The Economist Group

Annual report 2006

Annual report

Report and accounts

From the chairman

The Economist Group has delivered strong results again this year. Our ambition is still to deliver exceptional content and to pursue further growth in our core businesses.

Profit before tax was up by 14% at £31m. The growth in profitability has been driven by a strong revenue performance, with turnover up 11% year-on-year. Net earnings were £22m, which is lower than last year by £5m, mainly because we recognised one-off tax benefits last year. Operating cashflow has increased to £29m, £5m above the prior year. The Board is recommending a final dividend of 43.8p, payable in July 2006 and representing a 10% increase on last year's final dividend. Since my last report, we have also paid a special dividend of 79.4p per share.

The Economist's worldwide circulation was 1,096,154 copies in the July-December 2005 ABC audit period, 9% up on the previous year. This success reinforces our confidence in the continuing growth potential of the newspaper.

The Economist Intelligence Unit also had a good year, with revenue up 7%. It updated a number of its internet services with better navigation and additional features.

Roll Call has had another outstanding year and continues to be one of the first places advertisers go to when they seek to influence the legislative agenda in the United States.

CFO magazine was redesigned. The new look was well received by clients and advertising agencies. In January we bought EuroFinance Conferences, a respected name in cash and treasury-management events, which we are integrating into our CFO business. We continue to explore acquisition opportunities that fit our strategy.

Business performance has been very good, despite a year of considerable change in the top management team. As mentioned last year, Andrew Rashbass took over as publisher of *The Economist*, and Chris Stibbs became Group finance director. In April 2006 John Micklethwait was appointed editor of *The Economist* when Bill Emmott stepped down. The smoothness of these transitions has been a credit to the retirees, their replacements and Helen Alexander, who was responsible for ensuring that there was no loss of momentum.

We anticipate further growth in the advertising and sponsorship markets. The notable increase in online advertising seems sure to continue. Acceleration of revenue growth at both Economist.com and CFO.com shows little sign of diverting advertising from *The Economist.* Our priority will be to gain the best advantage of this changing environment.

We made a £5m (about £3.5m net of tax) contribution to the UK Pension Fund in July 2005. On an FRS 17 basis and including revised mortality data, the deficit in the fund at March 31st 2006 stood at about £25m net of tax. We made an additional contribution of £10.5m (about £7.3m net of tax) in April 2006, reducing the deficit further.

We expect to continue to generate a cash surplus. In recent years the company has been run with a net cash balance, reflecting the uncertainties about the market and the trend in our earnings. We now intend to manage with a more or less cash-neutral policy, which may result in some debt if material acquisition opportunities arise. This should enable us to make progressive increases in dividends as underlying earnings rise. As we implement the policy, there may be potential for further special dividends and, if necessary, further payment into the Pension Fund.

We believe that the outlook for the Group remains strong and aim to achieve further earnings improvement in the year ahead.

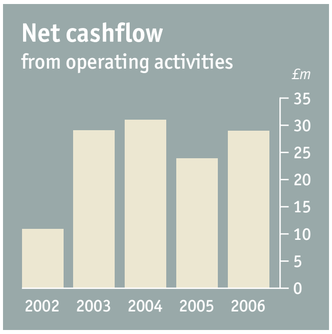
Robert Wilson

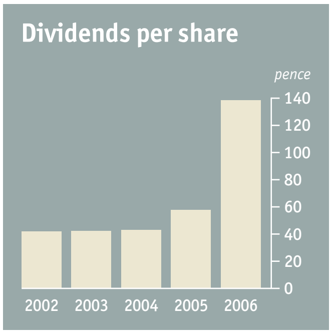
Five-year summary

Profit and loss	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Turnover	218	197	191	192	227
Operating profit before exceptionals	31	28	25	24	15
Operating profit	28	24	25	22	9
Non-operating exceptional items	1	1	-	-	5
Profit on ordinary activities before interest	29	25	25	22	14
Net interest	2	2	(1)	1	1
Profit before taxation	31	27	24	23	15
Profit after taxation	22	27	18	17	11
Balance sheet and cashflow					
Fixed assets	38	24	25	28	30
Net cash balance	55	73	69	55	46
Net current (liabilities)/assets	(5)	27	18	6	(1)
Long-term creditors and provisions	(29)	(27)	(32)	(40)	(24)
Net assets/(liabilities)	4	24	11	(6)	5
Net cash inflow from operating activities	29	24	31	29	11

Ratios	2006	2005	2004	2003	2002
Operating profit (before exceptional items) to turnover	14.4%	14.1%	12.9%	12.4%	6.6%
Earnings per share	88.0p	109.1p	71.0p	67.9p	44.7p
Earnings per share before goodwill amortisation, exceptional items and disposals	95.4p	95.4p	70.8p	72.0p	40.4p
Dividends and shares					
Final and interim dividends per share	59.0p	57.5p	43.3p	41.8p	41.8p
Special dividend per share	79.4p	-	-	-	-
Total dividend per share	138.4p	57.5p	43.3p	41.8p	41.8p
Times covered (excluding all exceptional items and disposals)	0.7	1.7	1.6	1.7	1.0
Indicative share value	£16.00	£14.00	£12.50	£10.00	£16.00

The results for the years ended March 31st 2002 through to March 31st 2005 have been restated to reflect the adoption of FRS 17 "Retirement benefits" and FRS 21 "Events after the balance sheet date".





From the chief executive

We have once again performed well, a result of our focus on the needs of readers, customers, clients and advertisers. I am clear that our success this year is a product of our belief in the long-term strength of all our businesses and our decision to invest behind them.

The Group's performance continues to be robust, with our revenues in total up 11% year-on-year, and our advertising revenue up 14%. We have achieved this in the context of changing advertising markets and a developing digital world. Some of our competitors have found this more challenging.

Our largest business is, of course, *The Economist*, and here our excellent advertising revenue performance has been underpinned by its continuing increases in circulation. Worldwide circulation is now 1,096,154, up 9%, and the driver of the performance is North America, which grew by 13% and accounts for 52% of total sales. I take particular satisfaction in the fact that as we grow bigger we are still able to innovate, developing new marketing techniques to keep ahead of our competitors.

The Economist is not the only part of the business that has had a good year. *Roll Call*'s revenue is up 40%. As the paper of choice in the advocacy advertising niche, *Roll Call* always benefits from a full legislative agenda. 2005 was not an election year, Congress was busy, legislation was contentious and we profited from this. The title's performance is a result of our decision two years ago to increase frequency to four issues a week, which made it possible to take advantage of explosive growth in the market.

Elsewhere the story is of renewal and vibrancy. We have invested in the CFO brand with a redesigned magazine and a marketing campaign to take our persuasive story to the widest possible group of advertisers. The Economist Intelligence Unit has continued its tradition of developing new products, most recently with *World Investment Service* and reconfigured internet services. And *European Voice* is seeing very rapid advertising growth as the advocacy market in Brussels begins to emulate that in Washington, DC.

We upgraded our financial systems, continued our programme to develop our people, partly in response to a staff survey in 2004, and in London over 300 people moved from Regent Street to Red Lion Square with the seamless professionalism I expect, but continue to be grateful for.

So 2005 was a busy year and all the signs are that 2006 will be too. Our world is changing fast; our readers want their news and analysis delivered electronically as well as on paper, and where readers go, advertisers follow. We are in an excellent position to address these digital challenges, and already 17% of Group revenues are from electronic products and services.

Over the coming year I will not only be looking for new ways in which we can continue to produce editorial in new media and build on the base that we already have in India and China, but also for continued improvement in profits. Our strategy to invest in media brands aimed at the high-end audience is working, and I would like to continue to refresh it with further acquisitions of high-quality businesses that improve our market position, as EuroFinance Conferences has done for the CFO brand.

Finally, I would like to pay tribute to Bill Emmott. Bill has left the newspaper in excellent shape and in capable hands—both editorially and commercially—with an exceptional team renowned for the highest standards of analysis and commentary.

With a new publisher and editor of *The Economist* and a new finance director for the Group, we have an excellent team to face the future.

Helen Alexander

The Economist brand family

The Economist brand family is a leading source of analysis on international business and world affairs, delivering information through a range of formats from magazines to conferences and electronic services. The brand is informed by an international outlook, rigorous analysis and an independent perspective.

At the centre of the brand family is *The Economist*, but the Economist Intelligence Unit, Economist Conferences, Economist.com and products such as *The World In* are important businesses taking the brand beyond its core.

The Economist brand family had a strong year. The high regard that the brand is held in around the world is a result of the focus on quality by both our editorial and commercial teams. Brand family revenues represented £182m of the total Group turnover, an increase of 9% on last year. Advertising and sponsorship revenue increased by 11%. Operating profit is also up at £23m.

The continuing increase in *The Economist*'s circulation and the ever greater demand for new products and services from the Economist Intelligence Unit demonstrate an eager desire in our audience for our independent view of a challenging and changing world.

The Economist

It has been a good year for *The Economist* and its associated businesses, including Economist.com, *The World In* and *Intelligent Life*. *The Economist*'s circulation has more than doubled over the last 12 years, demonstrating its increasing relevance, despite or even perhaps because of the vast information resources available on the internet.

Circulation of *The Economist* was 1,096,154 in the July-December 2005 ABC (Audit Bureau of Circulation) period, 9% ahead of the previous year. At constant exchange rates, advertising revenues were up 11% for *The Economist*, Economist.com, *Intelligent Life* and *The World In* combined.

Our relationship with advertising clients has also been strengthened online at Economist.com, which continues to grow and prosper. Turnover at Economist.com was up 32% on the previous year, driven mainly by advertising revenues. As well as delivering value to our subscribers and other regular readers, Economist.com is where many new readers sample *The Economist*. *The Economist*, Economist.com and the conference and research businesses of the Economist Intelligence Unit increasingly share the same audience which our clients seek to reach through advertising and sponsorship.

The Economist, unlike most other publications, has a single editorial product for all its readers around the world. *Economist* readers in different countries often have more in common with each other as global citizens than they do with citizens of their own country. Our leadership in international—pan-regional and worldwide—advertising reflects our clients' understanding of this fact. *The Economist* also competes for domestic advertising in the UK, and increasingly in the United States too. Having a stake in multiple advertising markets is powerful and has undoubtedly contributed to our commercial success. Newspaper advertising revenues were up 8% at constant exchange rates.

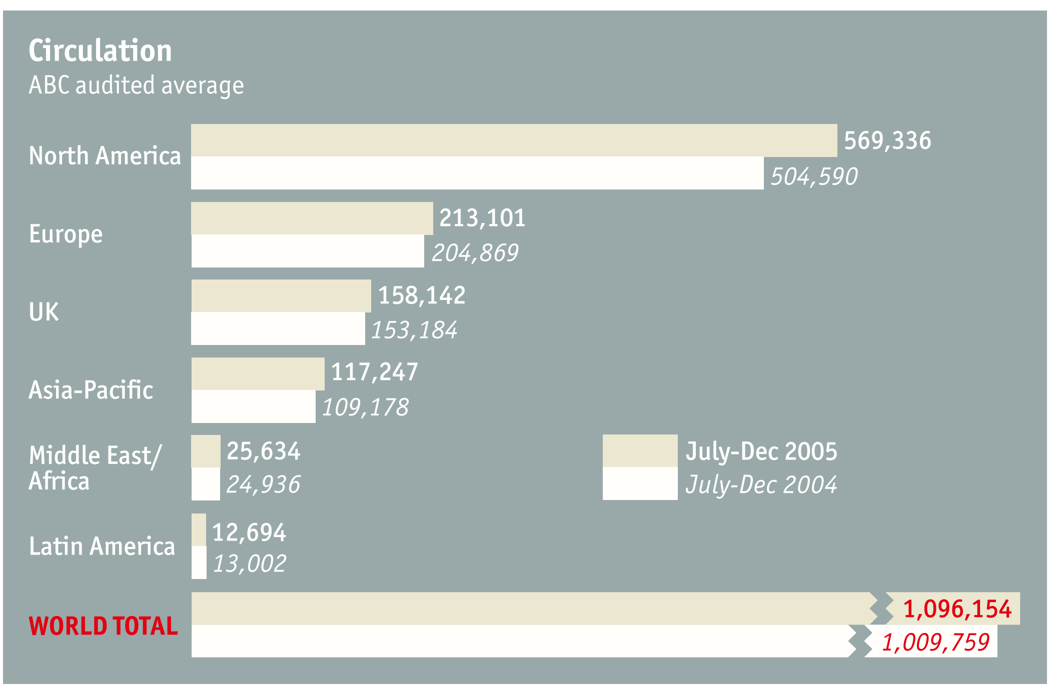
We remain convinced of the great potential in all our regions for increasing our circulation; our prospects in print and online advertising are encouraging in both domestic and international markets. We shall continue to invest around the world, and in particular in the United States, to make the most of these opportunities.

Other businesses within the Economist brand are doing well. *The World In* had a record year in terms of circulation, revenues and contribution, with advertising revenues up 27% on the previous year. We published the second issues of *Intelligent Life* and the Chinese language edition of *The World In*. The former included a launch in the United States, and saw a doubling of advertising revenues in Europe, the Middle East and Africa. Our rights and syndication revenues grew by 24% at constant exchange rates, and we signed our largest ever rights and syndication deal, with a Russian magazine. When the Group offices moved to Red Lion Square in December 2005, we closed the Economist bookshop in Regent Street, and instead are investing in our online facility.

A busy year for our journalists included our coverage of the London bombings on July 7th; Hurricane Katrina and its debilitating effect on the Bush presidency; France's rejection of the European constitution; the prospect of a worldwide housing bubble; and the continuing challenges of China and India for business people and politicians.

Bill Emmott marked his stepping down as editor with a valedictory leader celebrating the economic success of globalisation, but warning of its political frailties. Under Bill's editorship the circulation of the newspaper more than doubled to nearly 1.1m copies. We were delighted to be able to appoint our new editor, John Micklethwait, from the editorial team, and are confident that he will foster and further develop the outstanding editorial quality of *The Economist*.

The Economist has seen circulation gains, as well as revenue growth, in all our main markets. In North America, the average circulation of the newspaper in the July-December ABC period reached 569,336 copies, a year-on-year increase of 13%. *The Economist* now outsells *BusinessWeek, US News and World Report, Forbes, Fortune* and *The New Yorker* on the news-stands in the United States. The region's advertising revenues continued to grow, with an increase this year of 11% for the newspaper and 44% for Economist.com. The second half of the year was particularly strong, with newspaper advertising revenues up 20% and Economist.com's up 59%. We expanded our San Francisco operation to target West Coast clients; improved our



advertising marketing capabilities; and upgraded our sales management systems.

We will continue to invest in the United States to develop the audience there that advertisers want to reach. New initiatives such as our pilot project on multi-channel marketing in Baltimore are showing promising early results.

The Economist's readership in the United States is now 1.9m (Mediamark Research, autumn 2005). Our demographic profile remains attractive. For instance, the median age of *Economist* readers is 38—younger than the readers of other major business or news publications—and their median household income is $97,000 per year, which is higher than that of readers of *BusinessWeek, Forbes, Fortune* and *The New Yorker*.

The annual Mendelsohn readership survey among the affluent in the United States showed last year that *The Economist* was one of the few publications that increased its audience year-on-year despite the wealth criterion having been made more stringent. The affluent readership of *BusinessWeek* decreased by 19%, *Forbes* by 5% and *Fortune* by 0.5%.

An independent 2005 study of readership satisfaction placed *The Economist* as the number one title—out of 199—for overall excellence (MMR Press Study 2005) and the American Society of Magazine Editors voted our "Trouble with Mergers" cover (September 10th 1994) one of the top 40 magazine covers of the past 40 years.

Our UK circulation grew to 158,142 copies in the July-December 2005 ABC period. In the 2006 National Readership Survey, *The Economist* had over 400,000 readers each week in the UK. Newspaper advertising revenues grew by 11% in the UK, in a market where many national newspapers are struggling and much classified advertising is migrating to the web.

The Economist is able to reach a high-end audience in multiple advertising markets such as the UK, the whole of Europe, and worldwide. This once again allowed us to do well.

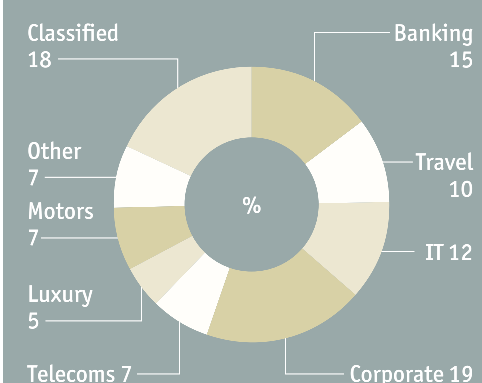
Now in its 18th year, *The Economist*'s outdoor campaign continues to win creative awards. This year's trophies include best poster and best poster campaign at the Campaign Poster awards, a gold and silver award at Creative Circle, and a gold and two silvers at the Cannes Lions. A new, additional, brand campaign started online in the UK in March 2006 with the objective of changing the way non-readers perceive *The Economist*. Using the strapline "Makes you think, doesn't it?", the campaign appears on websites, such as gay.com, not usually associated with our advertising.

In continental Europe, our circulation grew to 213,101 copies. A highlight was the country survey of Italy, which sold six times more copies than normal on the news-stand. At over 28,000 copies, this was the largest ever single-issue news-stand sale in one country in Europe.

Germany proved to be a difficult advertising market in the first half of the year, but improved in the second half. Two of our competitors, *BusinessWeek* and *Forbes*, closed their European editions during the year but pan-regional media, and *The Economist* in particular, retain their powerful position in our clients' minds and media schedules. Despite the slow start in Germany, overall advertising revenues in continental Europe finished ahead of those in the last financial year, with revenues from our Paris office up 15%.

The Economist's average issue sale in Asia-Pacific is now 117,247 (July-December 2005 ABC). This

The Economist
Advertising revenue by category



compares to *Fortune* at 86,307 and *The Wall Street Journal Asia* at 80,521. *BusinessWeek* has closed its Asia edition, whereas we have continued to grow and at the same time have substantially improved circulation profitability.

Readership of *The Economist* was up 41% among Asia's senior decision-makers as measured by the Asian Business Readership Survey 2006. *The Economist*'s advertising revenue for Asia continued to rise during the year. For the first time our largest client in Asia was a Chinese organisation, Huawei, a technology company. In China, more and more people are visiting Economist.com. China is regularly among the top five countries on the list as the home of visitors to Economist.com—more than 82,000 unique users in China visited Economist.com in January 2006—while India is regularly in the top ten. Our circulation across the Middle East and Africa and Latin America was 38,328 for the July-December 2005 ABC period, up on the previous year. We continue to manage the circulation volumes in these regions to improve profitability.

Over the coming year we will continue to focus on increasing the value that we derive from our top-quality editorial and the people who hold it in such high regard. We shall carry on investing behind our strategy of building for *The Economist* in print and online a senior, decision-making audience that advertisers want to reach, both globally and in various markets around the world.

Economist Intelligence Unit

The Economist Intelligence Unit has made the transition to a digital world, with 87% of publishing revenues generated from electronic sources. Our strategy is set in this context. We provide senior executives with information that allows them to make better-informed business decisions. We also offer analysis and meetings supported by sponsors who are keen to reach our audience of senior decision-makers.

This relationship was the basis of the rationale for merging our conference business with the Economist Intelligence Unit in 2004. Following the first full year of the merged operation we see opportunities in both the information and sponsorship parts of the business. In total, revenue at the Economist Intelligence Unit increased by 7% on the previous year. Revenue from business information services grew by 6%, while revenue from sponsorship activities increased by 10%.

At the core of the business is the publication of country analysis and data. Revenue in this area grew by 8% on last year. During the year we redesigned our daily briefing service, *ViewsWire*. This internet service is aimed at international executives rather than information specialists, and therefore requires an intuitive layout. It is now easier for users to find information on over 200 countries.

The *ViewsWire* service has also spawned a number of premium channels that share the same easy-to-use design. *Industry Briefing* provides top-down analysis and forecasts on eight key industries. As part of the redesign, these eight industry channels were unbundled to enable clients to choose specific industry sectors. This will support the targeting of sales efforts. We plan to deepen the level of our industry coverage over the next year.

Another channel is *Executive Briefing,* which focuses on management topics. To enhance our coverage in this area, *Executive Briefing* was relaunched with additional content from a new partnership with Harvard Business School Publishing.

The fastest growing part of our publications business has been the provision of data, where revenue increased by 31% on the prior year. The combination of our proprietary forecasts with carefully verified historical series in a manipulable electronic format is attractive to our users, and we have been working to develop further products. The latest of these is *World Investment Service,* which provides forecasts of foreign-direct-investment flows between major markets.

There is a trend among some clients to reduce the internal resources they devote to economic research. This affords an opportunity for us to take on research projects on the client's behalf. The work is confidential to the client and projects range from sophisticated cross-border benchmarking to special surveys and briefings for senior executives on current issues. These activities help to deepen our relationship with key customers of our subscription services, and we plan to extend our capabilities in this area.

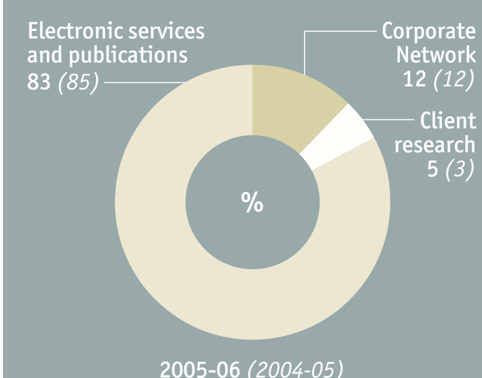
The Corporate Network is a meetings-based programme for executives operating in international markets. Here we have focused on honing editorial quality and simplifying the meetings component to reflect members' busy schedules. Part of the offering is a dedicated website for members, which was redesigned with additional features during the course of the year.

Our sponsorship activities concentrate on two main areas: reports and meetings. Although these offerings can be bought separately, they are sold by a single sales team and are increasingly purchased as a package. For example, we recently published a sponsored report which looks ahead to the global economy, industries and corporate structures of 2020. It drew on our own forecasts as well as on a global survey of senior executives. Our sales approach made it possible to include a series of meetings in the sponsorship package to launch the report's findings. These were organised around the world by our Economist Conferences team. We are also finding opportunities to create sales packages across The Economist Group. For example, the sponsor of a report on corporate priorities for 2006 also placed an advertisement in *The Economist* which highlighted the report's conclusions.

Although the sponsorship market for meetings linked to research has been buoyant, the more traditional conference-sponsorship market has been less so in some areas. Clients are looking to reach very specific audiences in the meetings they sponsor and it is important, therefore, that we focus on conference topics where we have the capability to lead the market. One such area is government Roundtables, where we saw another year of increasing activity. We have developed a successful formula which draws government leaders, delegates, sponsors and the media to high-profile events which we ran in countries as diverse as Australia, Colombia, Egypt, Nigeria, Spain and Ukraine.

Going forward, we will focus on strengthening our dominance in country analysis with an even wider geographic span, deepening our coverage of industry, resourcing our research businesses for further growth and recalibrating our meetings around topic areas in which we are particularly strong. Our early move into electronic publishing has created a business in tune with the changing media habits of our audience, while also allowing us to reach that audience directly for sponsorship activity. With margin and revenue increasing, the Economist Intelligence Unit forms an important part of the Group's strategy to serve and deliver the high-end audience.

Economist Intelligence Unit
Information services revenue



CFO brand family

CFO continued to bolster its position as a leading media brand serving a global audience of senior financial executives who are particularly valued by advertising clients for their spending power.

We have four areas of focus as we implement this strategy: enhancing the CFO brand in our core United States market; developing CFO.com and our research and conferencing activities; optimising our international business elsewhere; and seeking acquisitions for the brand family.

This year we made progress in each of these areas of focus by redesigning *CFO* magazine in the United States, elements of which were then rolled out to other *CFO* titles around the world. The redesign is helping *CFO* to increase its share of the advertising markets in which it competes because we now have an editorial environment which is more appealing to wider categories of advertiser.

CFO's strong position in the United States was underlined by *B2B* magazine, which ranked it as one of the top ten places to advertise for business-to-business marketers there. Similarly, the 2006 Global Capital Markets survey ranked *CFO* as the best route to chief financial officers in the world's top 2,000 companies. CFO brand family revenue grew year-on-year by 11% on the back of increased print advertising, conference revenue and online sales.

Editorially, *CFO* goes from strength to strength. We won a number of awards, including prizes from the National American Society of Business Press Editors, the New York State Society of Certified Public Accountants, and an award for the redesign from the US Society of Publication Designers.

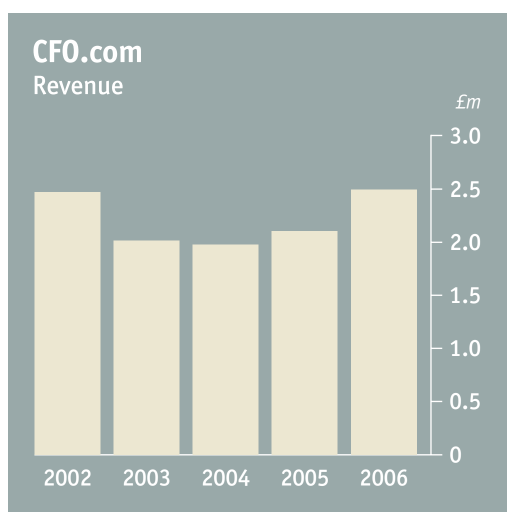
CFO's international business generated $1.2m in revenue for the United States edition, but the regional magazines performed well in their own right. *CFO Europe* and *CFO Asia* launched Research Services and *CFO China* launched a meetings service around the CFO Leadership dinner series. Held in Beijing and Shanghai, these invitation-only dinners convened leading figures from China's top-tier banks and finance regulators.

The successful CFO Rising event franchise from the United States was extended to Europe.

CFO.com had an excellent year. As part of its drive to expand online activities, the site launched a corporate-finance themed blog and expanded its "Today in Finance" topical coverage.

The acquisition of EuroFinance Conferences, a leading provider of events in the treasury and cash-management market, perfectly complements the CFO brand family's existing activities, and we are working on a number of good opportunities to expand its revenue streams, using the resources of the Group. We had been looking to acquire suitable businesses that fit with the Group's strategy, and this acquisition works well.

Senior finance executives will represent a vital segment of the high-end audience for our advertisers into the foreseeable future. Our ambition is to exploit our successful position in print and through events to make the most of our digital offering. This will be an increasingly important part of the CFO proposition to readers and advertisers.



Roll Call

***Roll Call* is the leading title covering the affairs of Capitol Hill in Washington, DC and consequently a natural home for advocacy advertising. We have benefited from a surge in cause-related promotion in the United States. *Roll Call*'s revenue continued to grow, which was made possible because we now publish four times a week when Congress is in session.**

An outstanding year for *Roll Call* saw revenue up 40% to £11m, although this was in part due to some specific circumstances. A combination of no elections, a very heavy and controversial legislative agenda and Congress's decision to sit for much longer than usual, meant that *Roll Call* was able to publish 16 more issues than had originally been planned. In total we sold more than 1,960 national advertising pages and boosted electronic revenues by 42%.

The environment next year is likely to be more difficult as a result of the Congressional midterm elections. Based on previous years' experience, we are likely to see fewer hotly contested measures before Congress as the elections approach and members of Congress leave Washington, DC to spend more time in their constituencies, resulting in less cause-related advertising activity.

Roll Call's quality continues to be acknowledged by a number of awards won, with Chris Maddaloni taking first place in the "pictorial" category of the White House News Photographers' Association awards. *Roll Call* won five prizes in the annual Dateline Awards competition for excellence in local journalism, sponsored by the Society of Professional Journalists DC Chapter. RollCall.com was also nominated, one of only five nominees chosen for this category, for Best Political Website in the 10th Annual Webby Awards.

Roll Call will carry on taking advantage of its position in a growing advertising market by expanding its non-print revenue streams, especially online, where there are opportunities for us to deliver to advertisers an audience, keenly interested in the affairs of Washington, DC, that lives beyond the Beltway.

European Voice

***European Voice* is the leading publication in Brussels covering political and legislative issues concerning the European Union. Although still in its infancy, the European advocacy advertising market is developing, with *European Voice* playing a leading role in its expansion.**

The indicator we track most closely is advertising revenue, which was up 20% on the previous year. Advocacy pages, bought by clients to represent a particular point of view, doubled in the last year.

European Voice is now more influential than ever before among decision-makers in Brussels, as demonstrated by the array of European heads of state at the EV50 awards. Six current or former European heads of state and government, five EU commissioners and 11 ambassadors attended. Editorial scoops included the final deal on a statute for MEPs; the European Commission's white paper on communication; the decision by the Commission to take action against mobile phone roaming charges; the EU's first ever maritime strategy; and an exclusive interview with the chairman and chief executive officer of Mittal Steel as he announced his bid for Arcelor.

The priority for the coming year will be to increase profitability, in particular through our leadership position in corporate and advocacy advertising, and to create new online revenue streams and white paper revenues.

Report and accounts

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Directors

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.

Helen Alexander CBE

Appointed as a director in November 1996 and as Group chief executive in January 1997. Joined the company in 1984; circulation and marketing director of *The Economist* from 1987 to 1993 and managing director of the Economist Intelligence Unit from 1993 until the end of 1996. A trustee of the Tate Gallery. A non-executive director of Centrica.

Sir David Bell

Appointed as a non-executive director in August 2005. An executive director of Pearson and chairman of the Financial Times Group. He is also chairman of Sadler's Wells and of Crisis.

Rona Fairhead

Appointed as a non-executive director in July 2005. Chief executive of the Financial Times Group, 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. Chief executive of USC Europe and advisory director of Berkshire Partners. Previously chief executive of US Can Corporation, English Welsh & Scottish Railway and Ibstock.

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, a director of Quanta Capital Holdings and trustee of New Philanthropy Capital.

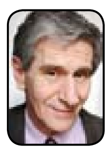
Simon Robertson

Appointed as a non-executive director in July 2005. Non-executive chairman of Rolls Royce Group and a non-executive director of HSBC Holdings, the Royal Opera House Covent Garden, Berry Bros & Rudd and partner of Simon Robertson Associates. Former positions include: managing director of Goldman Sachs International; president of Goldman Sachs Europe; chairman of Kleinwort Benson Group; a non-executive director of Inchcape, Invensys and the London Stock Exchange.

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 the Old Vic Theatre Trust. Chair of the American Patrons of Tate and a member of the UN Advisors Group on Inclusive Financial Services.

Lord Stevenson of Coddenham



Appointed as a non-executive director in July 1998. Chairman of HBOS. Previously chairman of Pearson.

Chris Stibbs

Joined the company as Group finance director in July 2005. Previously corporate development director of Incisive Media, finance director of the TBP Group and director of the FT Law and Tax Division.

Bill Emmott

Retired from the Board in March 2006, having served as editor of *The Economist* and as a director since 1993. Joined the company in 1980 and was formerly business affairs editor of *The Economist*. Author of three books on Japan, and "20:21 Vision".

Kiran Malik

Retired from the Board in July 2005, having joined the company as Group finance director in July 1997.

John Micklethwait

Appointed as a director on May 23rd 2006, and editor of *The Economist* since April 1st 2006. Previously US editor. Co-author of four books (with Adrian Wooldridge): "The Witch Doctors"; "A Future Perfect: The Challenge and Hidden Promise of Globalisation"; "The Company: A Short History of a Revolutionary Idea"; and "The Right Nation".

Trustees

Sir Campbell Fraser FRSE Trustee since 1978. President of the CBI from 1982 to 1984. Former chairman of Dunlop, Scottish Television, Tandem Computers, Riversoft, the International Advisory Board of Wells Fargo and the Business School of Strathclyde University. Founder of the Society of Business Economists. Retired in May 2006.

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 Fluor Corporation, Compagnie Financière Richemont, SABMiller and Kazakhmys. Chairman of Fluor.

Baroness Bottomley of Nettlestone Trustee since October 2005. Heads the Board Practice of Odgers Ray & Berndtson. Member of the House of Commons (1984-2005). Member of the Cabinet (1992-1997), 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, Cambridge University Judge Institute of Management Studies and the Supervisory Board of Akzo Nobel.

Clayton Brendish CBE Trustee since 1999. Non-executive director and external chairman of the Meteorological Office Board. Non-executive chairman of Echo Research, Anite Group and Close Beacon Investment Fund. Non-executive director of BT Group and Herald Investment Trust. Director of The Test and Itchen Association and trustee of the Foundation for Liver Research. Formerly deputy chairman of CMG and executive chairman of Admiral, which he co-founded.

Lord Alexander of Weedon QC Retired as a trustee in July 2005, having served since 1990. He was a life peer, barrister, arbitrator and chancellor of Exeter University. Lord Alexander died in November 2005.

Board committees

Remuneration committee

Sir Robert Wilson, chairman
Nigel Morris
Lord Stevenson of Coddenham

Audit committee

John Gardiner, chairman
Sir Robert Wilson
Lynn Forester de Rothschild
Nigel Morris

Group management committee

Helen Alexander
Chris Stibbs (appointed July 18th 2005)
Bill Emmott (retired March 31st 2006)
Kiran Malik (retired July 15th 2005)
John Micklethwait (appointed April 1st 2006)

Matthew Batstone

Group marketing and strategy director. Joined the Group in January 2001 having worked at Carlton Communications and J Walter Thompson.

Martin Giles

Managing director, North America. Joined the editorial staff of *The Economist* in 1989, working in London and Paris before becoming finance editor in 1994. Former publisher of *CFO Europe* and director of Economist Enterprises.

David Laird

Group commercial director. Joined the Group in 1978 as an advertising sales executive for *The Economist*, and worked in Frankfurt and New York before becoming the publisher of *CFO* magazine.

Nigel Ludlow

Managing director of the Economist Intelligence Unit. Joined the marketing team of *The Economist* in January 1984 and subsequently became global marketing director of the Economist Intelligence Unit.

Andrew Rashbass

Publisher and managing director of *The Economist*. Formerly Group chief information officer and managing director of Economist.com. Joined the Group in December 1997 from Associated Newspapers.

Oscar Grut (since April 1st 2006) Group general counsel and company secretary. Joined the company in 1998 from Linklaters.

Paul McHale (since April 1st 2006) Group HR director. Joined the company in 1999 from United Biscuits.

Directors' report

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 2006.

Developments and principal activities The principal activities of the Group consist of publishing, the supply of business information, conferences and the letting of property. Developments and likely future developments are referred to on pages 3 to 12.

Results and dividends The profit after tax for the financial year to March 31st 2006 was £22.0m (2005: £27.3m). A final dividend of 43.8p per share (2005: 39.9p) is proposed for the year to March 31st 2006. Together with the interim dividend already paid, this makes a total for the year of 62.9p (2005: 57.2p). In addition, a special dividend of 79.4p per share was paid in January 2006. The final dividend will be paid on July 20th 2006 to shareholders on the register at the close of business on June 13th 2006.

Property values The directors have been advised that the open market value of the Economist Complex at March 31st 2006 was £70.7m; the balance sheet value is £16.7m. 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 48.

Charitable and political donations During the financial year, the Group made contributions to charities amounting to £295,364 (2005: £202,338), including benefits granted in kind. No contributions were made for political purposes (2005: £nil).

Directors Kiran Malik and Bill Emmott retired from the Board on July 12th 2005 and March 31st 2006 respectively. Chris Stibbs, Group finance director, was appointed to the Board on July 26th 2005. Rona Fairhead, Simon Robertson and Sir David Bell were appointed as non-executive directors on July 7th, July 28th and August 1st 2005 respectively. John Micklethwait was appointed as an executive director on May 23rd 2006. Profiles of the directors appear on page 16. The Board's appointment policy is that, subject to a general rule that directors should retire at 70, all non-executive directors should be appointed for an initial fixed period of three years, and the chairman's term of office should be for six years, in both cases renewable at the invitation of the Board. 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 currently 89 "A" special shareholders. The "B" special shares are all held by The Financial Times Limited. Sir Robert Wilson, Bill Emmott, John Gardiner, Kiran Malik, John Micklethwait, Nigel Morris, Simon Robertson, Lynn Forester de Rothschild and Chris Stibbs were appointed by the "A" special shareholders. The "B" special shareholders appointed Helen Alexander, Sir David Bell, Rona Fairhead, 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"). However, the company has always sought to run its corporate affairs in line with best practice as required of publicly listed concerns and therefore follows the main principles of the Combined Code as closely as is 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 appropriate 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.

- The Board has not undertaken a formal evaluation of its individual directors but has done so for the Board as a whole and its committees.

Board The Board currently comprises nine 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. Lord Stevenson, who was appointed by The Financial Times Limited, was until September 30th 2005 chairman of its parent company, Pearson plc. Sir David Bell and Rona Fairhead are executive directors 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).

The Board is chaired by Sir Robert Wilson and has met for regular business six times in the 12 months to March 31st 2006. 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 Board to obtain the approval of the trustees for some actions.

Board committees The audit committee is made up of four non-executive directors. It is chaired by John Gardiner, and the other members are Sir Robert Wilson, Lynn Forester de Rothschild and Nigel Morris. The committee assists the Board to ensure that the published financial statements give a true and fair view of the business and 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, Lord Stevenson and Nigel Morris.

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. 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 and analysis that are valued by our customers.

- Our ambition is to own and develop across the world intelligent media brands for the high-end audience that clients value. Underpinning our ability to fulfil this objective is our commitment to independence, integrity and delivering 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 around the world. In the countries in which we operate, we abide by local laws and regulations. Where possible, we make an active contribution to local charities by charitable giving or encouraging staff involvement in community activity.

- We respect environmental standards. We aspire to best practice and in all cases will comply with the relevant local laws. We take environmental issues into consideration when placing contracts with suppliers of goods and services. 48% of our printers and paper manufacturers conform to or are working towards ISO 14001 standards.

- 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. 84% of staff in the United States and Europe have received 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.

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. Every two years, the Group carries out a staff survey. The next will take place in September 2006.

As part of a planned response to areas highlighted by the 2004 survey, the Group has developed an extensive training syllabus across all regions. We have provided formal performance reviews for 93% of staff in the 12 months to March 31st 2006, and have trained our managers in how best to carry these out efficiently and constructively.

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 2006 for the company represented on average 16 days of purchases (2005: 11 days).

Annual general meeting The notice convening the annual general meeting, to be held at 12.15pm on Thursday July 13th 2006 at the Institute of Directors, can be found on page 57.

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 7 on page 37.

Disclosure of information to auditors So 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 Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group to enable them to ensure the financial statements comply with the Companies Act 1985, for taking reasonable steps to safeguard the assets of the company and the Group, and for preventing and detecting fraud and other irregularities. The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements. The directors also confirm that applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and that the financial statements have been prepared on the going-concern basis.

By order of the Board
Oscar Grut
Secretary
June 13th 2006

Directors' report on remuneration

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, the policy and structure of Group bonus schemes and nominations for the appointment of new directors. 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

Table 1	2006		2005	
Beneficial holdings	"A" Special	Ordinary	"A" Special	Ordinary
Sir Robert Wilson	-	8,940	-	7,500
Helen Alexander	25,785	13,720	25,785	1,000
Sir David Bell (appointed August 1st 2005)	-	-	-	-
Bill Emmott (retired March 31st 2006)	25,780	5,000	25,780	5,000
Rona Fairhead (appointed July 7th 2005)	-	-	-	-
John Gardiner	-	1,000	-	1,000
Kiran Malik (retired July 12th 2005)*	1,000	2,400	1,000	2,400
Philip Mengel	-	1,000	-	1,000
Nigel Morris	-	3,944	-	2,000
Simon Robertson (appointed July 28th 2005)	-	2,000	-	-
Lynn Forester de Rothschild*	240,440	2,037,000	240,440	1,107,000
Lord Stevenson	-	1,000	-	1,000
Chris Stibbs (appointed July 26th 2005)	-	700	-	-
Holding as a trustee				
Lynn Forester de Rothschild*	-	2,012,550	-	2,012,550

None of the above interests changed subsequent to the year end.

*The interests of the directors in the share capital of the company including those of a spouse and children, as recorded in the register of directors' interests at the year end, are shown in the table above.

As at March 31st 2006 Helen Alexander held the right to acquire 16,000 ordinary shares (2005: 32,000) at a nominal price under the restricted share scheme described on the next page, having exercised such a right in respect of 16,000 ordinary shares during the year.

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 182,895 (2005: 203,179) shares 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.

Current plans

(a) Annual bonus plan 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 directly.

(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 rewards 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 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.

(d) Succession pool long-term plan A pool of staff has been identified as having the potential to fill key senior positions in the medium to long term. They participate in this three-year cash bonus scheme 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.

(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.

Discontinued plans

Group long-term plan Some managers were awarded (and still hold) performance units under the Group long-term plan which are equivalent in value to the company's ordinary shares. After a three-year performance period participants may receive an incentive reward equal to a proportion of the increase in share price depending on achievement of performance hurdles related to improved earnings. Certain executive directors and other senior employees still hold similar performance units awarded in prior years, with performance periods of three and four years.

Directors' remuneration

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 year ended March 31st

	Salary/fees	Annual bonus	Long-term plan payments	Benefits	Total	
	2006	2006	2006	2006	2006	2005
	£000	£000	£000	£000	£000	£000
Sir Robert Wilson	80	-	-	-	80	80
Helen Alexander	346	230	-	13	589	531
Sir David Bell[1] (appointed August 1st 2005)	20	-	-	-	20	-
Bill Emmott[2] (retired March 31st 2006)	389	128	-	14	531	327
David Hanger (retired March 31st 2005)	-	-	-	-	-	416
Rona Fairhead[1] (appointed July 7th 2005)	20	-	-	-	20	-
Kiran Malik[3] (retired July 12th 2005)	234	31	-	4	269	266
John Gardiner	36	-	-	-	36	36
Philip Mengel	36	-	-	-	36	36
Nigel Morris	30	-	-	-	30	25
Simon Robertson (appointed July 28th 2005)	20	-	-	-	20	-
Lynn Forester de Rothschild	30	-	-	-	30	30
Lord Stevenson[4]	30	-	-	-	30	30
Chris Stibbs (appointed July 26th 2005)	168	76	-	10	254	-
Total	1,439	465	-	41	1,945	1,777

1 Paid to Pearson plc
2 Includes a contractual payment in lieu of notice
3 Includes an ex gratia payment
4 Paid to Pearson plc until September 30th 2005

Directors' accrued pensions

The pensions which would be paid annually on retirement at age 60 based on service with the company to March 31st 2006 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

Table 3

	Age at March 31st 2006	Accrued pension at March 31st 2006	Accrued pension at March 31st 2005	Increase
Helen Alexander	49	£140,577	£121,173	£19,404
Bill Emmott (retired March 31st 2006)	49	£117,181	£108,504	£8,677
Kiran Malik (retired July 12th 2005)	55	£30,871	£28,603	£2,268
Chris Stibbs (appointed July 26th 2005)	The company contributed £16,502 to the defined contribution scheme.			

Financial review

Operating result Operating profit at £28.3m is 16% higher than last year. The increase is driven by revenue growth of 11%, including higher advertising revenue of 14%. While the results have been affected by the stronger US dollar, lower hedging returns in the year meant that operating profit would have increased by 19% at constant exchange rates.

Costs Costs before exceptional items are 10% higher than last year, reflecting business activity and additional investment, in particular in newspaper circulation. Gross margin and distribution costs grew in line with revenue. Increases in marketing, development and administration costs reflect brand promotion, higher variable staff pay and lower hedging gains as well as a significant upgrade of our global finance systems. The operating exceptional charges of £2.9m included property relocation and restructuring costs.

Profit before tax The Group has benefited again from provision releases relating to businesses sold in 2002. Net interest income is £2.3m, down 1%, and reflects significant one-off payments of the special dividend and the acquisition of EuroFinance Conferences in January 2006. Profit before tax has increased by 14% to £30.8m.

Taxation The effective rate of tax of 28.5% (2005: credit of 1.0%) reflects the return to more normal tax rates following the recognition of brought-forward US tax losses last year. Ignoring the impact of loss relief and exceptional items, the underlying tax rate is 34% (2005: 38%). The reduction in the underlying rate reflects increased investment in the United States. As a result of the return to a more normal effective tax rate, the profit after tax margin decreased from 13.8% to 10.1%.

Earnings per share As a result of the higher tax charge, earnings per share decreased by 19% from 109.1p to 88.0p. Normalised earnings per share, which excludes non-operating exceptional items including last year's tax benefit, increased from 84.9p to 86.7p. Excluding the impact of all exceptional items, the earnings per share of 95.4p is in line with the prior year.

Pensions The Group operates a number of pension schemes. The UK defined benefit plan is the only defined benefit scheme. The annual report reflects the adoption of FRS 17 "Retirement benefits" and the recognition of the pension scheme deficit of £24.5m on the balance sheet, including new mortality rates which reflect increased expected lives of members. In addition to the £5m lump sum contribution paid into the scheme last year, the Group paid an additional £5m contribution in July 2005 and again demonstrated its commitment to meet scheme liabilities by making a further lump sum contribution of £10.5m in April 2006. Neither the April 2006 special contribution nor a £5m benefit from changes to rules on commutation of tax-free cash on retirement are included in the latest FRS 17 valuation.

Dividend Due to a change in accounting standards, dividends are accrued only once approved. The dividend accounted for in the annual report represents the 2005 final dividend, the 2006 interim dividend and a special dividend of £20m paid in January 2006. The Board has proposed increasing the final dividend by 10% to 43.8p (2005: 39.9p), giving a total dividend per share of 142.3p, an increase of 149% over last year (2005: 57.2p). The total ongoing dividend is covered 1.4 times by current year basic and diluted earnings per share and 1.5 times excluding all exceptional items.

Treasury and treasury policy The objective of treasury policy is to identify, monitor and manage financial risks. These risks are related 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 has cash of £54.8m at the year end (2005: £73.2m). Cash is mainly held in sterling in the UK. Most of our cash is held in sterling AAA-rated money market funds. These funds were yielding an average of 4.6% at the year end. This means that refinancing risks are low though the Group is conscious of the need to ensure adequate financing facilities can be made readily available to allow for future strategic direction. Borrowings are made from time to time under a number of facilities available to the Group. All of these facilities are short-term and expire before the end of January 2007. Current facilities are considered to be adequate for the Group at this time. The only external debt at the year end was a finance lease on the Economist Complex.

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 disposition 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 concentration of 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. At present no active hedging is being undertaken.

Cashflow The Group again demonstrated strong cash generation from operating activities, with an excellent conversion ratio of 101%, compared with a very healthy 98% in 2005. After taking account of exceptional items such as lump sum pension payments, but most notably the special dividend and acquisition payments, the cash outflow was £18.5m compared with an inflow last year of £4.4m.

Foreign exchange The translation of the Group's overseas trading results was favourably affected by the stronger average US dollar exchange rate which existed throughout 2006. However, the Group achieved lower hedging gains, so profit before tax was adversely affected by £0.6m.

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

Chris Stibbs

Auditors' report

We have audited the Group and parent company financial statements (the "financial statements") of The Economist Newspaper Limited for the year ended March 31st 2006 which comprise the Group profit and loss account, the Group reconciliation of movements in equity shareholders' funds, the Group and company balance sheets, the Group cashflow statement, the Group 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 United Kingdom accounting standards (United Kingdom 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 report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also 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 chairman's and chief executive's statements, the directors' report including the corporate governance statement, the directors' report on remuneration and the financial review. 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.

We also, at the request of the directors (because the company has chosen to apply certain elements of the Financial Services Authority Listing Rules), review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 United Kingdom generally accepted accounting practice, of the state of the Group's and the parent company's affairs as at March 31st 2006 and of the Group's loss and cash-flows for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- The information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
June 13th 2006

Consolidated profit and loss account

NOTE	Years ended March 31st	2006 £000	2005 Restated £000
1, 2	**Turnover**		
	Continuing operations	217,183	196,984
	Acquisitions	625	-
		217,808	**196,984**
	Cost of sales	(66,343)	(61,691)
	Gross profit	**151,465**	**135,293**
	Distribution costs	(22,269)	(20,224)
	Marketing, development and other administrative costs	(97,841)	(87,226)
1	**Operating profit before exceptional items**	**31,355**	**27,843**
13	Goodwill amortisation	(120)	-
3	Exceptional items	(2,913)	(3,493)
	Operating profit	**28,322**	**24,350**
	Continuing operations	28,599	24,350
29	Acquisitions	(277)	-
		28,322	**24,350**
4	Profit on sale of fixed asset investments	556	1,252
	Profit on ordinary activities before interest	**28,878**	**25,602**
5	Net interest receivable	2,257	2,273
6	Other finance charges	(337)	(889)
2, 7	**Profit on ordinary activities before taxation**	**30,798**	**26,986**
10	Taxation on profit on ordinary activities	(8,778)	283
	Profit on ordinary activities after taxation	**22,020**	**27,269**
11	Dividends	(34,615)	(14,371)
23	**Retained (loss)/profit**	**(12,595)**	**12,898**
12	**Basic and diluted earnings per share (pence)**	**88.0**	**109.1**
11	Dividends per share (pence)	138.4	57.5
	Dividend cover (times) before exceptional items	0.7	1.7

	2006 £000	2005 Restated £000
Reconciliation of movements in equity shareholders' funds		
Retained (loss)/profit (from above)	(12,595)	12,898
Other recognised losses	(6,483)	-
Net sale of own shares	292	17
Exchange translation differences arising on consolidation	(1,440)	2
Net (deduction) from/addition to shareholders' funds	**(20,226)**	**12,917**
Opening shareholders' funds (originally £20,089,000 before deducting prior-year adjustments of £8,872,000)	24,134	11,217
Closing shareholders' funds	**3,908**	**24,134**

All results arise from continuing operations.

Consolidated balance sheet at March 31st

NOTE		2006 £000	2005 Restated £000
	Fixed assets		
13	Intangible assets	12,623	-
14	Tangible assets	25,238	24,108
		37,861	**24,108**
	Current assets		
16	Stocks and work-in-progress	2,186	2,065
17	Debtors: due within one year	41,937	34,030
18	Deferred taxation	5,964	9,146
24	Cash and deposits	54,753	73,229
		104,840	**118,470**
19	Creditors: due within one year	(45,368)	(37,180)
	Unexpired subscriptions and deferred revenue	(63,995)	(54,051)
	Net current (liabilities)/assets	**(4,523)**	**27,239**
	Total assets less current liabilities	**33,338**	**51,347**
20	Creditors: due after one year	(2,526)	(2,527)
21	Provisions for liabilities and charges	(424)	(498)
	Net assets excluding pension and other post-retirement liabilities	**30,388**	**48,322**
25	Pension and other post-retirement liabilities (net of deferred tax)	(26,480)	(24,188)
1,2	**Net assets**	**3,908**	**24,134**
	Capital and reserves		
22	Called-up share capital	1,260	1,260
23	Profit and loss account	2,648	22,874
	Equity shareholders' funds	**3,908**	**24,134**

The 2005 comparatives have been restated for the adoption of FRS 17 and FRS 21 (see note 30).
The company balance sheet is shown in note 33.

June 13th 2006
Robert Wilson
Chris Stibbs
Directors

The notes on pages 32-56 form an integral part of these financial statements.

Consolidated cashflow statement

NOTE	Years ended March 31st	2006 £000	2005 £000
24	**Net cash inflow from operating activities**	**28,612**	**23,864**
	Returns on investments and servicing of finance		
	Interest received	2,642	2,530
	Interest paid	(248)	-
	Finance lease interest paid	(208)	(207)
		2,186	2,323
	Taxation		
	UK corporation tax paid	(3,060)	(5,608)
	Overseas tax paid	(922)	(750)
		(3,982)	(6,358)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(3,605)	(1,354)
	Acquisitions and disposals		
29	Purchase of subsidiary undertaking	(9,709)	-
29	Cash acquired with subsidiary undertaking	900	-
	Deferred consideration on sale of former business	-	833
		(8,809)	833
	Equity dividends		
	Amounts paid	(34,615)	(14,371)
	Cash (outflow)/inflow before use of liquid resources and financing	**(20,213)**	**4,937**
24	**Management of liquid resources**		
	Cash drawn from short-term deposits	25,852	(6,975)
	Financing		
	Capital element of finance lease rental payments	(1)	(1)
	Sale of own shares	292	17
		291	16
24	**Increase/(decrease) in cash**	**5,930**	**(2,022)**

Reconciliation of net cashflow to movement in net funds		
Increase/(decrease) in cash in the year	**5,930**	**(2,022)**
Cash (inflow)/outflow from (decrease)/ increase in liquid resources	(25,852)	6,975
Cash outflow from decrease in lease financing	1	1
Change in net funds resulting from cashflows	**(19,921)**	**4,954**
Exchange translation differences	1,446	(536)
Movement in net funds in the year	(18,475)	4,418
Net funds brought forward at April 1st	70,701	66,283
Net funds carried forward at March 31st	**52,226**	**70,701**

Cash and deposits at March 31st 2006 amounted to £54,753,000 (2005: £73,229,000).

Statement of total recognised gains and losses

NOTE	Years ended March 31st	2006	2005
			Restated
		£000	£000
	Profit after taxation for the financial year	22,020	27,269
	Exchange translation differences arising on foreign currency net investments	(1,440)	2
	Actual return less expected return on pension scheme assets	14,480	2,695
	Experience losses arising on the pension scheme liabilities	(1,415)	(257)
	Changes in assumptions underlying the present value of the pension scheme liabilities	(22,014)	(2,438)
	Actuarial loss on other post-retirement benefits	(313)	-
	UK deferred tax attributable to the actuarial loss	2,779	-
	Total recognised gains	**14,097**	**27,271**
23	Prior period adjustment		
	Adoption of FRS 17 "Retirement benefits"	(18,645)	
	Adoption of FRS 21 "Events after the balance sheet date"	9,975	
	Total recognised gains since last annual report	**5,427**	

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.

Principal accounting policies

A summary of the more important Group accounting policies is set out below. Accounting policies have been consistently applied except that FRS 17 "Retirement benefits" and FRS 21 "Events after the balance sheet date" have been adopted in these statements. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly (note 30).

Basis of accounting The financial statements are based on the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

Basis of consolidation The consolidated accounts include the accounts of all subsidiary undertakings made up to March 31st. As permitted by section 230 of the Companies Act 1985, the company's own profit and loss account is not presented. 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. Where the Group or company owns a non-controlling interest, held for the long term, in the equity share capital of another company and is in a position to exercise significant influence over that company, the interest is equity accounted and the company treated as an associated undertaking. Otherwise, the interest is accounted for as either a fixed or current asset investment.

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 value-added tax and other sales 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 and results for the year 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 in the trading results for the year. Other gains or losses on open contracts are deferred.

Goodwill Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition and is included in intangible assets. Prior to April 1st 1998, purchased goodwill arising on consolidation was written off to reserves in the year in which it arose. 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.

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.

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.

Pensions 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 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 from 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.

Depreciation 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%

Notes to the financial statements

NOTE 1 Analysis of results by class of business

Turnover by business	2006 £000	2005 £000
Economist brand family	181,755	166,422
CFO brand family	19,881	17,841
Government brands	13,006	9,598
Other businesses	3,166	3,123
	217,808	196,984

Other businesses include Ryder Street Properties (which owns and manages the Economist Complex in London).

Operating profit before goodwill amortisation and exceptional items by business	2006 £000	2005 Restated £000
Economist brand family	23,358	21,159
CFO brand family	674	1,157
Government brands	4,378	2,787
Other businesses	2,945	2,740
	31,355	27,843

The reconciliation of operating profit before exceptional items to profit before taxation is on the face of the profit and loss account. The detail of exceptional items and goodwill amortisation is set out in notes 3 and 13.

Operating profit before goodwill amortisation and exceptional items from acquisitions is stated after charging cost of sales of £262,000 (2005: £nil) and marketing, development and administrative costs of £520,000 (2005: £nil).

Net assets/(liabilities) by business	2006 £000	2005 Restated £000
Economist brand family	248,100	210,532
CFO brand family	(10,415)	(11,217)
Government brands	5,900	1,803
Other businesses	1,774	1,358
Shared activities	(241,451)	(178,342)
	3,908	24,134

Dividends of The Economist Newspaper Limited are charged to shared activities.

NOTE 2 Analysis of results by geographical region

Turnover by customer location	2006 £000	2005 £000
United Kingdom	51,704	46,493
North America	97,619	84,827
Europe	39,715	37,827
Asia-Pacific	21,807	20,743
Other	6,963	7,094
	217,808	196,984

	2006			2005		
Turnover by origin of legal entity	Total sales £000	Inter-region sales £000	Sales to third parties £000	Total sales £000	Inter-region sales £000	Sales to third parties £000
United Kingdom	155,772	(20,045)	135,727	142,415	(17,848)	124,567
North America	74,413	-	74,413	65,461	-	65,461
Europe	4,498	(1,832)	2,666	3,432	(1,681)	1,751
Asia-Pacific	7,831	(2,829)	5,002	7,671	(2,466)	5,205
	242,514	(24,706)	217,808	218,979	(21,995)	196,984

Profit/(loss) before taxation by origin of legal entity	2006 £000	2005 Restated £000
United Kingdom	21,169	16,506
North America	8,279	9,766
Europe	839	1,013
Asia-Pacific	511	(299)
	30,798	26,986

Net assets/(liabilities) by origin of legal entity	2006 £000	2005 Restated £000
United Kingdom	19,158	20,231
North America	(18,625)	(23,569)
Europe	1,520	28,233
Asia-Pacific	1,855	(761)
	3,908	24,134

NOTE 3 Exceptional items charged before operating profit

	2006 £000	2005 £000
Reorganisation costs	(1,840)	(1,709)
Property relocation costs	(1,073)	(1,930)
Onerous property contracts	-	146
	(2,913)	(3,493)

After taking into account the above exceptional items and goodwill amortisation of £120,000, "marketing, development and other administrative costs" for the year are £100,874,000 (2005 restated: £90,719,000).

NOTE 4 Profit on sale of fixed asset investments

	2006 £000	2005 £000
Profit on sale of fixed asset investments	556	1,252

The profit for the year relates to the release of provisions for warranties and claims arising on the sale of the business of Journal of Commerce, Inc in 2002. The profit for the year ended March 31st 2005 includes this and also deferred consideration received from the sale of the business of Pyramid Research, Inc in 2002.

NOTE 5 Net interest receivable

	2006 £000	2005 £000
Interest receivable on cash deposits	2,670	2,482
Interest payable on bank overdrafts and loans repayable within five years	(205)	(2)
Interest payable on finance lease	(208)	(207)
Interest payable and similar charges	(413)	(209)
Net interest receivable	2,257	2,273

NOTE 6 Other finance charges

	2006 £000	2005 £000
Unwinding of discounts on onerous property contract provisions	41	44
Other finance charges	296	845
	337	889

NOTE 7 Profit on ordinary activities before taxation

Profit is stated after charging the following:	2006 £000	2005 £000
Auditors' remuneration		
Audit (company £75,400, 2005: £71,820)	213	181
Non-audit services provided by the auditors in the UK	429	215
Operating lease rentals		
Plant and equipment	320	375
Land and buildings	5,513	5,074
Depreciation		
On owned assets	2,418	2,401
On assets held by finance lease	54	54
Loss on disposal of tangible assets	6	33

Non-audit services provided by PricewaterhouseCoopers LLP relate to acquisition due diligence, pension, corporate finance and taxation advice during the year. The increase largely relates to the acquisition of EuroFinance and indirect taxation services.

NOTE 8 Directors' emoluments

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

NOTE 9 Employees

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

	2006		2005	
	Average	Year-end	Average	Year-end
Economist brand family	764	774	726	731
CFO brand family	127	150	119	120
Government brands	86	89	85	87
	977	1,013	930	938

Employment costs including executive directors' emoluments	2006 £000	2005 Restated £000
Wages and salaries	61,523	54,344
Social security costs	5,726	4,562
Defined benefit pension costs	4,522	4,493
Other pension costs	1,340	1,219
	73,111	64,618

Prior year defined benefit pension costs reduced by £1,238,000 as a result of the adoption of FRS 17 "Retirement benefits".

NOTE 10 Taxation on profit on ordinary activities

The taxation charge/(credit) based on the result for the year is made up as follows:	2006 £000	2005 Restated £000
UK corporation tax at 30% (2005: 30%)	4,354	4,919
Overseas taxation	540	383
UK deferred taxation	2,491	949
Overseas deferred taxation	2,220	322
	9,605	6,573
Adjustments in respect of previous years		
UK corporation tax	(1,206)	(1,469)
Overseas taxation	(140)	(182)
UK deferred taxation	579	(311)
Overseas deferred taxation	(60)	(4,894)
	8,778	(283)

The overseas taxation rate is lowered as a result of tax losses the Group has available in the United States. Included within the deferred tax charge for the year is an FRS 17 charge of £1,837,000 and the impact of the use of previously recognised tax losses.

Current tax rate reconciliation	2006 %	2005 %
UK tax rate	30.0	30.0
Expenses not deductible for tax purposes	2.5	5.1
Depreciation in excess of capital allowances	(0.3)	(0.2)
Utilisation of general provisions	(2.9)	(4.2)
Overseas tax rates	(0.7)	(1.1)
Overseas tax losses utilised	(6.4)	(8.9)
Timing of US goodwill amortisation	(0.5)	(0.7)
Deferred income	0.2	-
FRS 17 pension movement	(6.0)	(0.2)
Adjustments to tax charge in respect of previous periods	(4.4)	(6.3)
Current tax rate reflected in earnings	11.5	13.5

NOTE 11 Dividends

	2006 £000	2005 Restated £000
Final dividend paid of 39.9p per share (2005 restated: 40.2p per share)	9,975	10,048
Interim dividend paid of 19.1p per share (2005: 17.3p per share)	4,776	4,323
Special dividend paid of 79.4p per share (2005: nil)	19,864	-
	34,615	14,371

All shareholders other than holders of the trust shares (see note 22) receive the above dividend per share.

Dividends amounting to £255,000 (2005 restated: £118,000) in respect of the company's shares held by the ESOP (note 23) have been deducted in arriving at the aggregate of dividends paid.

The directors are proposing a final dividend in respect of the financial year ending March 31st 2006 of 43.8p which will absorb £11m of shareholders' funds.

NOTE 12 Earnings per share

Basic and diluted earnings per share are based on earnings of £22,020,000 (2005 restated: £27,269,000) and the 25,200,000 ordinary and special shares in issue (2005: 25,200,000) less those held by the ESOP being on average 190,777 shares (2005: 206,132), resulting in a weighted average number of shares of 25,009,223 (2005: 24,993,868). Earnings per share before all exceptional items are based on a profit of £23,853,000 (2005 restated: £23,856,000) which excludes goodwill amortisation, operating exceptional items, the profit on sale of fixed asset investments and, in 2005, the tax credit relating to full recognition of US tax losses.

		2006			2005 Restated	
	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 and diluted earnings per share	22,020	25,009	88.0	27,269	24,994	109.1
Adjustment in respect of non-operating exceptional items						
- profit on sale of fixed asset investments	(556)	25,009	(2.2)	(1,252)	24,994	(5.0)
- attributable taxation	222	25,009	0.9	21	24,994	0.1
- tax credit on recognition of US losses	-	-	-	(4,820)	24,994	(19.3)
Adjustment in respect of exceptional items						
- goodwill amortisation	120	25,009	0.5	-	-	-
- operating exceptional items	2,913	25,009	11.6	3,493	24,994	13.9
- attributable taxation	(866)	25,009	(3.4)	(855)	24,994	(3.4)
Earnings per share before all exceptional items and goodwill amortisation	23,853	25,009	95.4	23,856	24,994	95.4

Earnings per share before non-operating exceptional items are 86.7p (2005 restated: 84.9p) based on profit of £21,686,000 (2005 restated: £21,218,000).

NOTE 13 Intangible fixed assets

	Goodwill £000
Cost	
At April 1st 2005	-
Additions	12,743
At March 31st 2006	12,743
Accumulated amortisation	
At April 1st 2005	-
Charge for the year	120
At March 31st 2006	120
Net book value at March 31st 2006	12,623
Net book value at March 31st 2005	-

NOTE 14 Tangible fixed assets

	Leasehold buildings Long £000	Leasehold buildings Short £000	Plant and machinery £000	Equipment £000	Total £000
Cost					
At April 1st 2005	32,122	3,652	4,137	25,546	65,457
Additions	27	2,060	43	1,228	3,358
Acquisitions	-	-	-	118	118
Disposals	(421)	-	(648)	(6,018)	(7,087)
Exchange translation differences	12	307	53	289	661
At March 31st 2006	31,740	6,019	3,585	21,163	62,507
Depreciation					
At April 1st 2005	12,245	2,589	4,061	22,454	41,349
Provided during year	680	491	31	1,270	2,472
Disposals	(421)	-	(648)	(6,012)	(7,081)
Exchange translation differences	-	230	48	251	529
At March 31st 2006	12,504	3,310	3,492	17,963	37,269
Net book value at March 31st 2006	19,236	2,709	93	3,200	25,238
Net book value at March 31st 2005	19,877	1,063	76	3,092	24,108

The directors have been advised that the market value of the Economist Complex at March 31st 2006 was £70,650,000 (2005: £55,700,000); the book value is £19,200,000 (2005: £19,900,000) and the balance sheet value is £16,700,000 (2005: £17,400,000) after deducting the finance lease payable. Included within the cost of leasehold buildings is capitalised interest of £2,312,500 (2005: £2,312,500).

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

	2006 £000	2005 £000
Cost or valuation	6,798	6,798
Aggregate depreciation	(1,079)	(1,025)
Net book value	5,719	5,773

NOTE 15 Fixed asset investments

The Group has an 18.6% convertible preference shareholding in CBM Holdings, Inc, a US corporation which publishes directories and other trade publications. No value has been assigned to the shareholding which has been accounted for as a fixed asset investment as there is no significant influence.

NOTE 16 Stocks and work-in-progress

	2006	2005
	£000	£000
Raw materials	1,782	1,535
Work-in-progress	364	463
Finished goods	40	67
	2,186	2,065

NOTE 17 Debtors

	2006	2005
		Restated
Due within one year	£000	£000
Trade debtors	31,238	24,103
Other debtors	2,091	3,203
Prepayments and accrued income	7,001	5,882
Tax recoverable	1,607	842
	41,937	34,030

NOTE 18 Deferred taxation

Summary of movements in deferred tax asset	£000
At April 1st 2005 as restated	9,146
Charge to the profit and loss account	(3,393)
Charge to the statement of total recognised gains and losses	(9)
Exchange difference	220
At March 31st 2006	5,964

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

	2006	2005
		Restated
	£000	£000
Excess of depreciation over capital allowances	535	741
Loss relief	2,987	4,820
Other timing differences	2,442	3,585
	5,964	9,146

All potential assets have been recognised except for taxation which would arise on the remittance of profits retained overseas and Asia losses as noted below.

An asset has been recognised on tax losses of £2,987,000 (2005: £4,820,000) available in the United States as the directors consider that it is appropriate at this time to forecast that there will be sufficient future profits in the relevant region against which the tax asset can be recovered.

No asset has been recognised on accumulated trading losses of £5,424,000 in Asia as the directors consider that it is not appropriate at this time to forecast that there will be sufficient profits in the relevant countries against which the tax asset can be recovered.

NOTE 19 Creditors: due within one year

	2006	2005
		Restated
	£000	£000
Trade creditors	4,142	3,653
Other creditors including taxation and social security	16,149	12,463
Accruals	25,077	21,064
	45,368	37,180
Other creditors including taxation and social security:		
Corporation tax	6,178	6,066
Other tax and social security payable	2,572	3,325
Other creditors	7,399	3,072
	16,149	12,463

The Group had no bank loans as at March 31st 2006. The Group has undrawn overdraft facilities which are subject to review by the end of January 2007.

NOTE 20 Creditors: due after one year

	2006	2005
	£000	£000
Finance leases	2,526	2,527

Future minimum payments under finance leases are as follows:		
Within one year	1	1
In more than one year but not more than five years	6	4
After five years	2,520	2,523
	2,527	2,528

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

NOTE 21 Provisions for liabilities and charges

	Onerous property leases £000
At April 1st 2005	498
Charge to the profit and loss account	41
Utilised in year	(152)
Exchange difference	37
At March 31st 2006	424

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

NOTE 22 Equity share capital

	Authorised		Issued and fully paid	
At March 31st 2006 and 2005	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 23 Reserves

	2006	2005 Restated
Consolidated profit and loss account	£000	£000
At April 1st as previously stated	31,544	18,829
Adoption of FRS 17	(18,645)	(18,920)
Adoption of FRS 21	9,975	10,048
At April 1st as restated	22,874	9,957
Retained (loss)/profit for the year	(12,595)	12,898
Other recognised losses relating to the period	(6,483)	-
Net sale of own shares	292	17
Exchange translation differences arising on consolidation	(1,440)	2
At March 31st	2,648	22,874

The impact of the adoption of FRS 17 and FRS 21 on the prior year comparatives is shown in note 30.

The cumulative goodwill written off to profit and loss reserves by the Group is £22,800,000 (2005: £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.

Of the profit for the financial year, a profit after tax of £99,430,000 (2005 restated: £24,197,000) is dealt with in the accounts of The Economist Newspaper Limited. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the company alone.

NOTE 23 Reserves (continued)

At March 31st 2006, there were 182,895 shares (2005: 203,179) of 5p each with a nominal value of £9,145 (2005: £10,159) in The Economist Newspaper Limited (own shares) held by the ESOP. The ESOP provides a limited market for 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. 28,524 (2005: 49,800) 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 2005	2,161
Net sale of own shares	(292)
At March 31st 2006	1,869

NOTE 24 Notes to consolidated cashflow statement

	2006	2005 Restated
Reconciliation of operating profit to net cash inflow from operating activities	£000	£000
Operating profit	28,322	24,350
Depreciation	2,472	2,455
Goodwill amortisation	120	-
Loss on sale of tangible fixed assets	6	33
Decrease/(increase) in stocks	10	(940)
Increase in debtors	(3,558)	(2,060)
Increase in creditors	3,151	4,188
Increase in unexpired subscriptions and deferred revenue	4,482	2,984
Decrease in provisions	(6,393)	(7,146)
Net cash inflow from operating activities	28,612	23,864

Operating cash inflow was reduced by £5,000,000 due to a special defined benefit pension contribution (2005: £5,000,000).

Operating cashflows include an outflow of £4,720,000 (2005: £1,001,000) which relates to the exceptional items of £2,913,000 (2005: £3,493,000).

	At April 1st 2005	Cashflow	Acquisition	Other non-cash changes	Exchange movement	At March 31st 2006
Analysis of net funds	£000	£000	£000	£000	£000	£000
Cash in hand	2,101	5,030	900	-	48	8,079
Cash placed on short-term deposits	71,128	(25,852)	-	-	1,398	46,674
Total cash balances	73,229	(20,822)	900	-	1,446	54,753
Finance leases due within one year	(1)	1	-	(1)	-	(1)
Finance leases due after one year	(2,527)	-	-	1	-	(2,526)
Net funds	70,701	(20,821)	900	-	1,446	52,226

At March 31st 2006 cash balances included £1,470,000 (2005: £1,167,000) of deposits collected from tenants of the Group's property business. This cash is only accessible in the event of the tenant defaulting.

NOTE 25 Pension and other post-retirement liabilities

Analysis of pension and other post-retirement liabilities (net of deferred tax)	2006	2005
	£000	£000
UK Group scheme	(24,538)	(22,545)
Post-retirement benefits	(1,942)	(1,643)
	(26,480)	(24,188)

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. Those employees who joined before 2002 also have 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 most recent full actuarial valuation of the UK defined benefit scheme was at January 1st 2004. This showed the market value of assets of the main UK scheme to be £79,200,000. The actuarial valuation of pension liabilities was £109,800,000, leaving a deficit of £30,600,000. The actuarial method used for the valuation was the projected unit credit method. On a Minimum Funding Requirement basis, the level of funding was 91%. This valuation was used as a basis for agreeing the ongoing company funding rate, which was set at 28.5% effective April 1st 2004. The next full valuation to be performed is due as at January 1st 2007 in accordance with the statutory funding objective.

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 contribution rate to the UK Group scheme during the year was 28.5%. A special contribution of £5,000,000 was made during the year and a further special contribution of £10,500,000 was made after the year end in April 2006. Effective April 1st 2006, the employer contribution rate was restructured to be 17.1% of pensionable salaries to fund ongoing service costs and £2,045,000 per year increasing at 4.6% per year to repay the deficit.

The FRS 17 valuation does not reflect new HM revenue and custom 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. The effect of the new rule is expected to reduce the deficit by a further £5m.

The main overseas schemes and one UK scheme are based on defined contributions; amounts totalling £219,000 (2005: £150,000) were accrued in respect of these schemes at year end. The provision in respect of unfunded, unapproved arrangements was £485,000 (2005: £464,000).

UK Group scheme

The valuation of the UK Group scheme has been updated by independent actuaries to March 31st 2006. The major assumptions used to determine this valuation are as follows:

	2006	2005	2004
	%	%	%
Inflation	2.7	2.7	2.7
Increase in pensionable salaries	4.5	4.5	4.5
Increase in pensions in payment	2.6	2.5	2.5
Increase in deferred pensions	2.7	2.7	2.7
Discount rate for scheme liabilities	5.0	5.4	5.5

NOTE 25 Pension and other post-retirement liabilities (continued)

The mortality assumptions have changed to reflect mortality trends and increased expected lifetimes of current and future pensioners. The FRS 17 valuation is based on PA92 mortality tables with longevity projection based on medium cohort and the year in which the member was born.

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 2006 %	Value at March 31st 2006 £000	Long-term rate of return expected at March 31st 2005 %	Value at March 31st 2005 £000	Long-term rate of return expected at March 31st 2004 %	Value at March 31st 2004 £000
Equities	7.8	73,460	7.8	56,199	7.8	49,264
Government and corporate bonds	4.5	43,698	5.0	32,717	5.0	27,547
Property	6.0	11,265	7.8	9,611	7.8	3,707
Other	4.5	705	4.8	1,220	4.0	979
Total market value of assets		129,128		99,747		81,497
Present value of scheme liabilities		(164,183)		(131,954)		(119,610)
Deficit in the scheme		(35,055)		(32,207)		(38,113)
Related deferred tax asset		10,517		9,662		11,434
Net pension liability		(24,538)		(22,545)		(26,679)

Analysis of the amount charged to operating profit	2006 £000	2005 £000
Current service cost	(4,522)	(4,493)

Analysis of the amount charged to other finance charges	2006 £000	2005 £000
Expected return on pension scheme assets	7,141	5,936
Interest on pension scheme liabilities	(7,297)	(6,781)
Net cost	(156)	(845)

Analysis of amount recognised in statement of total recognised gains and losses	2006 £000	2005 £000
Actual return less expected return on the pension scheme assets	14,480	2,695
Experience losses arising on the pension scheme liabilities	(1,415)	(257)
Changes in assumptions underlying the present value of the scheme liabilities	(22,014)	(2,438)
Actuarial loss recognised in the statement of total recognised gains and losses	(8,949)	-

NOTE 25 Pension and other post-retirement liabilities (continued)

Movement in deficit during the year	2006 £000	2005 £000
Deficit in scheme at April 1st	(32,207)	(38,113)
Movement		
Current service cost	(4,522)	(4,493)
Contributions	10,779	11,244
Other finance costs	(156)	(845)
Actuarial loss	(8,949)	-
Deficit in scheme at March 31st	(35,055)	(32,207)

A further special pension contribution of £10,500,000 was paid after the year end in April 2006 to fund the deficit.

History of experience gains and losses

Difference between the actual and expected return on scheme assets	2006	2005	2004	2003
Amount (£000)	14,480	2,695	8,135	(21,983)
Percentage of scheme assets	11%	3%	10%	(34%)

Experience losses on scheme liabilities				
Amount (£000)	(1,415)	(257)	(2,440)	1,890
Percentage of the present value of the scheme liabilities	(1%)	-	(2%)	2%

Total actuarial loss recognised in the statement of total recognised gains and losses				
Amount (£000)	(8,949)	-	10,089	(22,042)
Percentage of the present value of the scheme liabilities	(5%)	-	8%	(19%)

Other post-retirement benefits

The Group provides post-retirement medical benefits to certain former employees. At March 31st 2006, 67 (2005: 69) retired employees were eligible to receive benefits. As at March 31st 2006 the Group estimated the present value of its accumulated post-retirement medical benefits obligation to be £1,942,000 (2005: £1,643,000), 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 5%. Actual premiums paid are being set against this provision, which is periodically assessed for adequacy.

NOTE 26 Financial commitments

Operating leases **Land and buildings, leases expiring**	2006 £000	2005 £000
Within one year	632	1,658
Between two and five years	2,763	2,465
After five years	297	718
	3,692	4,841

Plant and equipment, leases expiring		
Within one year	34	30
Between two and five years	130	214
After five years	-	11
	164	255

The land and building commitments above do not include a London property as the lease includes a rent-free period until September 1st 2007.

NOTE 27 Capital commitments and contingent liabilities

At March 31st 2006, there was £nil of capital expenditure contracted for but not provided in the financial statements (2005: £114,000). 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 28 Related party transactions

Significant shareholdings
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.

Related party transactions
The Group sold goods and services to Pearson plc and subsidiary companies to a total value of £71,693 (2005: £162,642) in the normal course of trade during the year, and acquired goods and services to a total value of £49,525 (2005: £57,770). The aggregate balances outstanding with these companies as at March 31st 2006 were £nil (2005: £nil) due to the Group and £188 (2005: £4,907) due from the Group.

NOTE 29 Acquisitions

Acquisition of EuroFinance Conferences Limited

On January 23rd 2006, the Group acquired 100% of the issued share capital of EuroFinance Conferences Limited ("EuroFinance"). EuroFinance is accounted for as an acquisition. The purchase consideration comprised cash of £9,500,000, with deferred contingent consideration of up to an additional £2,500,000.

The deferred contingent consideration is to be paid on the basis of EuroFinance's 2006 calendar year qualifying revenues exceeding 2005 revenues. Goodwill is amortised on a straight-line basis over 20 years, as in the directors' opinion, this reflects its useful economic life.

The following table sets out the book values of 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	125	-	(7)	118
Current assets				
Debtors	2,521	(8)	(262)	2,251
Cash	900	-	-	900
Total assets	3,546	(8)	(269)	3,269
Creditors				
Creditors due within one year	(3,301)	(863)	-	(4,164)
Net liabilities acquired	245	(871)	(269)	(895)
Goodwill				12,743
Consideration				11,848
Consideration satisfied by:				
Cash (including £209,000 costs)				9,709
Escrow amount				(361)
Deferred contingent consideration				2,500
				11,848

NOTE 29 Acquisitions (continued)

The book value of the assets and liabilities has been taken from the management accounts of EuroFinance at January 23rd 2006. The fair value adjustments contain some provisional amounts, as indicated below, which will be finalised in the 2007 financial statements. They include the provision for certain European indirect tax and other liabilities. The fair value adjustment for alignment of accounting policies reflects the restatement of assets and liabilities in accordance with the Group's policies. The Group does not defer internal overhead costs on events that have not yet taken place, so has adjusted debtors to be in line with Group policy.

	£000
Net cash outflow in respect of the acquisition:	
Cash consideration	(9,709)
Cash at bank and in hand acquired	900
	(8,809)

EuroFinance contributed £520,000 to the Group's net operating cashflows, paid £nil in respect of interest, £nil in respect of taxation and used £5,700 for capital expenditure.

In its last financial year to December 31st 2005, EuroFinance made a profit after tax of £373,000. For the period since that date to the date of acquisition, EuroFinance management accounts show no revenue, costs, profits or losses.

NOTE 30 Restatement of comparatives

The adoption of FRS 17 "Retirement benefits" has required the Group to bring the pension fund deficit onto its balance sheet.

The adoption of FRS 21 "Events after the balance sheet date" has required the reversal of the liability recognised at March 31st 2005 for dividends proposed but not paid.

As a result of these changes in accounting policy, the comparatives have been restated as follows:

Consolidated balance sheet	Debtors: due within one year £000	Creditors: due within one year £000	Deferred taxation £000	Provisions for liabilities and charges £000	Pension liabilities £000	Shareholders' funds £000
2005 as previously reported	34,110	(47,235)	11,521	(8,416)	-	32,804
Reversal of SSAP 24	-	-	(1,671)	5,571	-	3,900
Adoption of FRS 17	-	-	-	-	(22,545)	(22,545)
Reclassification of post-retirement medical benefit provision	-	-	(704)	2,347	(1,643)	-
Adoption of FRS 21	(80)	10,055	-	-	-	9,975
2005 restated	34,030	(37,180)	9,146	(498)	(24,188)	24,134

Consolidated profit and loss account	Dividends £000	Taxation £000	Operating profit £000	Other finance charges £000	Profit after taxation £000
2005 as previously reported	(14,298)	401	23,112	-	26,994
Reversal of SSAP 24	-	1,654	5,731	-	7,385
Adoption of FRS 17	-	(1,772)	(4,493)	(845)	(7,110)
Adoption of FRS 21	(73)	-	-	-	-
2005 restated	(14,371)	283	24,350	(845)	27,269

2005 gross profit has been restated by £4.2m to reflect the reclassification of conference and event costs as marketing, development and administrative expenses, following the integration of Economist Conferences with the Economist Intelligence Unit.

NOTE 31 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 51 (2005: 33) forward exchange contracts, and nil (2005: 192) option contracts. The fair value of forward contracts outstanding at the year end is a £784,000 liability (2005: £1,011,000 asset) and option contracts a £5,000 asset (2005: £232,000).

NOTE 32 Post balance sheet events

On April 20th 2006, the Group made a special contribution of £10,500,000 into the UK defined benefit scheme.

NOTE 33 Company balance sheet at March 31st

NOTE		2006 £000	2005 Restated £000
	Fixed assets		
34	Tangible assets	3,728	1,654
34	Investments	85,621	75,983
		89,349	**77,637**
	Current assets		
34	Stocks and work-in-progress	334	336
34	Debtors: due after one year	14,613	15,621
34	Debtors: due within one year	39,561	30,786
34	Deferred taxation	1,438	2,549
	Cash and deposits	32,449	31,946
		88,395	**81,238**
34	Creditors: due within one year	(41,950)	(97,553)
	Unexpired subscriptions and deferred revenue	(18,138)	(17,484)
	Net current assets/(liabilities)	**28,307**	**(33,799)**
	Total assets less current liabilities	**117,656**	**43,838**
34	Provisions for liabilities and charges	(1,198)	(1,046)
	Net assets	**116,458**	**42,792**
	Capital and reserves		
22	Called-up share capital	1,260	1,260
34	Profit and loss account	115,198	41,532
	Equity shareholders' funds	**116,458**	**42,792**

June 13th 2006

Robert Wilson

Chris Stibbs

Directors

NOTE 34 Notes to company balance sheet

Tangible fixed assets	Leasehold buildings: short	Plant and machinery	Equipment	Total
Cost	£000	£000	£000	£000
At April 1st 2005	-	1,686	20,298	21,984
Additions	2,053	-	848	2,901
Disposals	-	(648)	(5,483)	(6,131)
At March 31st 2006	2,053	1,038	15,663	18,754
Depreciation				
At April 1st 2005	-	1,665	18,665	20,330
Provided during year	82	14	706	802
Disposals	-	(646)	(5,460)	(6,106)
At March 31st 2006	82	1,033	13,911	15,026
Net book value at March 31st 2006	1,971	5	1,752	3,728
Net book value at April 1st 2005	-	21	1,633	1,654

Investments (fixed assets)	Shares in Group companies
Cost	£000
At April 1st 2005	79,181
Additions	12,209
Disposals	(5,769)
At March 31st 2006	85,621
Amounts written off	£000
At April 1st 2005	3,198
Release of provision	(3,198)
At March 31st 2006	-
Net book value at March 31st 2006	85,621
Net book value at April 1st 2005	75,983

NOTE 34 Notes to company balance sheet (continued)

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*
CFO Publishing Corporation (USA)
The Economist Group (Asia/Pacific) Limited (Hong Kong)
The Economist Group (Jersey) Limited (Jersey)
The Economist Newspaper Group, Inc (USA)
Roll Call, Inc (USA)
Ryder Street Properties (Management) Limited*
The Economist Group (Luxembourg) S.a.r.l. (Luxembourg)
The Economist Group France S.a.r.l (France)*

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 (Jersey) Limited, The Economist Group (Luxembourg) S.a.r.l. 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, other than The Economist Group (Luxembourg) S.a.r.l., have a financial year ending March 31st. The Economist Group (Luxembourg) S.a.r.l. has a financial year end of the end of February.

On June 25th 2005 the company sold its 100% interest in Ryder Street Properties Limited to The Economist Intelligence Unit Limited, realising a profit on sale of £39,125,000. On March 31st 2006 the company sold a 51% interest in The Economist Overseas Holdings Limited to the Economist Intelligence Unit Limited, realising a profit on sale of £55,929,000.

	2006	2005
Stocks and work-in-progress	£000	£000
Raw materials	294	248
Work-in-progress	-	21
Finished goods	40	67
	334	336

Debtors	2006	2005
Due after one year	£000	£000
Amounts owed by Group companies	14,613	15,621

	2006	2005
		Restated
Due within one year	£000	£000
Trade debtors	15,121	13,159
Amounts owed by Group companies	20,920	13,240
Other debtors	1,187	1,904
Prepayments and accrued income	2,315	2,470
Tax recoverable	18	13
	39,561	30,786

NOTE 34 Notes to company balance sheet (continued)

Summary of movements in deferred tax asset	£000
At April 1st 2005 as restated	2,549
Charge to the profit and loss account	(1,102)
Charge to the statement of total recognised gains and losses	(9)
At March 31st 2006	1,438

	2006	2005 Restated
Assets recognised for deferred taxation under the liability method:	£000	£000
Excess of depreciation over capital allowances	474	717
Post-retirement benefits	148	1,024
Other timing differences	816	808
	1,438	2,549

All potential assets have been recognised except for taxation which would arise on the remittance of profits retained overseas.

	2006	2005 Restated
Creditors: due within one year	£000	£000
Trade creditors	2,207	1,591
Amounts owed to Group companies	18,129	79,044
Other creditors including taxation and social security	6,949	4,079
Accruals	14,665	12,839
	41,950	97,553

Other creditors including taxation and social security:		
Corporation tax	831	592
Other tax and social security payable	2,199	3,027
Other creditors	3,919	460
	6,949	4,079

	Provisions for retirement benefits
Provisions for liabilities and charges	£000
At April 1st 2005 as restated	1,046
Charge to the profit and loss account	80
Charge to the statement of total recognised gains and losses	161
Utilised in year	(89)
At March 31st 2006	1,198

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 34 Notes to company balance sheet (continued)

Reserves - profit and loss account	2006 £000	2005 Restated £000
At April 1st as previously stated	28,502	15,658
Prior year adjustment - reversal of SSAP 24 pension provision	3,055	5,983
Prior year adjustment for FRS 21 (see note 30)	9,975	10,048
At April 1st as restated	41,532	31,689
Retained profit for the year	73,514	9,826
Net sale of own shares	292	17
Other recognised losses	(140)	-
At March 31st	115,198	41,532

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 £99,430,000 (2005 restated: £24,197,000).

Financial commitments **Operating leases**	2006 £000	2005 £000
Land and buildings, leases expiring		
Within one year	65	1,609
Between two and five years	195	48
After five years	38	-
	298	1,657
Plant and equipment, leases expiring		
Within one year	21	17
Between two and five years	95	172
	116	189

At March 31st 2006, there was £nil of capital expenditure contracted for but not provided in the financial statements (2005: £114,000). 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, although there were no overdrafts as at March 31st 2006. The annual cost of property leases guaranteed by the company is currently £nil (2005: £1,398,000) per year.

Restatement of comparatives

As a result of changes in accounting policy, the comparatives have been restated as follows:

	Debtors: due within one year £000	Creditors: due within one year £000	Deferred taxation £000	Provisions for liabilities and charges £000	Shareholders' funds £000
2005 as previously reported	30,866	(107,608)	4,307	(5,859)	29,762
Reversal of SSAP 24 pension provision	-	-	(1,310)	4,365	3,055
Reclassification of deferred taxation on post-retirement medical benefit provision	-	-	(448)	448	-
Adoption of FRS 21	(80)	10,055	-	-	9,975
2005 restated	30,786	(97,553)	2,549	(1,046)	42,792

The above adjustments resulted in a decrease of £2,928,000 in the company's profit after tax.

Notice of annual general meeting

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 13th 2006 at 12.15pm, for the following purposes:

1. To receive the accounts and the reports of the directors and the auditors for the year ended March 31st 2006

2. To declare the final dividend

3. To reappoint PricewaterhouseCoopers LLP as the company's auditors

4. To authorise the directors to fix the remuneration of the auditors

By order of the Board
Oscar Grut
Secretary

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

June 13th 2006

A member entitled to attend and vote may appoint a proxy, who need not be a member of the company, to attend and vote instead. A form of proxy is enclosed. It must first be signed by the appointer 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.