

Interim report 2016





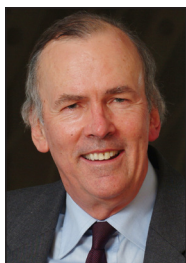
Interim report

Six months ended September 30th 2016

Contents

- 2 Chairman's statement
- 4 Condensed consolidated income statement
- 5 Condensed consolidated statement of comprehensive income
- 6 Condensed consolidated balance sheet
- 8 Condensed consolidated statement of changes in equity
- 10 Condensed consolidated statement of cashflows
- 12 Notes to the condensed consolidated interim financial report

Chairman's statement



Most half-year reports try to answer the question “how are we doing?” by comparing results with the same period last year. This time the headline comparisons do not help. They are still distorted by the Group’s switch to international accounting standards last year, and particularly by the treatment of foreign-currency hedging, which contributed £2.3m to profits in the first half of last year but nothing this year. In addition, the date of our largest conference—which produces about £3m of profit—alternates between September and October. In 2015 it was in the half-year results, this year it is not. Overall, this left operating profit some £2.7m lower than it was a year earlier.

Rather than rummaging through the accounting detail, it is more helpful to sketch four broad trends (all comparisons are with the first half last year). One, the decline of advertising revenue was as relentless as ever: across the Group, for both print and digital combined, it was down 13%, with the sharpest drop being in America. Two, the paper’s circulation revenue continued to grow, not least because of a recent increase in the price of subscriptions. Gross profit from circulation was up by 20%, a remarkable achievement. Three, the Economist Intelligence Unit (EIU) has made more progress, with revenues up 16%. Its traditional products—country reports—are still growing a bit, and the EIU has developed new strengths in healthcare data, detailed consumer forecasting and specialist reports on a wide range of subjects. Four, CQ Roll Call—our business in Washington, DC, which provides information on Congress—faced testing conditions, which cut its profits by almost £1m.

One other broad trend deserves a special mention. Shareholders need no reminding that the Group is affected by exchange rates, because around two-thirds of its revenues are in dollars. Although a large chunk of Group costs are also in dollars, the pound’s crash after the referendum on June 23rd has started to make itself felt: for the half-year, the boost to sterling revenues was nearly £12m and to profits about £2m. If sterling stays down at anywhere near today’s level, the full benefit will be considerable by the time we report to you on the whole financial year.

This summary can be fleshed out a little with some early indications from the second half-year. Although market conditions in the US are still difficult

and might remain so, we currently expect to reach our year-end with stronger revenues than we achieved in 2015-16, and with profits broadly the same. Given the strength of our cashflow in the first half, we also expect a healthy cash position by the end of the year.

At this stage every year, the Board declares an interim dividend. Following a formula that has now been in place for 12 years, the amount is set at one-third of last year's interim and final dividends combined: so 63.4p per share will be paid to shareholders on December 19th 2016, an increase of 18% on last year's figure. I can also tell you that the independent valuation that EY carries out twice a year has put the cum-dividend price of an ordinary share at £33.00, the same as it was six months earlier.

I would now like to turn to your Group's "constitution". After Pearson sold its 50% stake in 2015, the Board asked Baroness Hogg to conduct a review of shareholder rights and restrictions, the role of the Trustees, editorial independence and much else. Many features of the constitution had been largely unchanged since 1929. Sarah Hogg produced a thorough and thoughtful review, which concluded that, on the central issue of the shareholder structure, the Board could choose between three options. It could (i) leave things broadly unchanged; or (ii) end the distinction between A and B shares, with holders of those shares still having the votes that elect directors; or (iii) go further, so that every share had equal voting power.

The Board has decided to leave things as they are for now, and return to the subject in 12 months. Your directors all agreed that, with a new principal shareholder, fresh faces on the Board, and some changes already made to the articles last year, it made sense to see how the new line-up worked; and that, in any case, the Group has so much going on that constitutional debate would be a distraction right now.

One last piece of news: the editorial department will move next September to rented offices in the Adelphi building just behind the Strand. Everybody will be on one floor. It has a terrace that looks on to the River Thames. It will be a fine successor to 25 St James's Street.

Rupert Pennant-Rea
Chairman

Condensed consolidated income statement

		Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	NOTE	£000	£000	£000
Revenue	1	161,887	158,010	330,903
Operating profit before acquired intangible amortisation, impairment and exceptional items		17,322	22,906	58,485
Acquired intangible amortisation, impairments and exceptional items	2	(95)	2,289	2,175
Operating profit		17,227	25,195	60,660
Net finance costs		(3,744)	(2,706)	(6,527)
Profit on sale of investment		2,223	-	-
Profit before tax		15,706	22,489	54,133
Income tax		(2,796)	(5,003)	(10,639)
Profit for the period from continuing operations		12,910	17,486	43,494
Profit for the period from discontinued operations		-	1,868	107,575
Profit for the period		12,910	19,354	151,069
Attributable to:				
Equity holders of the company		12,910	19,354	151,069
Earnings per share (in pence per share)				
Basic	3	64.7	77.4	634.3
Diluted	3	64.3	77.0	630.4
Dividends paid per share on a cash basis (pence)	4	129.8	99.2	152.8

The accompanying notes to the condensed consolidated financial statements form an integral part of the financial information.

Condensed consolidated statement of comprehensive income

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	£000	£000	£000
Profit for the period	12,910	19,354	151,069
Items that may be reclassified subsequently to the income statement			
Change in fair value of cashflow hedges	(3,069)	(196)	(1,104)
Net exchange differences on translation of net investments in overseas subsidiary undertakings	7,464	(3,544)	(145)
Net exchange differences on foreign currency loans	(6,179)	1,703	(1,579)
Items that will not be reclassified to the income statement			
Re-measurement of retirement benefit obligations	(74,034)	11,350	30,039
Attributable tax	13,328	(2,270)	(6,008)
Other comprehensive (expense)/income for the period	(62,490)	7,043	21,203
Total recognised (loss)/gain for the period	(49,580)	26,397	172,272
Attributable to:			
Equity holders of the company	(49,580)	26,397	172,272

Condensed consolidated balance sheet

	As at Sept 30th 2016	As at Sept 30th 2015	As at March 31st 2016
	£000	£000	£000
Property, plant and equipment	9,656	14,710	9,886
Intangible assets	141,525	121,451	128,597
Investment property	-	11,081	-
Deferred income tax assets	19,597	6,446	5,933
Other financial assets	-	2,562	1,876
Non-current assets	170,778	156,250	146,292
Inventories	1,594	3,363	1,325
Trade and other receivables	58,783	54,829	62,289
Current income tax assets	-	309	-
Other financial assets	-	-	830
Cash and cash equivalents	29,906	25,756	35,765
Current assets	90,283	84,257	100,209
Total assets	261,061	240,507	246,501
Trade and other liabilities	(15,645)	(13,792)	(13,910)
Financial liabilities - borrowings	(114,214)	(51,900)	(119,744)
Deferred income tax liabilities	(9,226)	(1,226)	(8,366)
Retirement benefit obligations	(82,188)	(31,491)	(11,727)
Provisions for other liabilities and charges	(6,023)	(6,774)	(5,704)
Other liabilities	(3,936)	(8,950)	(4,067)
Non-current liabilities	(231,232)	(114,133)	(163,518)
Trade and other liabilities	(130,181)	(115,683)	(131,044)
Financial liabilities - borrowings	(39,600)	(21,555)	(13,049)
Financial liabilities - derivative financial instruments	(4,173)	(225)	(1,104)
Current income tax liabilities	(8,172)	(10,402)	(14,429)
Other liabilities	(659)	(622)	(627)
Current liabilities	(182,785)	(148,487)	(160,253)
Total liabilities	(414,017)	(262,620)	(323,771)
Net liabilities	(152,956)	(22,113)	(77,270)

Condensed consolidated balance sheet (continued)

	As at Sept 30th 2016 £000	As at Sept 30th 2015 £000	As at March 31st 2016 £000
Equity			
Share capital	1,260	1,260	1,260
ESOP shares	(2,676)	(2,335)	(2,480)
Treasury shares	(188,823)	-	(188,823)
Translation reserve	(8,499)	(5,924)	(6,715)
Retained earnings	45,782	(15,114)	119,488
Total equity	(152,956)	(22,113)	(77,270)

A reconciliation of net debt is set out in the note to the condensed consolidated statement of cashflows on page 11.

Condensed consolidated statement of changes in equity

for six month period ended September 30th 2016

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2016	1,260	(2,480)	(188,823)	(6,715)	119,488	(77,270)
Profit for the period	-	-	-	-	12,910	12,910
Other comprehensive expense	-	-	-	(1,784)	(60,708)	(62,492)
Total comprehensive expense	-	-	-	(1,784)	(47,798)	(49,582)
Net purchase of own shares	-	(196)	-	-	-	(196)
Dividends	-	-	-	-	(25,908)	(25,908)
At September 30th 2016	1,260	(2,676)	(188,823)	(8,499)	45,782	(152,956)

for six month period ended September 30th 2015

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2015	1,260	(2,519)	-	(3,887)	(18,750)	(23,896)
Profit for the period	-	-	-	-	19,354	19,354
Other comprehensive income	-	-	-	(2,037)	9,080	7,043
Total comprehensive income	-	-	-	(2,037)	28,434	26,397
Net sale of own shares	-	184	-	-	-	184
Dividends	-	-	-	-	(24,798)	(24,798)
At September 30th 2015	1,260	(2,335)	-	(5,924)	(15,114)	(22,113)

Condensed consolidated statement of changes in equity (continued)

for the year ended March 31st 2016

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2015	1,260	(2,519)	-	(3,887)	(18,750)	(23,896)
Profit for the year	-	-	-	-	151,069	151,069
Other comprehensive income	-	-	-	(2,828)	24,031	21,203
Total comprehensive income	-	-	-	(2,828)	175,100	172,272
Purchase of treasury shares	-	-	(188,823)	-	-	(188,823)
Net sale of own shares	-	39	-	-	-	39
Dividends	-	-	-	-	(36,862)	(36,862)
At March 31st 2016	1,260	(2,480)	(188,823)	(6,715)	119,488	(77,270)

The translation reserve includes exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other current instruments designated as hedges of these investments.

Condensed consolidated statement of cashflows

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	£000	£000	£000
Cashflows from operating activities			
Operating profit - continuing businesses	17,227	25,195	60,660
Operating profit - discontinued businesses	-	2,428	4,823
Depreciation, amortisation and impairment charges	2,124	1,578	3,994
Acquisition costs	-	103	226
Inventories	(226)	(1,399)	676
Trade and other receivables	5,856	3,793	(2,526)
Trade and other liabilities	(7,004)	(22,719)	(16,330)
Retirement benefit obligations	(3,530)	(1,466)	(3,072)
Cash generated from operations	14,447	7,513	48,451
Income taxes paid	(8,907)	(5,196)	(8,589)
Net cash generated from operating activities	5,540	2,317	39,862
Investing activities			
Interest received	1,251	13	30
Purchase of intangible assets	(3,419)	(1,837)	(5,185)
Purchase of property, plant and equipment	(862)	(1,313)	(2,519)
Proceeds from sale of investments	2,223	-	-
(Costs relating to)/proceeds from sale of property, plant and equipment	(871)	-	79,038
Proceeds from sale of investment property	-	-	41,250
Purchase of subsidiary undertakings, net of cash acquired	-	(3,484)	(3,322)
Net cash (used in)/generated from investing activities	(1,678)	(6,621)	109,292
Financing activities			
Dividends paid	(25,908)	(24,798)	(36,862)
Interest paid	(3,278)	(2,253)	(6,164)
(Purchase)/sale of own shares	(196)	184	39
Purchase of treasury shares	(474)	-	(188,349)
Proceeds from repayment of loan notes	2,665	-	-
Proceeds from borrowings	27,889	37,511	137,511
Repayment of borrowings	(13,160)	(26,430)	(67,306)
Finance lease principal payments	-	(2)	(1)
Net cash used in financing activities	(12,462)	(15,788)	(161,132)

Condensed consolidated statement of cashflows (continued)

	Six months to Sept 30th 2016 £000	Six months to Sept 30th 2015 £000	Twelve months to March 31st 2016 £000
Effects of exchange rate changes on cash and cash equivalents	2,741	(1,240)	655
Net decrease in cash and cash equivalents	(5,859)	(21,332)	(11,323)
Cash and cash equivalents at the beginning of the period	35,765	47,088	47,088
Cash and cash equivalents at the end of the period	29,906	25,756	35,765
Net debt			
Net debt at beginning of the period	(97,028)	(16,957)	(16,957)
Net decrease in cash and cash equivalents	(5,859)	(21,332)	(11,323)
Proceeds from borrowings	(27,889)	(37,511)	(137,511)
Repayment of borrowings	13,160	26,432	67,307
Loan issue costs	-	-	683
Other non-cash changes	(113)	(34)	2,352
Effect of foreign-exchange rate movements	(6,179)	1,703	(1,579)
Net debt at the end of the period	(123,908)	(47,699)	(97,028)
Net debt comprises:			
Cash at bank and in hand	29,906	25,756	35,765
Total cash and cash equivalents	29,906	25,756	35,765
Borrowings	(153,814)	(73,455)	(132,793)
Total net debt	(123,908)	(47,699)	(97,028)

Notes to the condensed consolidated interim financial report

NOTE 1 Analysis of results by business

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	£000	£000	£000
Revenue by business			
The Economist Businesses	109,428	109,637	230,029
The Economist Intelligence Unit	28,551	24,544	52,146
CQ Roll Call	23,908	23,829	48,728
	161,887	158,010	330,903
Operating profit by business			
The Economist Businesses	3,823	12,058	30,296
The Economist Intelligence Unit	7,955	6,773	16,334
CQ Roll Call	5,449	6,364	14,030
	17,227	25,195	60,660

NOTE 2 Adjusting items within operating profit

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	£000	£000	£000
Acquired intangible amortisation	(95)	(29)	(173)
Revaluation of derivative financial instruments through income statement	-	2,318	2,348
	(95)	2,289	2,175

NOTE 3 Earnings per share

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
	£000	£000	£000
Profit for the period from continuing operations	12,910	17,486	43,494
Profit for the period from discontinued operations	-	1,868	107,575
Profit for the period	12,910	19,354	151,069
Adjustment in respect of non-operating exceptional items			
- Profit on sale of investments	(2,223)	-	-
- Profit on sale of business	-	-	(109,557)
- Attributable taxation	-	-	5,706
Normalised earnings	10,687	19,354	47,218

NOTE 3 Earnings per share (continued)

	Number 000s	Number 000s	Number 000s
Weighted average number of shares	25,200	25,200	25,200
Shares held in treasury	(5,040)	-	(1,185)
Shares held by the Employee Share Ownership Plan (ESOP)	(205)	(201)	(199)
Weighted average number of shares	19,955	24,999	23,816
Effect of dilutive share options	136	121	149
Diluted weighted average number of shares	20,091	25,120	23,965
Earnings per share	Pence	Pence	Pence
Basic - continuing and discontinued operations	64.7	77.4	634.3
Diluted - continuing and discontinued operations	64.3	77.0	630.4
Underlying - continuing businesses excluding non-operating exceptional items	53.6	69.9	182.6
Normalised - excluding non-operating exceptionals	53.6	77.4	198.3

NOTE 4 Dividends

	Six months to Sept 30th 2016	Six months to Sept 30th 2015	Twelve months to March 31st 2016
Cash dividends paid	£000	£000	£000
Final dividend for previous year of 129.8p per share (Sept 30th 2015 and March 31st 2016: 99.2p per share)	25,908	24,798	24,798
Interim dividend for year ended March 31st 2016 of 53.6p per share	-	-	12,064
	25,908	24,798	36,862
Dividends proposed in respect of the period			
Interim dividend proposed of 63.4p per share (Sept 30th 2015 and March 31st 2016: 53.6p per share)	12,649	12,064	12,064
Final dividend proposed for year ended March 31st 2016 of 129.8p per share	-	-	25,908
	12,649	12,064	37,972

Dividends paid in respect of the company's shares held by the ESOP are deducted in arriving at total dividends paid and proposed.

NOTES

NOTES

NOTES



