-progress
Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost includes all direct expenditure. Deferred conference costs represent costs incurred for conferences planned to be held after the balance sheet date.

## Leased assets
Where the Group has entered into finance leases, the obligations to the lessor are shown as part of the borrowings and the corresponding assets are treated as fixed assets. Leases are regarded as finance leases where their terms transfer to the lessee substantially all the benefits and burdens of ownership other than the right to retain legal title.

Depreciation is calculated in order to write off the amounts capitalised over the estimated useful lives of the assets by equal annual instalments. Rentals payable under finance leases are apportioned between capital and interest, the interest portion being charged to the profit and loss account and the capital portions reducing the obligations to the lessor.

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Operating lease incentives received are initially deferred and subsequently recognised over the minimum contract period. Rental income is recognised on a straight-line basis over the lease term.

Provision is made for onerous lease rentals payable on empty properties and where letting receipts are anticipated to be less than cost. Provision is made for the period that the directors consider that the property will remain unlet or unutilised, or to the extent that there is a shortfall in net rental income. The time value of money in respect of onerous lease provisions has been recognised by discounting the future payments to net present values.

## Investments
Investments held as fixed assets are included at cost, less provisions for diminution in value.

## Share schemes
Shares held by the employee share ownership plan (ESOP) are shown at cost and recorded as a deduction in arriving at shareholders' funds. The fair market value of shares granted to employees is charged to the profit and loss account over the period to which the employee's performance relates.

## Trade debtors
Trade debtors are stated less provision for bad and doubtful debts and anticipated future sales returns.

## Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered), using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

## Deferred taxation
Deferred taxation is fully provided, using the liability method, at the expected applicable rates, on all timing differences between accounting and taxation treatments which are expected to reverse in the foreseeable future.

No provision is made for any additional taxation which would arise on the remittance of profits retained, where there is no intention to remit such profits. A deferred tax asset is only recognised to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the timing differences can be deducted.

## Unexpired subscriptions and deferred revenue
Unexpired subscriptions represent the amount of subscription monies received in advance of supplying the publication or service, and which therefore remain a liability to the subscriber. Deferred revenue represents all other payments received in advance of services being provided, primarily conference fees and rental income.

## Pension and other post-retirement benefits
The cost of providing pensions under

defined contribution schemes is charged against profits as they become payable.

For the defined benefit and post-retirement medical schemes, pension scheme assets are measured using fair values and the liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term to the liability. The pension scheme deficit is recognised in full, net of deferred tax, and presented on the face of the balance sheet.

The movement in the scheme deficit is split between operating and financial items in the profit and loss account and the statement of total recognised gains and losses. The full service cost of the pension provision is charged to operating profit. The net impact of the unwinding of the discount rate on scheme liabilities and the expected return of the scheme assets is charged to other finance costs. Any difference between the expected return on assets and that actually achieved is charged through the statement of total recognised gains and losses. Similarly, any differences that arise from experience or assumption changes are charged through the statement of total recognised gains and losses.

## Finance costs

Finance costs which are directly attributable to the cost of construction of a tangible fixed asset are capitalised as part of the costs of that tangible fixed asset.

## Website development costs

Design and content costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred.

## Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of leasehold assets includes directly attributable finance costs. Depreciation is provided to write off cost over the asset's useful economic life as follows:

| Asset type | Depreciation method | Depreciation rate per year |
|---|---|---|
| Long and short leasehold property | Straight-line basis | Duration of lease |
| Fixtures and fittings | Straight-line basis | 14% |
| Plant and machinery | Straight-line basis | 10-33% |
| Equipment | Straight-line basis | 14-50% |
| Motor vehicles | Straight-line basis | 25% |
| Major software systems | Straight-line basis | 20-33% |

## NOTE 1 Segment information

**Analysis of results by regional business**
Results by regional business reflect the new management structure introduced during the year. Prior year comparisons have been represented on a comparable basis.

| Turnover by regional business | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | 57,270 | 53,727 |
| CEMEA | 81,181 | 71,494 |
| Americas | 116,970 | 96,921 |
| Asia | 32,836 | 26,737 |
| Roll Call businesses | 20,398 | 14,118 |
| Other businesses | 4,142 | 3,402 |
| | 312,797 | 266,399 |

Other businesses include Ryder Street Properties (which owns and manages the Economist Complex in London). Roll Call Group's turnover includes £6,072,000 in respect of the acquisition of Capitol Advantage. Turnover between regional businesses is not material.

| Operating profit by regional business | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | 14,974 | 13,636 |
| CEMEA | 16,102 | 14,574 |
| Americas | 15,149 | 8,301 |
| Asia | 893 | (286) |
| Roll Call businesses | 7,060 | 5,763 |
| Other businesses | 3,399 | 3,187 |
| Goodwill amortisation | (1,870) | (856) |
| | 55,707 | 44,319 |

Roll Call Group's operating profit includes a profit of £2,147,000 in respect of the acquisition of Capitol Advantage.

| Turnover by customer location | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | 58,169 | 57,107 |
| North America | 140,125 | 112,548 |
| Europe | 66,388 | 57,326 |
| Asia | 34,112 | 28,026 |
| Other | 14,003 | 11,392 |
| | 312,797 | 266,399 |

North America turnover includes £6,072,000 in respect of the acquisition of Capitol Advantage.

## NOTE 1 Segment information (continued)

**Analysis of results by origin of legal entity**

| Turnover by origin of legal entity | 2009 Total sales £000 | 2009 Inter-region sales £000 | 2009 Sales to third parties £000 | 2008 Total sales £000 | 2008 Inter-region sales £000 | 2008 Sales to third parties £000 |
|---|---|---|---|---|---|---|
| United Kingdom | 224,935 | (30,281) | 194,654 | 197,385 | (25,422) | 171,963 |
| North America | 106,420 | - | 106,420 | 85,151 | - | 85,151 |
| Europe | 4,682 | (2,153) | 2,529 | 4,505 | (2,123) | 2,382 |
| Asia | 12,196 | (3,002) | 9,194 | 9,273 | (2,370) | 6,903 |
| | 348,233 | (35,436) | 312,797 | 296,314 | (29,915) | 266,399 |

North America turnover includes £6,072,000 in respect of the acquisition of Capitol Advantage.

| Profit before taxation by origin of legal entity | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | 40,162 | 36,227 |
| North America | 13,271 | 10,091 |
| Europe | 295 | 594 |
| Asia | 1,969 | 177 |
| | 55,697 | 47,089 |

North America profit before taxation includes a profit of £1,141,000 in respect of the acquisition of Capitol Advantage.

| Net (liabilities)/assets by origin of legal entity | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | (31,789) | (11,861) |
| North America | 10,366 | 1,365 |
| Europe | 1,720 | 1,050 |
| Asia | 4,610 | 1,839 |
| | (15,093) | (7,607) |

North America net assets include liabilities of £1,651,000 in respect of the acquisition of Capitol Advantage.

## NOTE 2 Reorganisation costs



| | 2009 £000 | 2008 £000 |
|---|---|---|
| Restructuring costs | (4,030) | (1,493) |

The above restructuring costs are included within marketing, development and other administrative costs.

## NOTE 3 Profit on sale of fixed asset investments

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Profit on sale of fixed asset investments | - | 730 |

The profit for the year ended March 31st 2008 relates to cash released from escrow following the sale in 2007 of the Group's 18.6% convertible preference shareholding in Commonwealth Business Media, Inc, a US corporation which publishes directories and other trade publications, for £11.2m.

## NOTE 4 Net finance (charge)/income

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Interest receivable on cash deposits | 284 | 617 |
| Interest payable and similar charges | (1,129) | (582) |
| Other finance income | 835 | 2,005 |
| | (10) | 2,040 |
| | | |
| Interest payable on bank overdrafts and loans repayable within five years | (921) | (374) |
| Interest payable on finance lease | (208) | (208) |
| Interest payable and similar charges | (1,129) | (582) |
| | | |
| Unwinding of discounts on onerous property contract provisions | (14) | (7) |
| Net return on pension scheme and other post-retirement liabilities | 849 | 2,012 |
| Other finance income | 835 | 2,005 |

## NOTE 5 Profit on ordinary activities before taxation

| Profit on ordinary activities before taxation is stated after charging the following: | 2009 £000 | 2008 £000 |
|---|---|---|
| **Auditor's remuneration** | | |
| Audit of the company's annual accounts | 114 | 114 |
| **Fees payable to the company's auditor and its associates for other services** | | |
| Audit of the company's subsidiaries | 175 | 142 |
| Further assurance services | 75 | 60 |
| Tax advice and compliance | 492 | 310 |
| Corporate finance services | 211 | 15 |
| **Operating lease rentals** | | |
| Plant and equipment | 220 | 191 |
| Land and buildings | 5,337 | 4,830 |
| **Depreciation** | | |
| On owned assets | 2,720 | 2,717 |
| On assets held by finance lease | 55 | 55 |

## NOTE 6 Directors' emoluments

The details of directors' emoluments are on table 2, page 24, within the directors' report on remuneration.

## NOTE 7 Employees

Average and year-end number of employees, including executive directors, were as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Average | Year-end | Average | Year-end |
| The Economist Group | 1,234 | 1,190 | 1,107 | 1,157 |

Employee numbers by regional business at the year end were: United Kingdom 213, CEMEA 304, Americas 347, Asia 161, Roll Call businesses 165. Employee numbers by region were not recorded prior to the mid-year regional restructure, and therefore the average number of employees or prior year comparatives cannot be presented on a comparable basis.

| Employment costs including executive directors' emoluments | 2009 £000 | 2008 £000 |
|---|---|---|
| Wages and salaries | 84,821 | 71,286 |
| Social security costs | 7,435 | 6,575 |
| Defined benefit pension costs | 2,338 | 4,578 |
| Other pension costs | 2,467 | 2,112 |
| | 97,061 | 84,551 |

Wages and salaries includes £4,030,000 (2008: £1,493,000) restructuring-related costs.

## NOTE 8 Taxation on profit on ordinary activities

| The taxation charge based on the result for the year is made up as follows: | 2009 £000 | 2008 £000 |
|---|---|---|
| UK corporation tax at 28% (2008: 30%) | 10,013 | 8,346 |
| Overseas taxation | 4,753 | 3,305 |
| UK deferred taxation | 2,005 | 2,966 |
| UK deferred taxation–effect of decreased tax rate liability | - | 119 |
| Overseas deferred taxation | 690 | (402) |
| | 17,461 | 14,334 |
| **Adjustments in respect of previous years** | | |
| UK corporation tax | 1,282 | (62) |
| Overseas taxation | (630) | 1,487 |
| UK deferred taxation (note 16) | (1,185) | 97 |
| Overseas deferred taxation | 893 | (1,000) |
| | 17,821 | 14,856 |

Included within the deferred tax charge for the year is an FRS 17 charge of £1,127,491 (2008: £1,501,000).

For periods from April 1st 2008, the UK corporate tax rate was reduced from 30% to 28%.

| Current tax rate reconciliation | 2009 % | 2008 % |
|---|---|---|
| UK tax rate | 28.0 | 30.0 |
| Expenses not deductible for tax purposes | (0.3) | 1.1 |
| Depreciation in excess of capital allowances | 0.1 | 0.1 |
| Movement in provisions | 0.2 | (4.5) |
| Overseas tax rates | 0.8 | 0.5 |
| Timing of US goodwill amortisation | (0.1) | 0.5 |
| Deferred income | (0.3) | 0.5 |
| FRS 17 pension movement | (1.9) | (3.4) |
| Adjustments to tax charge in respect of previous periods | 1.2 | 3.0 |
| Current tax rate reflected in earnings | 27.7 | 27.8 |

## NOTE 9 Dividends

| Cash dividends paid | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Final dividend paid of 65.2p per share (2008: 54.5p per share) | 16,323 | 13,652 |
| Interim dividend paid of 30.1p per share (2008: 25.2p per share) | 7,556 | 6,316 |
| No special dividend paid (2008: 91.3p per share) | - | 22,883 |
| | 23,879 | 42,851 |

All shareholders other than holders of the trust shares (see note 20) receive the above dividend per share. Dividends amounting to £137,000 (2008: £241,000) in respect of the company's shares held by the ESOP (note 21) have been deducted in arriving at the aggregate of dividends paid.

| Dividends proposed in respect of the year | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Final dividend proposed of 67.2p per share (2008: 65.2p per share) | 16,822 | 16,323 |
| Interim dividend paid of 30.1p per share (2008: 25.2p per share) | 7,556 | 6,316 |
| No special dividend paid (2008: 91.3p per share) | - | 22,883 |
| | 24,378 | 45,522 |

The directors are proposing a final dividend in respect of the financial year ending March 31st 2009 of 67.2p. Dividends amounting to £113,000 in respect of the company's shares held by the ESOP have been deducted in arriving at the total dividend proposed of £16,822,000. The proposed dividend is subject to approval by shareholders and has not been recognised as a liability in these financial statements.

## NOTE 10 Share-based payments

The Economist Group operates the following share-based incentive schemes:

### Current plans

**Executive long-term plan**

Units are granted to executive directors and senior employees. These awards are taken in cash form only after three years. The value of the award is based on share price, the earnings per share compound annual growth rate and the Group's total shareholder return (TSR) compared with a group of selected comparator companies over the period of the scheme.

**Restricted share scheme**

This scheme is for key employees who have been awarded a right to acquire ordinary shares at a nominal price between two and five years after the date of the award. The Group has the discretion to pay out shares or cash on exercise.

The Group has recorded total liabilities at March 31st 2009 of £6,201,000 (2008: £9,604,000), of which £3,716,000 (2008: £5,627,000) relates to awards which had vested at the year end. The total expense recognised with respect to cash-settled, share-based payment transactions was £2,381,000 (2008: £5,981,000).

The fair values of the long-term schemes were calculated using a Black Scholes option pricing model, except for the schemes including a TSR ranking performance condition where a Monte Carlo model was used. The inputs to the models were as follows:

| | At March 31st 2009 | At March 31st 2008 |
|---|---|---|
| Weighted average share price (£) | 19.97 | 20.79 |
| Weighted average exercise price (£) | 21.02 | 18.04 |
| Expected volatility (%) | 47% | 31% |
| Expected life (months) | 18 | 17 |
| Risk-free rate (%) | 1.0% | 4.0% |
| Expected dividend yield (%) | 2.3% | 2.1% |
| Forfeiture rate (%) | 5% | 5% |

The expected volatility is determined by calculating the historical volatility of the Group's share price over the previous ten years and by calculating the historical TSR volatility of the comparator group over the relevant life of the schemes.

During the year, 300,000 long-term plan units (2008: 309,000) were granted with a weighted average fair value at March 31st of £7.14 (2008: £8.67). 360,000 long-term plan units (2008: 379,000) vested at March 31st, with a weighted average fair value at March 31st of £8.52 (2008: £11.78).

Special dividends are included in either the fair value calculation or are reinvested as further units.

| | At March 31st 2009 | | At March 31st 2008 | |
|---|---|---|---|---|
| **Restricted share scheme** | No. of options | Weighted average share price (£) | No. of options | Weighted average share price (£) |
| Outstanding at the beginning of the year | 47,885 | 23.34 | 47,707 | 19.47 |
| Granted during the year | - | - | 2,494 | 21.25 |
| Exercised during the year | (34,570) | 24.76 | (2,316) | 20.10 |
| Outstanding at the end of the year | 13,315 | 20.91 | 47,885 | 23.34 |
| Exercisable at the year end | 12,068 | 20.91 | 22,696 | 23.34 |

The weighted average remaining contractual life for outstanding options at March 31st 2009 was 12 months (2008: 20 months).

## NOTE 11 Earnings per share

Basic earnings per share are calculated on earnings of £37,876,000 (2008: £32,233,000) and the 25,200,000 ordinary and special shares in issue (2008: 25,200,000) less those held by the ESOP, being on average 155,000 shares (2008: 146,000), resulting in a weighted average number of shares of 25,045,000 (2008: 25,054,000). Earnings per share before non-operating exceptional items are based on a profit of £37,876,000 (2008: £31,737,000).

| | | 2009 | | | 2008 | |
|---|---|---|---|---|---|---|
| | Earnings £000 | Weighted average number of shares 000s | Earnings per share pence | Earnings £000 | Weighted average number of shares 000s | Earnings per share pence |
| **Basic earnings per share** | 37,876 | 25,045 | 151.2 | 32,233 | 25,054 | 128.7 |
| Adjustment in respect of non-operating exceptional items | | | | | | |
| - profit on sale of fixed asset investments | - | 25,045 | - | (730) | 25,054 | (2.9) |
| - attributable taxation | - | 25,045 | - | 234 | 25,054 | 0.9 |
| **Normalised earnings per share** | 37,876 | 25,045 | 151.2 | 31,737 | 25,054 | 126.7 |

Diluted earnings per share are calculated by adjusting the weighted average number of shares to take account of shares held by the ESOP which are under option to employees.

| | 2009 | 2008 |
|---|---|---|
| Weighted average number of shares (000s) | 25,045 | 25,054 |
| Effect of dilutive share options (000s) | 20 | 48 |
| Weighted average number of shares (000s) for diluted earnings | 25,065 | 25,102 |

## NOTE 12 Intangible fixed assets

| | Goodwill £000 |
|---|---|
| **Cost** | |
| At April 1st 2008 | 16,739 |
| Additions (note 27) | 24,165 |
| Exchange translation differences | 9,557 |
| At March 31st 2009 | 50,461 |
| | |
| **Accumulated amortisation** | |
| At April 1st 2008 | 1,707 |
| Charge for the year | 1,870 |
| Exchange translation differences | 117 |
| At March 31st 2009 | 3,694 |
| | |
| **Net book value at March 31st 2009** | 46,767 |
| Net book value at March 31st 2008 | 15,032 |

## NOTE 13 Tangible fixed assets



| Group | Leasehold buildings Long £000 | Short £000 | Plant and machinery £000 | Equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At April 1st 2008 | 31,736 | 5,907 | 3,513 | 22,912 | 64,068 |
| Additions | - | 39 | - | 1,146 | 1,185 |
| Acquisitions | - | - | - | 120 | 120 |
| Disposals | - | - | - | (575) | (575) |
| Exchange translation differences | 241 | 1,476 | (124) | 1,975 | 3,568 |
| At March 31st 2009 | 31,977 | 7,422 | 3,389 | 25,578 | 68,366 |
| **Depreciation** | | | | | |
| At April 1st 2008 | 13,830 | 4,002 | 3,380 | 19,482 | 40,694 |
| Provided during year | 600 | 675 | - | 1,500 | 2,775 |
| Disposals | - | - | - | (557) | (557) |
| Exchange translation differences | 107 | 1,366 | (80) | 1,579 | 2,972 |
| At March 31st 2009 | 14,537 | 6,043 | 3,300 | 22,004 | 45,884 |
| **Net book value at March 31st 2009** | 17,440 | 1,379 | 89 | 3,574 | 22,482 |
| Net book value at March 31st 2008 | 17,906 | 1,905 | 133 | 3,430 | 23,374 |

The directors have been advised that the market value of the Economist Complex at March 31st 2009 was £55,000,000 (2008: £85,950,000); the book value is £17,144,000 (2008: £17,747,000) and the balance sheet value is £14,622,000 (2008: £15,225,000) after deducting the finance lease payable. Included within the cost of leasehold buildings is capitalised interest of £2,312,500 (2008: £2,312,500).

Assets held under finance lease and capitalised in long leasehold buildings were:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| **Cost or valuation** | 6,798 | 6,798 |
| Aggregate depreciation | (1,244) | (1,189) |
| Net book value | 5,554 | 5,609 |

## NOTE 14 Stocks and work-in-progress

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Raw materials | 1,946 | 1,960 |
| Work-in-progress | 722 | 810 |
| Finished goods | 18 | 30 |
| | 2,686 | 2,800 |

## NOTE 15 Debtors

| Due within one year | 2009 £000 | 2008 £000 |
|---|---|---|
| Trade debtors | 43,620 | 39,710 |
| Other debtors | 1,663 | 1,572 |
| Prepayments and accrued income | 8,508 | 7,419 |
| Tax recoverable | 1,833 | 279 |
| | 55,624 | 48,980 |

## NOTE 16 Deferred taxation

| Summary of movements in deferred tax asset | £000 |
|---|---|
| At April 1st 2008 | 6,309 |
| Transfer from creditors | 97 |
| Charge to the profit and loss account | (1,275) |
| Credit to the statement of total recognised gains and losses | 301 |
| Exchange difference | 917 |
| At March 31st 2009 | 6,349 |

The assets recognised for deferred taxation under the liability method are:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Excess of depreciation over capital allowances | 1,204 | 894 |
| Loss relief | 1,254 | 1,326 |
| Other timing differences | 3,891 | 4,089 |
| | 6,349 | 6,309 |

The Group has accumulated trading losses of £6,586,000 (2008: £5,013,815) in Asia. The Group has recognised Hong Kong trading losses to the value of the losses expected to be used in the next four years.

An asset has been recognised for carried-forward federal losses of £1,656,000 (2008: £1,501,000) in the United States on the basis that forecast profits in the United States against which the tax asset can be recovered will arise. A deferred tax asset of £419,000 (2008: £555,000) has been recognised in respect of US state income tax losses carried forward.

## NOTE 17 Creditors: due within one year

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Bank loans and overdrafts (note 18) | 4,210 | - |
| Trade creditors | 9,359 | 9,121 |
| Other creditors including taxation and social security | 19,665 | 16,057 |
| Accruals | 27,694 | 30,105 |
| | 60,928 | 55,283 |
| Other creditors including taxation and social security comprise: | | |
| Corporation tax | 10,362 | 6,365 |
| Other tax and social security payable | 1,496 | 2,450 |
| Other creditors | 7,807 | 7,242 |
| | 19,665 | 16,057 |

The Group has a bank loan of £29,442,000 as at March 31st 2009 (2008: £nil). In 2008, the Group increased its unsecured, three-year committed £25m facility to £50m. In addition, the Group has undrawn overdraft facilities which are subject to review by the end of December 2009.

## NOTE 18 Creditors: due after one year

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Finance leases | 2,521 | 2,522 |
| Unsecured bank loans | 25,232 | - |
| | 27,753 | 2,522 |

| Maturity of unsecured bank loan | | |
|---|---|---|
| In one year or less, or on demand | 4,210 | - |
| In more than one year, but not more than two years | 5,960 | - |
| In more than two years, but not more than five years | 19,272 | - |
| | 29,442 | - |

The unsecured bank loan was taken out to finance the acquisition of Capitol Advantage LLC and is denominated in US dollars and bears interest based on US-dollar LIBOR plus 1.2%. The Group has entered into an arrangement to swap out 50% of the interest payable at a rate of 2.19% plus a margin of 1.2%. The US-dollar denominated loan was revalued at the closing exchange rate and this resulted in an unrealised loss of £8,781,000.

| Maturity of finance leases | | |
|---|---|---|
| Future minimum payments under finance leases were as follows: | | |
| Within one year | 1 | 1 |
| In more than one year, but not more than two years | 1 | 1 |
| In more than two years, but not more than five years | 4 | 5 |
| After five years | 2,516 | 2,516 |
| | 2,522 | 2,523 |

The finance lease on the Economist Complex is repayable in quarterly instalments until 2111, at an interest rate of 4.3%.

## NOTE 19 Provisions for liabilities and charges

| | Onerous property leases £000 |
|---|---|
| At April 1st 2008 | 281 |
| Utilised in year | (214) |
| Charge to the profit and loss account | 161 |
| Unwinding of discount | 14 |
| Exchange difference | 95 |
| At March 31st 2009 | 337 |

The provision for onerous leases is expected to unwind over the next two years.

## NOTE 20 Equity share capital

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| **At March 31st 2009 and 2008** | Number | £000 | Number | £000 |
| "A" special shares of 5p each | 1,575,000 | 79 | 1,260,000 | 63 |
| "B" special shares of 5p each | 1,575,000 | 79 | 1,260,000 | 63 |
| Ordinary shares of 5p each | 36,850,000 | 1,842 | 22,680,000 | 1,134 |
| Trust shares of 5p each | 100 | - | 100 | - |
| | | 2,000 | | 1,260 |

FRS 4, "Capital Instruments" requires the Group to provide a summary of the rights of each class of shares. This summary can be found in the directors' report on page 18. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

## NOTE 21 Reserves

| **Consolidated profit and loss account** | 2009 £000 | 2008 £000 |
|---|---|---|
| At April 1st as previously stated | (8,867) | (9,156) |
| Amendments to FRS 17 | - | (550) |
| At April 1st as restated | (8,867) | (9,706) |
| Retained profit/(loss) | 13,997 | (10,618) |
| Other recognised gains relating to the year | (14,354) | 11,452 |
| Net purchase of own shares | (17) | (288) |
| Exchange translation differences arising on consolidation | (7,112) | 293 |
| At March 31st | (16,353) | (8,867) |

The cumulative goodwill written off to profit and loss reserves by the Group is £22,800,000 (2008: £22,800,000) and arises mainly from the purchase of Business International in 1986, CFO Publishing Corporation in 1988 and Roll Call, Inc in 1992 and 1993.

At March 31st 2009, there were 167,544 ordinary shares (2008: 164,605) of 5p each with a nominal value of £8,377 (2008: £8,230) in The Economist Newspaper Limited (own shares) held by the ESOP. The ESOP provides a limited market for ordinary shares of The Economist Newspaper Limited to be bought and sold. Employees of the Group can apply to buy shares from the ESOP twice a year at the latest indicative share valuation and all other shareholders can offer to sell their shares to the ESOP. A subsidiary company, The Economist Group Trustee Company Limited, acts as trustee of the ESOP and handles all share transactions. The ESOP has not waived its entitlement to dividends on these shares. 13,315 (2008: 47,885) of the shares are under option to employees and have been conditionally granted to them. The interest in own shares, included within reserves, is as follows:

| | £000 |
|---|---|
| At April 1st 2008 | 1,624 |
| Net purchase of own shares | 17 |
| At March 31st 2009 | 1,641 |

## NOTE 22 Notes to consolidated cashflow statement

| Reconciliation of operating profit to net cash inflow from operating activities | 2009 £000 | 2008 £000 |
|---|---|---|
| Operating profit | 55,707 | 44,319 |
| Depreciation of tangible fixed assets | 2,775 | 2,772 |
| Goodwill amortisation | 1,870 | 856 |
| Loss on sale of tangible fixed assets | 18 | 39 |
| Decrease/(increase) in stocks | 583 | (1,211) |
| Decrease/(increase) in debtors | 3,427 | (4,851) |
| (Decrease)/increase in creditors | (8,606) | 2,056 |
| Increase in unexpired subscriptions and deferred revenue | 3,732 | 5,156 |
| Decrease in provisions | (2,816) | (3,489) |
| Net cash inflow from operating activities | 56,690 | 45,647 |

Net cash inflow from operating activities was reduced by £nil due to special defined benefit pension contributions (2008: £3,400,000).

| Analysis of net funds | At April 1st 2008 £000 | Cashflow £000 | Debt £000 | Acquisitions £000 | Other non-cash changes £000 | Exchange movement £000 | At March 31st 2009 £000 |
|---|---|---|---|---|---|---|---|
| Cash in hand | 12,123 | (2,355) | - | 527 | - | 1,094 | 11,389 |
| Cash placed on short-term deposits | 7,984 | 19,358 | - | - | - | 3,623 | 30,965 |
| Total cash balances | 20,107 | 17,003 | - | 527 | - | 4,717 | 42,354 |
| Debt due within one year | - | - | (2,954) | - | - | (1,256) | (4,210) |
| Debt due after one year | - | - | (17,707) | - | - | (7,525) | (25,232) |
| Finance leases due within one year | (1) | 1 | - | - | (1) | - | (1) |
| Finance leases due after one year | (2,522) | - | - | - | 1 | - | (2,521) |
| Net funds | 17,584 | 17,004 | (20,661) | 527 | - | (4,064) | 10,390 |

At March 31st 2009 cash balances included £1,828,000 (2008: £1,939,000) of deposits collected from tenants of the Group's property business. This cash is only accessible in the event of the tenant defaulting.

## NOTE 23 Pension and other post-retirement liabilities

| Analysis of pension and other post-retirement liabilities and assets (net of deferred tax) | 2009 £000 | 2008 £000 |
|---|---|---|
| UK Group scheme | (3,987) | 7,553 |
| Post-retirement benefits | (2,305) | (2,292) |
| | (6,292) | 5,261 |

The Group operates pension schemes for most of its employees throughout the world, which are funded by the Group. The main scheme for UK staff who joined before 2003 (the UK Group scheme) provides funded defined benefits. The scheme has a defined contribution underpin and provides, for those employees who joined before 2003, for the better of defined benefit and defined contribution benefits. Defined contribution schemes are operated for UK and non-UK staff. In addition, the Group provides unfunded, unapproved pension arrangements in respect of certain employees. The assets of each scheme are held in separate trustee-administered funds with independent qualified actuaries or other professionals acting as advisers. Actuarial valuations are undertaken at regular intervals.

The scheme has been closed to new members since January 1st 2003; a defined contribution scheme is now available to new joiners. As a result, under the projected unit credit method, the current service cost is expected to increase as members approach retirement. The company contributed 21.7% of pensionable salaries and £350,000 to fund ongoing service costs and scheme expenses and £1,152,000 to repay the deficit. The best estimate of contributions expected to be paid to the scheme in 2009 is £7,071,000. This includes a further special contribution of £2,500,000 as the scheme was in deficit at the year ended March 31st 2009.

The most recent full actuarial valuation of the UK defined benefit scheme was at January 1st 2007. This showed the market value of assets of the main UK scheme to be £156,656,000. The actuarial valuation of pension liabilities was £181,472,000, leaving a deficit of £24,816,000. The actuarial method used for the valuation was the projected unit credit method. The Minimum Funding Requirement was replaced by the Scheme Specific Funding (SSF) regulations from completion of the January 1st 2007 valuation. The foregoing liabilities represent the SSF Technical Provisions as agreed by the Group and the trustees. The SSF level of funding was 86%. The valuation was updated to March 31st 2007 and showed the market value of assets to be £159,218,000 and the actuarial valuation of pension liabilities to be £171,112,000, leaving a deficit of £11,894,000. The March 2007 valuation was used as a basis for determining the ongoing company funding rate, effective December 1st 2007.

The FRS 17 valuation reflects HM Revenue and Custom (HMRC) rules relating to commutation of tax-free cash effective April 6th 2006. Past scheme experience indicates that the majority of retirees take the maximum level of cash available. Cash commutation factors, which are regularly reviewed by the trustees, remained based around a factor of 15:1 at age 60.

The main overseas schemes and one UK scheme are based on defined contributions; amounts totalling £349,000 (2008: £350,000) were accrued in respect of these schemes at year end.

**UK Group scheme**

The valuation of the UK Group scheme has been updated by independent actuaries to March 31st 2009. The major assumptions used to determine this valuation are as follows:

| | 2009 % | 2008 % | 2007 % |
|---|---|---|---|
| Inflation | 2.9 | 3.4 | 3.0 |
| Increase in pensionable salaries | 4.5 | 4.5 | 4.5 |
| Increase in pensions in payment | 2.8 | 3.2 | 2.9 |
| Increase in deferred pensions | 3.0 | 3.4 | 3.0 |
| Discount rate for scheme liabilities | 7.2 | 6.7 | 5.4 |

The mortality assumptions used in the valuation of the scheme are summarised in the table below and have been selected to reflect the characteristics and the experience of the membership of the plan. This has been done by using the PA92 tables with longevity projection based on medium cohort and the year in which the member was born.

| | 2009 years | 2008 years |
|---|---|---|
| Longevity at age 65 for current retirees | | |
| - Men | 87.0 | 87.0 |
| - Women | 89.8 | 89.8 |
| Longevity at age 65 for future retirees, current age 45 | | |
| - Men | 88.1 | 88.1 |
| - Women | 90.9 | 90.9 |

The assets of the UK Group scheme and the expected rate of return on these assets, shown as a weighted average, are as follows:

| | Long-term rate of return expected at March 31st 2009 % | Value at March 31st 2009 £000 | Long-term rate of return expected at March 31st 2008 % | Value at March 31st 2008 £000 | Long-term rate of return expected at March 31st 2007 % | Value at March 31st 2007 £000 |
|---|---|---|---|---|---|---|
| Equities | 7.50 | 69,209 | 8.05 | 88,290 | 8.35 | 91,961 |
| Government and corporate bonds | 4.94 | 49,245 | 5.30 | 53,501 | 5.10 | 49,359 |
| Property | 7.50 | 9,317 | 6.80 | 13,392 | 7.10 | 15,318 |
| Other | 3.60 | 5,323 | 4.95 | 4,579 | 5.45 | 1,654 |
| Total market value of assets | | 133,094 | | 159,762 | | 158,292 |
| Present value of scheme liabilities | | (138,632) | | (149,272) | | (169,876) |
| (Deficit)/surplus in the scheme | | (5,538) | | 10,490 | | (11,584) |
| Related deferred tax asset/(liability) | | 1,551 | | (2,937) | | 3,475 |
| **Net pension (deficit)/surplus** | | (3,987) | | 7,553 | | (8,109) |

## NOTE 23 Pension and other post-retirement liabilities (continued)

| Reconciliation of fair value of scheme assets | 2009 £000 | 2008 £000 |
|---|---|---|
| April 1st | 159,762 | 158,292 |
| Expected return on scheme assets | 11,122 | 11,503 |
| Actuarial losses | (38,867) | (14,389) |
| Employee contributions | 875 | 904 |
| Benefits paid | (5,077) | (4,315) |
| Contributions paid by employer | 5,279 | 7,767 |
| **March 31st** | 133,094 | 159,762 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed-interest investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a loss of £27,745,000 (2008: £2,886,000).

| Reconciliation of present value of scheme liabilities | 2009 £000 | 2008 £000 |
|---|---|---|
| April 1st | (149,272) | (169,876) |
| Current service cost | (2,713) | (4,578) |
| Curtailment gain | 375 | - |
| Employee contributions | (875) | (904) |
| Interest cost | (10,038) | (9,332) |
| Benefits paid | 5,077 | 4,315 |
| Actuarial gains | 18,814 | 31,103 |
| **March 31st** | (138,632) | (149,272) |

**Sensitivity analysis of scheme liabilities**

The sensitivity of the present value of the scheme's liabilities to changes in the principal assumptions used is set out below:

| | Change in assumption by | Impact on scheme liabilities |
|---|---|---|
| Inflation | 0.5% | 4.6% |
| Increase in pensionable salaries | 0.5% | 1.9% |
| Increase in pensions in payment | 0.5% | 4.9% |
| Increase in revaluation rate of deferred pensions | 0.5% | 1.5% |
| Discount rate | 0.5% | 7.8% |

If the average expected age of death of pensioners lengthened by one year the liabilities of the scheme would increase by 1.7%.

| Analysis of the amount charged to operating profit | 2009 £000 | 2008 £000 |
|---|---|---|
| Current service cost | 2,713 | 4,578 |
| Curtailment gain | (375) | - |
| **Total operating charge** | 2,338 | 4,578 |

The total amount charged to operating profit is included within administrative expenses.

## NOTE 23 Pension and other post-retirement liabilities (continued)

| **Analysis of the amount credited to other finance income** | 2009 £000 | 2008 £000 |
|---|---|---|
| Expected return on pension scheme assets | 11,122 | 11,503 |
| Interest on pension scheme liabilities | (10,038) | (9,332) |
| **Net income** | 1,084 | 2,171 |

**History of experience gains and losses**

| Difference between the actual and expected return on scheme assets | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Amount (£000) | (38,867) | (14,389) | 446 | 14,153 | 2,695 |
| Percentage of scheme assets | (29%) | (9%) | 0% | 11% | 3% |
| Experience losses on scheme liabilities | | | | | |
| Amount (£000) | 1,430 | (191) | (433) | (1,415) | (257) |
| Percentage of the present value of the scheme liabilities | 1% | (0%) | (0%) | (1%) | (0%) |
| Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses | | | | | |
| Amount (£000) | (20,053) | 16,714 | 5,374 | (9,285) | - |
| Percentage of the present value of the scheme liabilities | (14%) | 11% | 3% | (6%) | - |

Since the adoption of FRS 17 in 2006 a cumulative net loss of £7,250,000 has been charged through the statement of total recognised gains and losses in respect of actuarial revaluations of the pension scheme.

**Other post-retirement benefits**

The Group provides post-retirement medical benefits to certain former employees. At March 31st 2009, 62 (2008: 66) retired employees were eligible to receive benefits. As at March 31st 2009 the Group estimated the present value of its accumulated post-retirement medical benefits obligation to be £2,305,000 (2008: £2,292,000), net of deferred taxation. These liabilities were confirmed by a qualified independent actuary. The principal assumptions used in estimating this obligation are healthcare premium cost escalation of 9% per year and a discount rate to represent the time value of money of 7.15%. Actual premiums paid are being set against this provision, which is periodically assessed for adequacy.

## NOTE 24 Financial commitments

| **Operating leases**<br>**Land and buildings, leases expiring** | 2009 £000 | 2008 £000 |
|---|---|---|
| Within one year | 602 | 896 |
| Between two and five years | 4,364 | 2,812 |
| After five years | 1,560 | 1,481 |
| | 6,526 | 5,189 |
| **Plant and equipment, leases expiring** | | |
| Within one year | 47 | 19 |
| Between two and five years | 129 | 97 |
| | 176 | 116 |

## NOTE 25 Capital commitments and contingent liabilities

At March 31st 2009, there was £nil of capital expenditure contracted for but not provided in the financial statements (2008: £nil). There are contingent Group liabilities in respect of legal claims, indemnities, warranties and guarantees in relation to former businesses. None of these claims is expected to result in a material loss to the Group.

## NOTE 26 Related party transactions

The Financial Times Limited holds 50% of the issued share capital in the company and is entitled to appoint six out of a total of 13 places for directors on the company's Board. The Financial Times Limited is a wholly-owned subsidiary of Pearson plc. The Group sold goods and services to Pearson plc and subsidiary companies to a total value of £45,310 (2008: £75,315) in the normal course of trade during the year, and acquired goods and services to a total value of £35,108 (2008: £63,709). The aggregate balances outstanding with these companies as at March 31st 2009 were £450 (2008: £3,101) due to the Group and £682 (2008: £188) due from the Group.

## NOTE 27 Acquisitions

**Acquisition of Capitol Advantage**

On July 31st 2008 the Group acquired the business of Capitol Advantage LLC (Capitol Advantage). Capitol Advantage is accounted for as an acquisition. The purchase consideration comprised cash of £21,481,000, with no deferred contingent consideration.

The following table sets out the book values for the identifiable assets and liabilities acquired and their fair value to the Group:

| | Book value £000 | Revaluations £000 | Accounting policy alignment £000 | Fair value to Group £000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Tangible assets | 16 | - | 103 | 119 |
| **Current assets** | | | | |
| Stock | - | - | 22 | 22 |
| Debtors | 431 | - | 661 | 1,092 |
| Deferred taxation | - | - | 580 | 580 |
| Cash | 527 | - | - | 527 |
| Other current assets | 52 | (34) | - | 18 |
| **Total assets** | 1,026 | (34) | 1,366 | 2,358 |
| **Creditors** | | | | |
| Creditors due within one year | (445) | - | (251) | (696) |
| Deferred revenue | (1,451) | - | (2,492) | (3,943) |
| **Net liabilities acquired** | (870) | (34) | (1,377) | (2,281) |
| Acquisition cost | | | | (403) |
| Goodwill | | | | 24,165 |
| **Consideration** | | | | 21,481 |
| **Consideration satisfied by:** | | | | |
| Cash | | | | 21,481 |
| Deferred contingent consideration | | | | - |
| | | | | 21,481 |
| **Net cash outflow in respect of the acquisition comprised:** | | | | |
| Cash consideration | | | | 21,481 |
| Cash at bank and in hand acquired | | | | (527) |
| | | | | 20,954 |

The accounting policy adjustment to debtors, deferred taxation and deferred revenue is to align revenue recognition from a partial cash basis to an accruals basis.

Capitol Advantage contributed an inflow of £2,243,000 to the Group's net operating cashflows, paid £nil in respect of interest, £nil in respect of taxation and used £16,000 for capital expenditure.

In its last financial year to July 31st 2008, the unaudited management accounts of Capitol Advantage showed a profit after tax of £242,000. For the period since that date, Capitol Advantage management accounts show £6,072,000 revenue, £3,925,000 costs and a £2,147,000 operating profit.

Goodwill is reviewed every year for any impairment. Given the performance of Capitol Advantage since its acquisition, no impairment is required.

Deferred consideration was also paid during the year in respect of the acquisition of GalleryWatch in 2006, amounting to £320,000.

## NOTE 28 Derivative financial instruments

The Group enters into forward exchange contracts and foreign currency option contracts to mitigate US-dollar currency exposures. The Group does not recognise the fair value of these derivative instruments on the balance sheet. During the year, the Group entered into 24 (2008: 30) forward exchange contracts, and 11 (2008: 39) option contracts. The fair value of forward contracts outstanding at the year end is a liability of £1,334,000 (2008: £167,000 asset) and of the option contract a liability of £2,760,000 (2008: £435,000 liability). The Group has also taken out an interest rate swap to hedge the LIBOR component of the interest rate payable on the US-dollar loan taken out to finance the acquisition of Capitol Advantage LLC. The fair value of the interest rate swap at March 31st was a liability of £173,000.

## NOTE 29 Company balance sheet at March 31st

| NOTE | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| | **Fixed assets** | | |
| 31 | Tangible assets | 3,060 | 3,400 |
| 31 | Investments | 183,435 | 85,260 |
| | | **186,495** | **88,660** |
| | **Current assets** | | |
| 31 | Stocks and work-in-progress | 704 | 430 |
| 31 | Debtors: due after one year | 128,839 | 14,613 |
| 31 | Debtors: due within one year | 55,709 | 36,927 |
| 31 | Deferred taxation | 1,302 | 1,402 |
| | | **186,554** | **53,372** |
| 31 | Creditors: due within one year | (60,752) | (66,812) |
| | Unexpired subscriptions and deferred revenue | (23,831) | (21,586) |
| | **Net current assets/(liabilities)** | **101,971** | **(35,026)** |
| | **Total assets less current liabilities** | **288,466** | **53,634** |
| 31 | Provisions for liabilities and charges | (1,647) | (1,562) |
| | Creditors due after one year | (242,542) | - |
| | **Net assets** | **44,277** | **52,072** |
| | **Capital and reserves** | | |
| 20 | Called-up share capital | 1,260 | 1,260 |
| 31 | Profit and loss account | 43,017 | 50,812 |
| | **Equity shareholders' funds** | **44,277** | **52,072** |

The financial statements were approved by the Board of directors and authorised for issue on June 16th 2009.
They were signed on its behalf by:

**Robert Wilson**
**Chris Stibbs**
Directors

## NOTE 30 Company statement of total recognised gains and losses

**Years ended March 31st**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Retained profit/(loss) for the year | 958 | (23,052) |
| Exchange translation differences arising on foreign currency net investment hedge | (8,781) | - |
| Actuarial gain/(loss) on other post-retirement benefits | 61 | (311) |
| UK deferred tax attributable to the actuarial (gain)/loss | (16) | 93 |
| **Total recognised losses for the year** | (7,778) | (23,270) |

| Tangible fixed assets | Leasehold buildings: short | Plant and machinery | Equipment | Total |
|---|---|---|---|---|
| **Cost** | £000 | £000 | £000 | £000 |
| At April 1st 2008 | 2,067 | 990 | 17,066 | 20,123 |
| Additions | - | - | 864 | 864 |
| At March 31st 2009 | 2,067 | 990 | 17,930 | 20,987 |
| **Depreciation** | | | | |
| At April 1st 2008 | 682 | 990 | 15,051 | 16,723 |
| Provided during year | 296 | - | 908 | 1,204 |
| At March 31st 2009 | 978 | 990 | 15,959 | 17,927 |
| **Net book value at March 31st 2009** | 1,089 | - | 1,971 | 3,060 |
| Net book value at March 31st 2008 | 1,385 | - | 2,015 | 3,400 |

| Investments (fixed assets) | Shares in Group companies |
|---|---|
| **Cost and net book value** | £000 |
| At April 1st 2008 | 85,260 |
| Additions | 211,420 |
| Disposals | (115,908) |
| Exchange translation differences | 2,663 |
| At March 31st 2009 | 183,435 |

The principal wholly-owned subsidiary undertakings of the company which are consolidated are:

The Economist Intelligence Unit, NA, Inc (USA)
The Economist Intelligence Unit Limited*
The Economist Group (Investments) Limited
The Economist Newspaper, NA, Inc (USA)
TEG New Jersey LLC (USA)
Ryder Street Properties Limited
The Economist Group GmbH (Austria)
The Economist Group Trustee Company Limited*
EuroFinance Conferences Limited*
GalleryWatch.com, Inc (USA)
TEG India Private Limited (India)
Economist (Shanghai) Management Consulting Limited
CFO Publishing Corporation (USA)
The Economist Group (Asia/Pacific) Limited (Hong Kong)
The Economist Group (US Holdings) Limited
The Economist Newspaper Group, Inc (USA)*
Roll Call, Inc (USA)
Ryder Street Properties (Management) Limited*
The Economist Group (Luxembourg) Limited
The Economist Group France S.a.r.l.(France)*
LNNi.com, Inc (USA)
LNNI Services, Inc (USA)
Capitol Advantage LLC (USA)
The Economist Group Singapore Pte Limited*

These companies are engaged in publishing and related services and in the provision of business information except for Ryder Street Properties Limited and Ryder Street Properties (Management) Limited which rent and let property. The Economist Group (Luxembourg) Limited, The Economist Group (US Holdings) Limited and The Economist Group (Investments) Limited act as investment companies for the Group. The Economist Group Trustee Company Limited is the trustee of the ESOP. All the companies above are incorporated and registered in England and Wales with the exception of those indicated. The companies marked * are directly owned by The Economist Newspaper Limited; all other companies are owned through wholly-owned subsidiaries. All subsidiaries have a financial year ending March 31st.

On December 11th the company acquired 100% of the share capital of The Economist Newspaper Group Inc from The Economist Group (Luxembourg) S.a.r.l (now The Economist Group (Luxembourg) Limited) for £211,420,000. On the same date, The Economist Newspaper Group, Inc undertook a share repurchase, thereby reducing the cost of investment held by the company by £115,908,000. As the acquisition has been funded by an inter-company loan, the investment has been revalued at the closing exchange rate, resulting in an unrealised gain of £2,663,000, which has been taken to reserves.

 NOTE 31

## Notes to company balance sheet (continued)

| **Stocks and work-in-progress** | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Raw materials | 645 | 400 |
| Finished goods | 59 | 30 |
| | 704 | 430 |

| **Debtors**<br>**Due after one year** | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Amounts owed by Group companies | 128,839 | 14,613 |

Debtors owed by Group companies includes an amount of £119,136,000 which bears interest at 5.8% per annum.

| **Due within one year** | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Trade debtors | 21,665 | 23,226 |
| Amounts owed by Group companies | 30,303 | 10,099 |
| Other debtors | 942 | 757 |
| Prepayments and accrued income | 2,799 | 2,821 |
| Tax recoverable | - | 24 |
| | 55,709 | 36,927 |

| **Summary of movements in deferred tax asset** | £000 |
|---|---|
| At April 1st 2008 | 1,402 |
| Adjustments to tax charge in respect of previous period | 47 |
| Charge to the profit and loss account | (131) |
| Charge to the statement of total recognised gains and losses | (16) |
| At March 31st 2009 | 1,302 |

| Assets recognised for deferred taxation under the liability method are: | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Excess of depreciation over capital allowances | 250 | 217 |
| Post-retirement benefits | - | 4 |
| Other timing differences | 1,052 | 1,181 |
| | 1,302 | 1,402 |

| Creditors: due within one year | 2009 £000 | 2008 £000 |
|---|---|---|
| Bank loans and overdraft | 4,210 | 9,685 |
| Trade creditors | 4,727 | 5,164 |
| Amounts owed to Group companies | 28,573 | 29,004 |
| Other creditors including taxation and social security | 6,269 | 4,947 |
| Accruals | 16,973 | 18,012 |
| | 60,752 | 66,812 |

| Other creditors including taxation and social security comprise: | | |
|---|---|---|
| Corporation tax | 3,184 | 1,049 |
| Other tax and social security payable | 1,213 | 1,875 |
| Other creditors | 1,872 | 2,023 |
| | 6,269 | 4,947 |

| Creditors: due after one year | | |
|---|---|---|
| Unsecured bank loan | 25,232 | - |
| Amounts owed to Group companies | 217,310 | - |
| | 242,542 | - |

The amounts owed to Group companies are non-interest bearing.

| Maturity of unsecured bank loans and overdrafts | | |
|---|---|---|
| In one year or less, or on demand | 4,210 | 9,685 |
| In more than one year, but not more than two years | 5,960 | - |
| In more than two years, but not more than five years | 19,272 | - |
| | 29,442 | 9,685 |

The unsecured bank loan was taken out to finance the acquisition of Capitol Advantage LLC, is denominated in US dollars and bears interest based on US LIBOR plus 1.2%. The company has entered into an arrangement to swap out 50% of the interest payable at a rate of 2.19% plus a margin of 1.2%. The US-dollar denominated loan was revalued to sterling at the closing exchange rate and resulted in an unrealised revaluation loss of £8,781,000.

| Provisions for liabilities and charges | Provisions for post-retirement benefits £000 |
|---|---|
| At April 1st 2008 | 1,562 |
| Charge to the profit and loss account | 159 |
| Charge to the statement of total recognised gains and losses | 41 |
| Utilised in year | (115) |
| At March 31st 2009 | 1,647 |

**Pensions**

The company has adopted FRS 17. Although The Economist Group Pension Plan is a combination of defined benefit and contribution schemes, the company will account for the Plan as if it were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities of the Plan.

 NOTE 31

## Notes to company balance sheet (continued)

| Reserves: profit and loss account | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| At April 1st | 50,812 | 74,370 |
| Retained profit/(loss) for the year | 958 | (23,052) |
| Net purchase of own shares | (17) | (288) |
| Other recognised losses relating to the period | (8,736) | (218) |
| At March 31st | 43,017 | 50,812 |

The directors have taken advantage of the exemption under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the company alone. The company's profit after tax for the financial year amounted to £24,837,000 (2008: £19,799,000).

**Employees**

The average number of employees, including executive directors, was 366 (2008: 356). Their aggregate remuneration comprised:

| | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Wages and salaries | 34,698 | 31,188 |
| Social security costs | 3,854 | 3,756 |
| Pension costs | 4,736 | 6,543 |
| | 43,288 | 41,487 |

**Share-based payments**

The company has recorded total liabilities at March 31st of £4,155,000 (2008: £7,136,000). Refer to Note 10 for further details on the share-based incentive schemes.

| **Financial commitments**<br>**Operating leases** | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| **Land and buildings, leases expiring** | | |
| Within one year | 179 | 135 |
| Between two and five years | 98 | 163 |
| After five years | 1,203 | 1,143 |
| | 1,480 | 1,441 |
| **Plant and equipment, leases expiring** | | |
| Within one year | 20 | 2 |
| Between two and five years | 40 | 42 |
| | 60 | 44 |

At March 31st 2009, there was £nil of capital expenditure contracted for but not provided in the financial statements (2008: £nil). The company has guaranteed certain bank overdrafts and property leases of its subsidiaries and the bank overdraft of the Group's employee share ownership plan trustee company. The annual cost of property leases guaranteed by the company is currently £nil (2008: £nil) per year.

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Thursday July 16th 2009 at 12.15pm, for the purposes set out below.

Resolutions 1-4 are ordinary resolutions that will be passed if more than 50% of the votes cast are in their favour. Resolution 5 is a special resolution that will be passed if at least 75% of the votes cast are in its favour.

1. To receive the accounts and the reports of the directors and the auditors for the year ended March 31st 2009.
2. To declare a final dividend of 67.2 pence per share in respect of the year ended March 31st 2009 to all "A" Special, "B" Special and ordinary shareholders on the company's register of members at the close of business on June 16th 2009.
3. To re-appoint PricewaterhouseCoopers LLP as the company's auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the company.
4. To authorise the directors to fix the remuneration of the auditors.
5. To adopt the articles of association produced to the meeting and initialled by the chairman of the meeting for the purposes of identification as the articles of association of the company in substitution for, and to the exclusion of, the existing articles of association, with effect from 00.01am on October 1st 2009. A summary of the material changes proposed is provided in the appendix on the next page.

By order of the Board
**Oscar Grut**
Secretary

Registered Office
25 St James's Street
London SW1A 1HG

June 16th 2009

A member entitled to attend and vote at this meeting may appoint a proxy, who need not be a shareholder, to attend, speak and vote in his place. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. The appointment of a proxy will not prevent a member from attending and voting at the meeting in person.

A form of proxy is enclosed. To be valid, it must be completed and signed in accordance with the instructions and delivered to the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol, BS99 3FA at least 48 hours before the meeting.

A copy of the proposed new articles of association of the company is available for inspection at the offices of the company at 25 St James's Street, London, SW1A 1HG, until the close of the meeting on Thursday July 16th 2009.

## Explanatory notes on the proposed changes to the articles of association

The full terms of the proposed amendments to the articles of association (the “articles”) are available for inspection at the offices of the company, 25 St James’s Street, London, SW1A 1HG until the close of the annual general meeting on July 16th 2009.

The outline below is intended to be a summary of the proposed changes to the articles. Unless otherwise stated, all numeric references to the articles reflect the numbering in the new articles.

### General

The proposed amendments to the articles primarily reflect: (i) changes in the law, now in force, following certain provisions of the Companies Act 2006 (the “2006 Act”) coming into effect; and (ii) changes in the law under the 2006 Act that will come into force on October 1st 2009.

Certain definitions and expressions used throughout the articles are being changed to align them with the definitions and expressions used in the 2006 Act. Furthermore, certain terms of the articles, which are directly affected by the provisions contained in the 2006 Act, are being amended to bring them into line with the 2006 Act. Examples include provisions relating to the form of resolutions (see paragraph entitled “Form of resolution” below) and the period of notice required to convene general meetings (see paragraph entitled “Convening general meetings” below).

In certain respects, the opportunity has been taken to update and modernise the articles and to correct a number of grammatical errors: for example, the outdated sums of money referred to in articles 16, 46 and 47 have been deleted and the references in the previously numbered article 93 and article 118 to the then current directors and trustees of the company have also been removed.

### Form of resolution

The concept of extraordinary resolutions has not been retained under the 2006 Act. All references to extraordinary resolutions have therefore been deleted from the articles. A provision is being added to the articles to clarify that, where an extraordinary resolution is required, a special resolution will also be effective (see article 2). This does not change the numbers of votes required to approve resolutions under the articles.

### Authorised share capital and unissued shares

The 2006 Act abolished the requirement for a company to have an authorised share capital. References to “unissued share capital” in the new articles have therefore been removed and replaced with the term “new shares”. The figures relating to the company’s share capital in article 4 have also been updated so as to reflect the issued share capital of the company.

### Power to reduce capital

Article 11 is being amended to reflect the fact that, under the 2006 Act, private companies limited by shares are now able to reduce their share capital without obtaining court approval.

### Registration of share transfers

The current articles provide that the company may refuse to register a transfer of shares without providing the transferee with reasons for the refusal. The 2006 Act makes it clear that companies must give reasons for a refusal to register a transfer of shares as soon as practicable (and, in any case, within two months) to the transferee. Furthermore, under the 2006 Act, companies must also provide the transferee with any further information about the reasons for the refusal as the transferee may reasonably request.

Changes are included in the articles to reflect this.

### Suspension of registration of share transfers

The current articles permit the directors to suspend the registration of transfers. Under the 2006 Act, share transfers must be registered as soon as practicable. The power in the current articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the new articles.

### Power to convert stock

The 2006 Act has removed a limited company's power to convert paid-up shares into stock. A company may still, however, reconvert previously converted stock into shares of any nominal value in accordance with the provisions of the 2006 Act. Article 52 has therefore been amended to reflect the new provisions of the 2006 Act.

### Convening general meetings

The provisions in the articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to the new provisions in the 2006 Act. In particular, a general meeting to consider a special resolution can now be convened on 14 days' notice, whereas previously 21 days' notice was required. Furthermore, all references to "annual general meetings" and "extraordinary general meetings" have been deleted from the articles and all meetings of the company are now referred to as "general meetings" which can be convened on 14 days' notice.

### Proxies

Under changes included in the 2006 Act, a proxy is now entitled to exercise the rights to attend, speak and vote at a general meeting of the company, whether on a show of hands or on a poll. Each proxy is also entitled to one vote on a show of hands. In addition, multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder.

Changes are included in the articles to reflect these legal changes. The articles have also been amended so as to allow proxies to be appointed by electronic means in accordance with the provisions of the 2006 Act.

### Directors' remuneration

Article 83 has been updated to increase the overall aggregate remuneration limit payable to the directors from £3,000 to £500,000. A higher amount may be determined by ordinary resolution.

### Conflicts of interest and authorisations of directors' interests

The new wording in articles 97-101 has been inserted to address the new statutory regime of conflicts of interest contained in the 2006 Act. The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It is also proposed that the articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. The proposed changes will mean that the articles will be consistent with the 2006 Act and will provide the directors with a sensible degree of flexibility in dealing with possible conflicts of interest, while safeguarding the interests of the company.

### Provision for employees on cessation of business

The 2006 Act provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The new articles provide that the directors may exercise this power.

### Financial assistance

With effect from October 1st 2009, private limited companies will be able to give financial assistance for the purchase of their own shares. Article 116 will therefore be amended so as to permit the company to give financial assistance in accordance with the 2006 Act.

### Sending of notices, documents and information

The 2006 Act enables companies to make increased use of electronic communications with shareholders. The articles have been amended to allow communications to be made to shareholders in electronic form and, in addition, to permit the company to take advantage of the new provisions relating to website communications.

The proposed amendments to the articles will allow for the use of electronic communications in certain situations when a hard-copy signature would otherwise be required and enable the company to send all types of notices, documents and information to shareholders by electronic means, including via a website, and provide for the deemed delivery of such communications. Before the company can communicate with a shareholder via a website, the relevant shareholder must be asked individually by the company to agree that the company may send or supply documents or information to him by such means, and the company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. In the case of a negative response, the entitlement of the shareholder to receive shareholder documents by post will continue as at present. The company will notify the shareholder (either in writing, or by other permitted means) when a relevant document or information is placed on the website, and a shareholder can always request a hard-copy version of the document or information.

### Directors' liabilities and indemnities

Articles 165-167 have been inserted to reflect the 2006 Act in relation to directors' and officers' indemnities, insurance and defence costs. The 2006 Act has widened slightly the scope of powers of the company to indemnify directors and officers and to fund expenditure incurred in connection with certain actions against directors and officers. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director or officer against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the 2006 Act allows a company to provide money for the purpose of funding a director's or an officer's defence in both "proceedings" and regulatory actions and investigations. Defence expenditure is available only to meet expenditure incurred by a director or officer while defending civil or criminal proceedings in connection with negligence, default, breach of duty or breach of trust by him in relation to the company or an associated company.

The articles have been inserted so as to reflect the wider scope of the provisions of the 2006 Act.