The Economist Group

Interim report 2012

Interim report
Six months ended September 30th 2012

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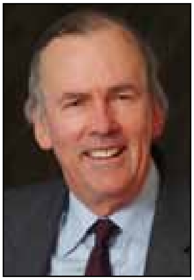
Chairman's statement



Revenue in the first half of the year rose £6.6m to £170.9m, up 4% compared with last year. Operating profit was £29.2m, a rise of 11%. Much of that increase was thanks to the timing of EuroFinance's biggest conference, which this year was held in September and therefore benefited the first half; last year it was in October. Stripping out the impact of that event and the stronger dollar, the underlying picture was more or less flat. However, the appearance of "no change" in the headline hides big shifts in our business.

People increasingly read *The Economist* on tablets and smartphones. Of the total circulation of 1.6m in September, 140,000 customers bought digital-only copies. Of the others, about 25% read both print and digital editions. We are investing to make sure we develop *The Economist* on the devices our readers use, and we are also adapting marketing so that prospective readers know the paper is available on these platforms.

At the same time as readership is becoming more digital, print advertising is declining. Our clients' marketing budgets are shifting to digital advertising — but also away from any form of advertising and into other methods of communication. We are seeing the same trend in CQ Roll Call advertising. We are developing services to meet these new needs. In the half year, revenue from digital advertising and other types of non-print marketing services grew by 27% compared with the same period last year. By contrast, print advertising across the Group fell by 14%.

Things are also changing at the EIU and in CQ Roll Call's circulation business. We used to sell mainly to information professionals such as librarians and researchers who provide analysis to executives; increasingly, we now sell directly to the executives. In the EIU's case we are seeing fast growth in custom research; at CQ Roll Call our Executive Briefings, which provide up-to-date and concise information, have continued to sell well; and we have recently launched CQ Engage, a powerful tool for associations to keep in touch with their members.

Revenue	Operating profit	Operating profit margin	Circulation of *The Economist*
£170.9m	£29.2m	17%	1.6m

Many of these initiatives produce a lower margin than the incremental profit that comes from selling an extra page of advertising; and early-stage businesses require investment. These factors, and difficult trading conditions, mean that we have to reduce costs in some areas in order to invest in others. Over the past few months we have made over 100 people redundant. This is something we do only with great reluctance and only when and where it is essential to protect the long-term health of the business.

In line with our usual practice, the interim dividend will be one-third of last year's full-year normal dividend, making a payment of 40.2p, a 7% increase on last year. It remains the company's policy to run on a cash-neutral basis, subject to the needs of the business. The Board has considered with particular care this year whether there is scope for a special dividend. The business will need increased investment in the coming years to support the shifts I have outlined, and the UK defined-benefit pension scheme is likely to require further injections of cash. That said, the Group continues to generate cash strongly, so the Board has decided to pay a special dividend in December of 40p per share. As I wrote last year, the Board will support a special dividend only when it is confident the company has more cash than it needs.

Despite what some may think, your Group is not immune to the changes in the market that are buffeting other media companies. But we do see great long-term potential in the shift to digital reading, in the new ways that our clients are marketing their services and in the growing appetite for useful and accurate business information. These are tomorrow's opportunities, and where we will be investing your money.

Rupert Pennant-Rea
Chairman

Profit and loss account

	NOTE	**Six months to Sept 30th 2012 £000**	Six months to Sept 30th 2011 £000	Twelve months to March 31st 2012 £000
Turnover	4	**170,866**	164,272	361,795
Operating profit		**29,156**	26,196	67,299
Net interest payable		**(1,541)**	(1,188)	(2,638)
Profit on ordinary activities before taxation		**27,615**	25,008	64,661
Taxation on profit on ordinary activities		**(7,456)**	(6,752)	(17,427)
Profit for the period		**20,159**	18,256	47,234
Basic earnings per share (pence)	5	**80.5**	72.9	188.7
Dividends paid per share (pence)	6	**83.0**	78.5	156.0

Balance sheet

	As at Sept 30th 2012 £000	As at Sept 30th 2011 £000	As at March 31st 2012 £000
Fixed assets			
Intangible assets	**107,965**	99,432	105,723
Tangible assets	**24,553**	25,842	25,640
	132,518	125,274	131,363
Current assets			
Stocks and work-in-progress	**2,549**	3,020	1,952
Debtors	**54,863**	63,369	64,877
Deferred taxation	**4,564**	5,462	4,587
Cash at bank and in hand	**42,303**	34,819	51,413
	104,279	106,670	122,829
Creditors: amounts falling due within one year	**(85,163)**	(60,244)	(79,674)
Unexpired subscriptions and deferred revenue	**(91,632)**	(106,654)	(108,363)
Net current liabilities	**(72,516)**	(60,228)	(65,208)
Total assets less current liabilities	**60,002**	65,046	66,155
Creditors: amounts falling after more than one year	**(54,468)**	(64,172)	(58,566)
Net assets excluding pension and other post-retirement obligations	**5,534**	874	7,589
Pension and other post-retirement obligations (net of deferred tax)	**(14,416)**	(6,484)	(12,162)
Net liabilities	**(8,882)**	(5,610)	(4,573)
Capital and reserves			
Called-up share capital	**1,260**	1,260	1,260
Profit and loss account	**(10,142)**	(6,870)	(5,833)
Total shareholders' deficit	**(8,882)**	(5,610)	(4,573)

Cashflow statement

	Six months to Sept 30th 2012	Six months to Sept 30th 2011	Twelve months to March 31st 2012
	£000	£000	£000
Net cash inflow from operating activities	**11,354**	8,737	70,441
Returns on investments and servicing of finance			
Interest received	**253**	262	376
Interest paid	**(2,643)**	(2,795)	(5,666)
Debt issue costs	**-**	-	(833)
Finance lease interest paid	**(104)**	(104)	(208)
	(2,494)	(2,637)	(6,331)
Taxation			
UK corporation tax paid	**(6,109)**	(1,383)	(6,781)
Overseas tax paid	**(799)**	(1,234)	(1,717)
	(6,908)	(2,617)	(8,498)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(914)**	(1,107)	(2,357)
Acquisitions and disposals			
Purchase of subsidiary undertakings	**(5,720)**	-	(11,269)
Cash acquired with subsidiary undertakings	**79**	-	925
Cash received from sale of business	**-**	213	213
	(5,641)	213	(10,131)
Equity dividends paid to shareholders	**(20,780)**	(19,654)	(39,058)
Net cash (outflow)/inflow before use of liquid resources and financing	**(25,383)**	(17,065)	4,066
Management of liquid resources			
Cash drawn from short-term deposits	**3,735**	10,877	6,994
Financing			
Capital element of finance lease rental payments	**(1)**	(1)	(2)
Sale/(purchase) of own shares	**359**	30	(2)
Drawdown of unsecured loan facility	**20,000**	5,000	22,000
Repayment of unsecured loan facility	**(3,470)**	(8,347)	(28,806)
	16,888	(3,318)	(6,810)
(Decrease)/increase in net cash	**(4,760)**	(9,506)	4,250

Reconciliation of net cashflow to movement in net debt

	Six months to Sept 30th 2012 £000	Six months to Sept 30th 2011 £000	Twelve months to March 31st 2012 £000
(Decrease)/increase in cash	**(4,760)**	(9,506)	4,250
Cash inflow from decrease in liquid resources	**(3,735)**	(10,877)	(6,994)
Cash (inflow)/outflow from debt financing	**(16,530)**	3,347	6,806
Cash outflow from decrease in lease financing	**1**	1	2
Change in net debt resulting from cashflows	**(25,024)**	(17,035)	4,064
Other non-cash changes	**(41)**	(41)	(81)
Exchange translation differences	**141**	(1,524)	(130)
Movement in net debt in period	**(24,924)**	(18,600)	3,853
Net debt at beginning of period	**(13,948)**	(17,801)	(17,801)
Net debt at end of period	**(38,872)**	(36,401)	(13,948)

Statement of total recognised gains and losses

	Six months to Sept 30th 2012 £000	Six months to Sept 30th 2011 £000	Twelve months to March 31st 2012 £000
Profit for the period	**20,159**	18,256	47,234
Exchange translation differences arising on consolidation	**(373)**	721	162
Actual return less expected return on pension scheme assets	**(4,142)**	(16,106)	(2,789)
Experience gains arising on pension scheme liabilities	**175**	284	999
Changes in assumptions underlying the present value of pension scheme liabilities	**(867)**	(6,512)	(30,684)
Actuarial gain on other post-retirement benefits	-	-	271
UK deferred tax attributable to the actuarial loss	**1,160**	5,807	7,730
Total recognised gains for the period	**16,112**	2,450	22,923

Reconciliation of movement in total shareholders' deficit

	Six months to Sept 30th 2012 £000	Six months to Sept 30th 2011 £000	Twelve months to March 31st 2012 £000
Profit for the period	**20,159**	18,256	47,234
Dividends paid	**(20,780)**	(19,654)	(39,058)
Retained (loss)/profit	**(621)**	(1,398)	8,176
Net sale/(purchase) of own shares	**359**	30	(2)
Other recognised losses	**(3,674)**	(16,527)	(24,473)
Exchange translation differences arising on consolidation	**(373)**	721	162
Net deduction from shareholders' deficit	**(4,309)**	(17,174)	(16,137)
Opening shareholders'(deficit)/funds	**(4,573)**	11,564	11,564
Closing shareholders' deficit	**(8,882)**	(5,610)	(4,573)

Analysis of results by business

	Six months to Sept 30th 2012 £000	Six months to Sept 30th 2011 £000	Twelve months to March 31st 2012 £000
Turnover by business			
United Kingdom	**26,352**	22,121	52,200
CEMEA	**31,381**	28,095	67,835
Americas and CQ Roll Call	**73,878**	78,238	164,408
Asia	**16,435**	14,800	33,930
Economist Intelligence Unit	**21,196**	19,430	39,942
Other businesses	**1,624**	1,588	3,480
	170,866	164,272	361,795
Operating profit by business			
United Kingdom	**7,102**	5,469	15,269
CEMEA	**5,276**	1,500	11,698
Americas and CQ Roll Call	**9,560**	13,780	27,601
Asia	**1,449**	781	2,441
Economist Intelligence Unit	**4,481**	3,989	8,269
Other businesses	**1,288**	677	2,021
	29,156	26,196	67,299

Notes to the financial information

1. The interim financial information for the six months to September 30th 2012 was approved by the Board of directors on November 27th 2012 and is unaudited.

2. The financial information for the year ended March 31st 2012 has been extracted from the full accounts for that period which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report. The report did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

3. The interim financial information for the six months ended September 30th 2012 has been prepared on the basis of the accounting policies set out in the 2012 annual report.

4. On April 2nd 2012 the Group acquired Clearstate (Pte) Limited, a market intelligence company specialising in the healthcare and life-sciences sectors for an initial consideration of Singapore $10.0m (£5m). In the period to September 30th 2012, Clearstate generated £840,000 of revenues and an operating loss of £100,000 after goodwill amortisation. This result is reported within the Economist Intelligence Unit business.

5. The shares held by the Employee Share Ownership Plan (ESOP) are excluded from the calculation of earnings per share. Diluted earnings per share are 80.2p (2011: 72.8p).

6. The dividend is shown net of dividends on shares held by the ESOP of £0.1m (2011: £0.1m).

   The dividend per share of 83.0p for the six months to September 30th 2012 is the final dividend for the year ending March 31st 2012 paid in July 2012. The dividend per share of 78.5p for the six months to September 30th 2011 is the final dividend for the year ending March 31st 2011 paid in July 2011. The dividend per share of 156.0p for the 12 months to March 31st 2012 includes interim, final and special dividends paid in that year.

NOTES