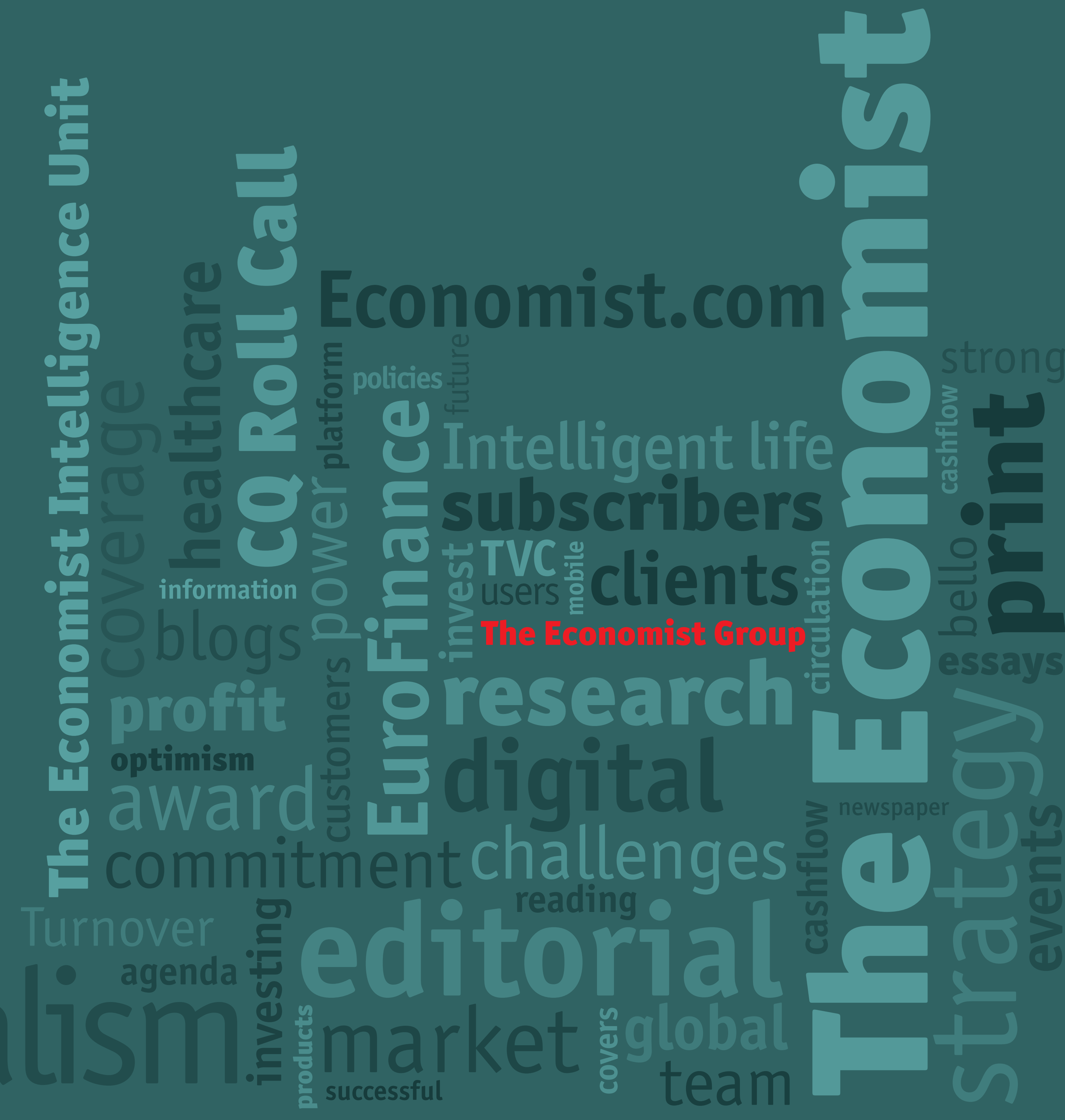
The Economist Group

Annual report 2014



ANNUAL REPORT

STRATEGIC REPORT

REPORT AND ACCOUNTS

GOVERNANCE

FINANCIAL STATEMENTS

NOTICES

FIVE-YEAR SUMMARY

Profit and loss	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Turnover	332	346	362	347	320
Operating profit	**59**	**68**	**67**	**63**	**58**
Non-operating exceptional items	-	-	-	-	(1)
Profit on ordinary activities before finance costs	59	68	67	63	57
Net finance costs	(2)	(4)	(3)	(4)	(7)
Profit before taxation	57	64	65	60	50
Profit for the year	44	49	47	44	38

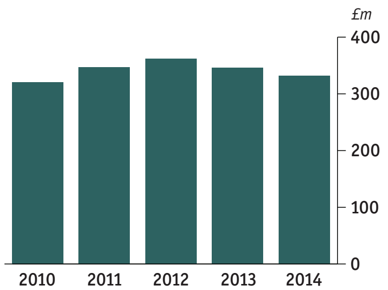
Balance sheet					
Fixed assets	129	145	131	124	132
Net borrowings	(13)	(25)	(11)	(15)	(38)
Net current liabilities	(73)	(69)	(65)	(56)	(57)
Long-term creditors and provisions	(60)	(87)	(71)	(57)	(77)
Net (liabilities)/assets	(5)	(11)	(5)	12	(2)
Net cash from operating activities	69	60	70	78	63

Ratios	2014	2013	2012	2011	2010
Operating profit to turnover	17.8%	19.5%	18.6%	18.2%	18.0%
Basic earnings per share	175.8p	194.4p	188.7p	176.5p	152.5p
Normalised earnings per share	174.6p	194.4p	188.7p	176.5p	164.0p

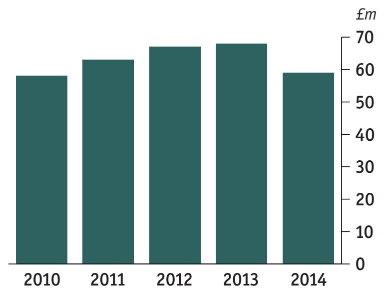
Dividends and shares					
Final and interim dividend per share	131.7p	123.2p	116.0p	104.1p	99.6p
Special dividend per share	31.7p	40.0p	40.0p	39.7p	31.7p
Total dividend per share	163.4p	163.2p	156.0p	143.8p	131.3p
Times covered (excluding non-operating exceptional items)	1.1	1.2	1.2	1.2	1.2
Indicative share value	£27.00	£26.00	£25.00	£24.50	£21.75
Dividend yield	6.1%	6.3%	6.2%	5.9%	6.0%

GROUP OVERVIEW

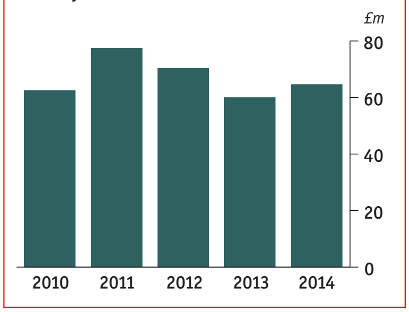
Group turnover



Group operating profit

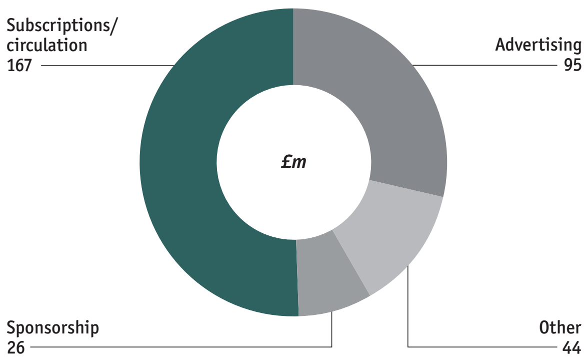


Group cashflow



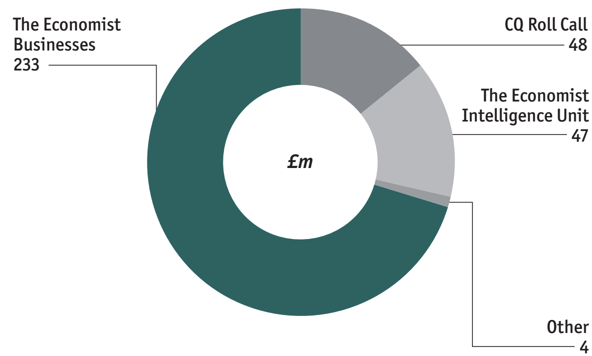
Group revenue breakdown

2014



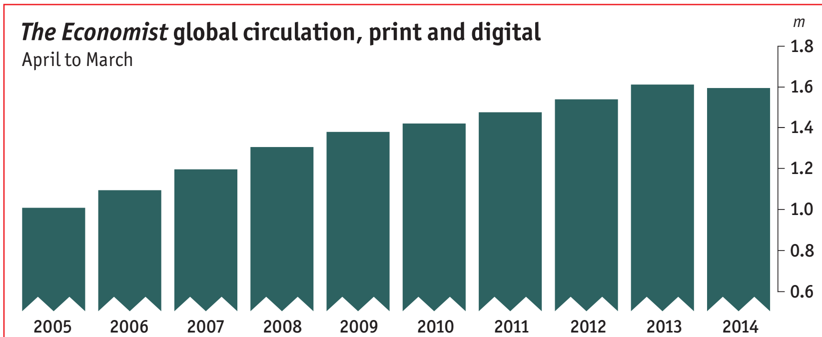
Turnover by business

2014

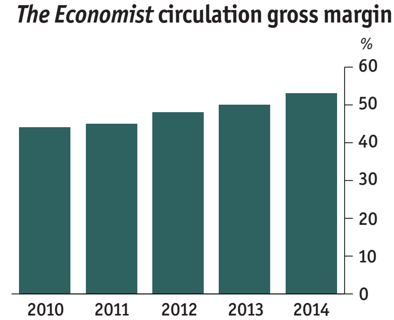


The Economist global circulation, print and digital

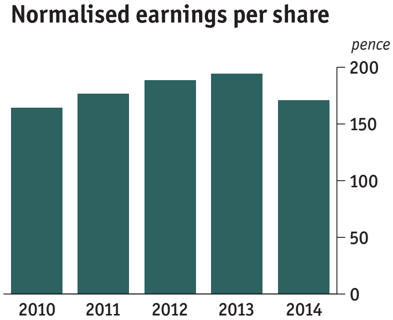
April to March



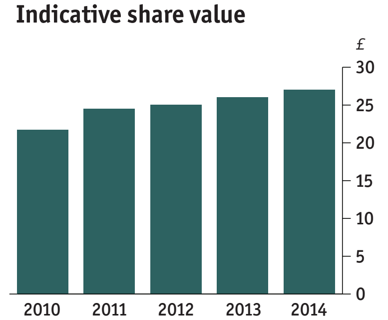
The Economist circulation gross margin



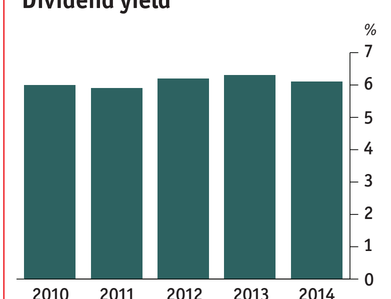
Normalised earnings per share



Indicative share value



Dividend yield



A description of the Group's principal risks, uncertainties and guiding principles can be found under the headings of Internal control and The Economist Group's guiding principles in the Directors' report on pages 18 and 19 respectively.

FROM THE CHAIRMAN

This was a year of investment in the future of the Group

THE main facts about last year are simple: Group revenue was down by 4% and operating profit by 13%. The story behind the facts is much more interesting. As always, the bulk of the Group's revenue and profits came from *The Economist* itself. It is also the part of the Group most affected by the digital revolution. For established publishers, that revolution's challenge once seemed all about readers and advertisers rushing away from print and how to lure them online instead. We see things differently now.

We aim to provide *The Economist*'s excellence in whatever form readers and advertisers want and will pay for. It therefore makes no sense to single out the growth in the number of app readers or online visitors as proof that our digital strategy is working. Commercially, what works is supplying what customers will pay for.

Defined in that way, the changes in the paper's fortunes are more revealing. *The Economist*'s total revenue last year was just the same as it was five years earlier, but the mixture is being transformed. Then, fully 50% of that revenue—£90m—came from print advertising; last year it produced only £58m. We filled the gap of £32m partly with £4m more from advertising on Economist.com and with what promises to be a breakthrough in selling advertising on our apps—£6.6m last year, from nothing five years ago.

The bigger change is what has happened to revenue from circulation, up by £23m over the five years. This growth has been driven less by higher circulation volumes and more by increasing the revenue we get from each subscription. It is now a vital gauge of our commercial strategy, and it rose last year by 6%. We are gradually withdrawing discounts, so more and more readers are paying the full subscription price—which is, incidentally, still less per week than the cost of just one fancy coffee as you head to work in the morning.

Getting full-price subscriptions doesn't happen automatically. For years the marketing budget for *The Economist* was steady at around 19% of revenue, but the ratio had recently been falling to 14% in 2012-13. Last year we boosted marketing spend again, by £8.5m, which happens to be exactly the decline in the Group's operating profit. In effect, your Group was investing much more in its biggest business, sacrificing short-term profit for future growth.

"Taking everything into account, the Board believes the Group is well-placed for the future"

There is space only to summarise what happened in the rest of the Group last year. The Economist Intelligence Unit's revenue was broadly flat and its operating profit up 6%. CQ Roll Call, our business in Washington, DC, saw revenue fall by 8% in US dollars as both print advertising and subscriptions came under pressure; but costs were also cut, so profit increased by 5%. Both divisions get the attention they deserve elsewhere in this report.

Taking everything into account, the Board believes the Group is well-placed for the future, and is proposing a final dividend of 94.0p per share, an increase of 6% on last year's final. Including the special dividend paid in December, the total for 2013-14 was 168.7p per share, giving a yield of 6.3%.

During the year there have been several changes on the Board. Andrew Rashbass left and Chris Stibbs became chief executive. Philip Mengel retired and Rona Fairhead is also stepping down; I thank them both for their commitment and support. We welcomed Eric Schmidt and John Ridding.

Particular thanks, as always, go to our staff. They have worked hard and intelligently to drive big changes in our business, with much more to come.

RUPERT PENNANT-REA

FROM THE CHIEF EXECUTIVE

The industry is changing and so are we

THIS was a year of transition. I took over as chief executive in July and set to work to move The Economist Businesses from a regional structure to a global structure. I believe this allows us to best respond to the enormous shifts in digital reading and new kinds of advertising. We now have three business units: The Economist Businesses, the Economist Intelligence Unit (EIU) and CQ Roll Call. This was no small feat, but thanks to the professionalism of our staff, it was achieved with minimal disruption to the business.

It was also the first year of a long-term plan to increase the profitability of the circulation of *The Economist*. We expected profits this year to reduce, as they did, but we have made progress towards ensuring a profitable and sustainable future. Newsstand sales continued an industry-wide decline and we lost some subscribers who were previously recruited on heavy discounts. But our revenue per subscriber grew steadily, increasing our gross circulation margin for *The Economist* by 3%. Now we have a robust and profitable subscriber base, providing a good platform for us to continue to increase our circulation profitability.

"The business has performed well in a year of transition"

The fall in print advertising continues, as it does across the industry. Still, we have seen our revenue for digital advertising in *The Economist* apps double (more on this from Paul Rossi on page 8). Our content-led marketing had an award-winning year, most notably with our work with General Electric, and also strong growth from TVC.

The EIU had another year of record operating profits, up 6% from last year. The subscription business enjoyed strong renewal rates and invested more in its services for corporate clients, complementing our long-standing strength with governments and multilateral organisations. Our fledgling healthcare business went from strength to strength. Clearstate, our Singapore-based market-sizing and analysis business, expanded out of its Asia heartlands to win contracts worldwide. This resulted in its revenues growing more than 60% in the year.

Government budgets remained tight in CQ Roll Call's core legislative business. Profits did improve on the previous year, thanks in part to strong cost management. At the same time progress is being made in developing the business beyond the Beltway into new markets, in terms of both sales of the regulatory service and building advocacy work tools and distribution channels.

The business has performed well in a year of transition; a transition necessary to meet the demands of a rapidly changing industry. We will continue to see an exponential growth of digital connectivity, the proliferation of digital devices and structural changes in the way marketing budgets are spent. I am confident that our strategy, combined with our rich heritage, will allow us to find even more opportunities in those challenges—and that we will continue to prosper.

CHRIS STIBBS

FROM THE EDITOR

A year of economic recovery, political upheaval and continued editorial experimentation

FOR much of the year *The Economist* focused on the economy: we were relatively polite about the performance of America, Japan and Britain, but ruder about the euro zone's "sleepwalkers" and the great deceleration in emerging markets. However, politics gradually reasserted itself: we fumed about the "weakened West's" response first to Syria and then to Vladimir Putin. Whenever the news dipped, our covers flagged issues such as the coming shake-up in the world of work, the vast potential for further privatisation, liberalism's comeback and how science goes wrong.

In the newspaper we introduced a new column on Latin America, Bello, named after a Venezuelan-born polymath, and a new format: the six-page essay, which sits between three-page briefings and the special report. Essays were designed first as a digital format. Nearly 1m people a month use our apps. Online, we also launched *The Economist explains*, which (as its name suggests) explains subjects ranging from Bitcoin to quantitative easing. It has become our most popular blog. We were the joint winner in the "best app" category at the 2013 Online Media Awards, while *The Economist*'s crack team of brainy boozers won the JPMorgan Asset Management Pub Quiz for the third year in a row.

The World In branched out into a full digital edition, and extended its series of gala dinners from Hong Kong and Singapore to Sydney and Athens. *Intelligent Life*, which only four years ago published just four editions a year, now puts out 35, including the various regional, digital and sample editions. *Intelligent Life* has more than 150,000 readers on apps—and has added some video and audio to its tablet editions. The number of Facebook likes has jumped from 50,000 to 200,000. All from a magazine with an editorial staff of just seven people.

At the Economist Intelligence Unit (EIU), as concerns about the collapse of the euro zone eased, clients became more interested in the opportunities offered by frontier markets and the risks in those countries. As with the newspaper, there was an increasing accent on political risk and the idea of a world "ripe for rebellion", as forecast by the EIU's Europe director, Laza Kekic, in *The World In 2014*. Meanwhile, the editorial teams at the EIU's healthcare units, Bazian and Clearstate, continued to add greatly to our specialist expertise. And the EIU got a burst of publicity in early 2014 when it announced that Singapore was now the world's most expensive city to live in.

> ***"Nearly 1m people a month use our apps"***

With no national elections to report, CQ Roll Call turned from campaign mode to legislative mode, even if many of Congress's travails had a distinct electioneering ring. *Roll Call* embraced a "digital first" strategy, adding new content and multimedia to Rollcall.com. *CQ* teamed up with WestlawNext, which is part of Thomson Reuters, to provide daily regulatory and legislative analysis for a legal audience. A new "CQ Now" application for minute-to-minute coverage of Capitol Hill was developed for a redesigned *CQ* website.

JOHN MICKLETHWAIT
EDITOR-IN-CHIEF

THE ECONOMIST GROUP MEDIA BUSINESSES

A new global media businesses team brings together our advertising, events and marketing products

THE media businesses are structured around our key products—advertising, events, content marketing and marketing services. This allows us to manage the structural changes in our markets, gain efficiencies and, more importantly, share ideas and products that make us more competitive.

Our advertising businesses continue to deal with the structural market shifts that all media companies are facing. Print advertising budgets are declining as marketers move money to digital and content marketing. Our response has been to continue to focus on market share for print advertising while building new competitive online and digital offerings. For example, our *Which MBA?* business launched a scholarship competition sponsored by business schools from around the world and on Economist.com we launched "Timekeeper" a bookmarking functionality sponsored by Rolex.

"A key area for growth from now on is content marketing and marketing services"

As online advertising moves to lower-cost networks and programmatic buying (which is basically automated trading of advertising inventory), we have brought our network business, Ideas People Media, into our sales team and introduced our own programmatic trading solution. We have also continued to invest in our digital in-app advertising products. We are one of only a few magazines to sell this advertising separately from print, helping us migrate traditional print advertisers to digital and in-app advertising, and bring in more incremental revenues. This has helped digital advertising revenues grow by over 80% across all our titles in the past year.

Our events business is made up of Economist Events and EuroFinance. Although similar in size they operate in different markets. Economist Events focus on countries and topics that align with the newspaper. Our country events included Mexico and Portugal, where their respective presidents spoke, as well as Nigeria and China. Our topic events covered oceans, marketing, finance and *The World In 2014*, to name just a few. Indeed, our Asia *The World In 2014* events won "Best Conference Series" at the 2013 Asian Conference Awards. EuroFinance's annual international conference, in Barcelona in 2013, had over 2,300 attendees and hit record revenue levels.

A key area for growth from now on is content marketing and marketing services. Increasingly our clients are using content to engage with their customers and increasingly that content has visual components.

We have been in the content marketing business for many years with thought-leadership products (largely white papers) from the Economist Intelligence Unit. While there are growth opportunities with "branded" content, there is also growing demand for client-branded content. We have invested over the year to service this market, most notably with our work for General Electric, which has won awards from the IAB and the Custom Content Council.

Our acquisition of TVC has enabled us to offer solutions beyond text. TVC is successful in its own right with revenues growing 12% year on year and multiple awards from the Public Relations Consultants Association (PRCA), the Holmes Report (Best Digital Agency) and the British Franchise Association (a Franchisee Award). With the new structure, TVC is now well-placed to play a bigger role by bringing its agency values and experience to increase our content solutions business.

We are not immune to the changes the industry is facing, but I believe we have the right strategy, structure and people to best manage them.

PAUL ROSSI

PRESIDENT, THE ECONOMIST GROUP MEDIA BUSINESSES

THE ECONOMIST GLOBAL CIRCULATION

The first year of a long-term plan to increase circulation profits

THIS was the first year of a long-term plan to increase the profitability of our global circulation business. Across the world, we sold subscriptions to *The Economist* in an "agnostic" way—leaving it to the customer to decide what platform they want to read us on, whether digital-only, print-only (priced equally) or a bundle of both at a premium price. We also reduced the introductory discounts offered to new subscribers.

Most of our new subscribers chose our print and digital bundle and, as a result, our average revenue per subscriber rose steadily throughout the year. We reduced our printing and distribution costs because a proportion of our new subscribers chose our digital-only option. All this meant that our gross margin rose 3% year on year.

"Our digital marketing has become extremely forensic and scientific"

There have been challenges. Newsstand sales continued to decline, following an industry-wide trend. Subscribers recruited on discounted rates renewed their subscriptions in unexpectedly low volumes. We also found long-established efforts to acquire new customers no longer proved effective without introductory discounts. Our solution: to invest in technology and expertise in digital marketing.

Our digital marketing has become extremely forensic and scientific. We now behave in much the same manner as an online retailer would. We deliver "ever-on" marketing—we determinedly pursue leads, precisely measure our return on investment and relentlessly optimise our activities.

We also found our marketing was more effective when we took a global and local approach at the same time. Globally, on our website and on our apps, we reduced the number of articles readers could read for free and invested in an online testing tool. This enabled us to convert more digital readers to paying subscribers. We also invested in systems to make it easier for subscribers to choose and order subscriptions on both computers and mobile devices.

Locally, we faced challenging conditions in both southern Europe and the Middle East. We shifted our marketing investment instead to northern Europe and in particular to Germany, where prospects responded well to local campaigns. Similarly, in the UK, we were able to increase our circulation profits by targeting cities beyond London with highly effective local marketing.

For many years, we marketed *The Economist* in Asia at a regional level. This approach had served us well. But to increase circulation further, we adopted a local approach in key countries, basing our plans on research provided by the Economist Intelligence Unit. It is helping us unlock the full potential of the Asia region and we are planning the same approach in Latin America.

In North America, our largest market and where most publishers offer steep introductory discounts, we had to make substantial changes to our marketing strategies.

Our efforts in 2013-14 mean we enter the new financial year with a more loyal, more digital and more profitable subscriber base. I am confident that our long-term plan to increase the profitability of our circulation will be highly effective.

MICHAEL BRUNT

MANAGING DIRECTOR AND EVP, THE ECONOMIST CIRCULATION

THE ECONOMIST INTELLIGENCE UNIT

Profits up with strong growth in Asia and healthcare

THE Economist Intelligence Unit (EIU) saw its operating profit reach a new record this year, up 6% on 2012-13. Our subscription portfolio enjoyed high renewal rates, our custom-research operation continued to build a robust business serving corporate clients, while our fledgling healthcare business grew impressively.

Our editorial team spent the year focusing on the US and European economic recovery, and its implications for developing markets. Brighter world prospects have accelerated the shift in our clients' interest towards the emerging world. Asia, particularly China, remained a key focus. As the appetite for corporate risk returned, so the search for growth also moved to less well-known markets, with Africa becoming an important target for many. With this broadening global interest from our clients there was also an increasing focus on city strategies. We have a strong China cities offering and have launched special projects on African and Middle Eastern cities, with plans to further deepen our city capabilities in the coming year.

Despite the economic recovery, client budgets for our core subscription services remained under pressure in the developed European and American markets. We saw much stronger growth in Asia and continue to move both editorial and sales resources into the region. We see a particularly attractive opportunity to grow in China by helping domestic firms with their "going global" strategies. We have strengthened our China team and added new local-language marketing skills to capitalise on this opportunity. Although worldwide new business was sluggish, client retention was excellent and our renewal rate remained over 90%.

Our custom-research revenues slipped this year as a single large contract was not replaced. But we are entering 2014-15 with a healthy pipeline, which points to good revenue and profit growth in the year ahead. To support this, we are building industry-specialist practices to complement our traditional generalist approach. A practice focusing on public policy was launched late in the year, with consumer goods expected to follow in mid-2014.

Our healthcare division went from strength to strength. The market-sizing and analysis business was particularly successful, increasing revenues by over 60% and expanding beyond its Asia heartland to win contracts across the world. Our value and evidence-based health business is building the capabilities necessary to win pharmaceutical and med-tech clients alongside its traditional government audience. The integration of skills from these two areas, along with the core EIU, has enabled us to win strategy work with some of the world's largest healthcare companies. We will invest heavily in healthcare in 2014-15 to build on these trends.

> ***"Our healthcare division went from strength to strength"***

The global economic recovery bodes well for the EIU next year. Our clients in Europe and America are looking to emerging markets, while emerging-market businesses are looking to expand overseas. Alongside this we have resilient core subscriptions and a robust pipeline for our custom-research and healthcare services. This gives me confidence—particularly with the skilled and hardworking team we have—that 2014-15 will be a prosperous year for the EIU.

ROBIN BEW

MANAGING DIRECTOR, THE ECONOMIST INTELLIGENCE UNIT

CQ ROLL CALL

Steady profit in a rebuilding year as we move business beyond the Beltway

IT HAS been a rebuilding year at CQ Roll Call, as we have seen our advertising stabilise after five years of decline. The fact that we have managed to deliver a steady profit is testament to our world-class team of journalists, our innovative product development and our commitment to delivering the very best customer service.

"Roll Call saw its website traffic up nearly 30%"

In the past year, we have consolidated our presence in the legal market with revenues up 27% year on year. We have added new products covering immigration, capital markets, mergers and acquisitions, and corporate governance. Our partnership with Thomson Reuters has continued to bear fruit, with the WestlawNext platform distributing CQ Roll Call branded content across the globe. This work will be expanded in the coming year.

Engage, our advocacy platform that allows customers to manage campaigns, now powers nearly 600 sites, providing them with dynamic content, targeted messages and social media integration. Our new Engage Partners Network, designed to bring the power of Engage to new markets, has signed up more than 30 partners, and there are plans for further expansion in the coming year. Engage also became the first advocacy tool available in the Salesforce app exchange, making it easier for customers to integrate with their existing platforms. This availability creates a vehicle that can be used for our plans to acquire new customers beyond our traditional turf.

Roll Call's website traffic was up by nearly 30% year on year, as our editorial team have been spending more time in front of the camera making online video content. We are expecting a further increase in visits during the upcoming congressional elections as interest in politics heats up across the country.

We are completely reworking CQ.com, with a plan to launch the revamped version early in the new fiscal year. It will provide our customers with fingertip access to vast troves of real-time legislative data, while allowing us to be responsive and shift our resources to cover the news where and as it happens. We are also expanding our marketing efforts and field salesforce to make sure that this content is sold to a new range of customers.

We have retained our market-leading position on Capitol Hill. We have stabilised our advertising revenues and have seen the benefits from our investments in growing markets. But in order to grow further we need to build more business beyond the Washington Beltway. The past year was the beginning of that strategy and we plan to capitalise on that opportunity in the coming year.

KEITH WHITE

MANAGING DIRECTOR AND EVP, CQ ROLL CALL

Strategic report (on pages 2-11) by order of the Board

Oscar Grut
Secretary
June 17th 2014

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REPORT AND ACCOUNTS

DIRECTORS

Rupert Pennant-Rea
Appointed as non-executive chairman in July 2009, having served as a non-executive director since August 2006. Chairman of Royal London Group, and a non-executive director of Times Newspapers. Editor of *The Economist* from 1986 to 1993 and deputy governor of the Bank of England from 1993 to 1995.

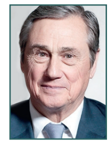
Chris Stibbs
Appointed Group chief executive in July 2013, having joined the company as Group finance director in July 2005. Managing director of the Economist Intelligence Unit from April 2010 until July 2013. Previously corporate development director of Incisive Media, finance director of the TBP Group and managing director of the FT Law and Tax Division.

Sir David Bell
Appointed as a non-executive director in August 2005. He retired as an executive director of Pearson in May 2009 and as chairman of the Financial Times in December 2009. Chair of council, University of Roehampton, chairman of Syndics of Cambridge University Press and of Sadler's Wells.

John Elkann
Appointed as a non-executive director in July 2009. Chairman and CEO of EXOR, chairman of Fiat Chrysler Automotive, Cushman & Wakefield, Giovanni Agnelli e C. and Editrice La Stampa, and a director of CNH Industrial, News Corporation and Gruppo Banca Leonardo. Also vice-chairman of the Italian Aspen Institute and the Giovanni Agnelli Foundation.

Rona Fairhead
Appointed as a non-executive director in July 2005. Non-executive director of HSBC Holdings, PepsiCo Inc and the Cabinet Office of the UK government. British business ambassador to the UK prime minister. Former chairman and chief executive of the Financial Times Group and an executive director of Pearson. Will retire from the Board in July 2014.

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



Sir Simon Robertson
Appointed as a non-executive director in July 2005. Deputy chairman and senior independent director of HSBC Holdings, non-executive director of Berry Bros & Rudd, founder of Simon Robertson Associates and a trustee of the Royal Opera Endowment Fund. Former chairman of Rolls-Royce Holdings.

John Ridding
Appointed as a non-executive director in February 2014. Chief executive of the FT Group and president of Pearson Professional, having served for more than 20 years in editorial and executive positions at both Pearson and the FT. A director of Bonnier Business Media and Room to Read.

Lady Lynn Forester de Rothschild
Appointed as a non-executive director in October 2002. A non-executive director of the Estée Lauder Companies and a trustee of the Eranda Foundation, the Peterson Institute for International Economics and the McCain Institute for International Leadership.

TRUSTEES

Eric Schmidt
Appointed as a non-executive director in November 2013. Executive chairman of Google having served as Google's chief executive officer from 2001 to 2011. Adviser to PCAST (United States President's Council of Advisors on Science and Technology). Chairman of the New America Foundation and a director of the Khan Academy and the Broad Institute. A trustee of the Mayo Clinic and the Institute of Advanced Study. A former non-executive director of Apple.

Luke Swanson
Appointed as a non-executive director in July 2011. Director of transformation at Pearson and a member of the Pearson executive committee. Previously a director of South African business publisher BDFM and of Interactive Data Corporation.

Andrew Rashbass
Retired from the Board in July 2013 having served as chief executive officer and a director since July 2008.

Philip Mengel
Retired from the Board in January 2014, having served since July 1999.

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

Tim Clark
Trustee since December 2009. Chair of WaterAid UK. Group senior adviser to G3 and a non-executive director of Big Yellow Group. Board member of the National Theatre, senior adviser to Chatham House, vice-chair of Business for New Europe and a member of the International Chamber of Commerce UK Governing Body, the Development Committee of the National Gallery, the International Advisory Board of Uria Menendez and the Advisory Board of the Centre for European Reform. Former senior partner of Slaughter and May.

Lord O'Donnell CB, KCB, GCB
Trustee since October 2012. Press secretary to Prime Minister John Major (1990-94). UK executive director on the boards of the IMF and the World Bank (1997-98). At the UK Treasury, appointed managing director of Macroeconomic Policy and International Finance in 1999, serving as Permanent Secretary from 2002 to 2005. Appointed to the House of Lords in 2012, having served three British prime ministers as Cabinet Secretary and Head of Civil Service from 2005 to 2011. Currently chairman of Frontier Economics, a strategic adviser to TD Bank Group, a non-executive director at Brookfield Asset Management, and a visiting professor at the London School of Economics and University College London.

Bryan Sanderson
Trustee since May 2006. Director of Argus Media, chairman of the Florence Nightingale Foundation and of Home Renaissance Foundation, an emeritus governor of the London School of Economics and a director of Durham CCC.

BOARD COMMITTEES

Audit committee
Sir Simon Robertson, chairman
Rupert Pennant-Rea
Lady Lynn Forester de Rothschild
Philip Mengel (retired January 2014)

Remuneration committee
Rupert Pennant-Rea, chairman
Sir David Bell
John Elkann

GROUP MANAGEMENT COMMITTEE (GMC)

Chris Stibbs
John Micklethwait

Robin Bew
Managing director, the Economist Intelligence Unit. Joined in 1995 as an editor before becoming chief economist in 1997 and editorial director in 2006. Previously an economist at HM Treasury, the UK's finance ministry.

Michael Brunt
Managing director and EVP, *The Economist* Circulation. Joined the Group in 2006. He has held various roles, including: Group marketing director for Asia; managing director for The Economist Businesses in Europe; and head of circulation for the Americas and global marketing for Economist Digital.

Susan Clark
Chief marketing officer. Previously served as managing director for the Group's continental Europe, Middle East and Africa region and for *The Economist*'s digital operations. Joined the Group in July 2005 from Le Méridien Hotels & Resorts as global marketing director of *The Economist*. She will retire from the GMC at the end of June 2014.

Oscar Grut
Group general counsel and company secretary and, from January to June 2014, acting chief digital officer. Previously founded *The Economist*'s digital editions business and served as managing director for its digital operations. Joined the Group in 1998 from Linklaters.

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

Shane Naughton
Group chief financial officer. Joined the Group in January 2014. Previously global chief financial officer at EMI Music.

Tim Pinnegar
Publisher and managing director, Asia Pacific. Joined *The Economist* in May 2001 as regional sales manager, having worked for Leo Burnett Asia. Subsequently became publisher, Asia Pacific.

Paul Rossi
President, The Economist Group media businesses. Since joining the Group in 1987, he has held various roles, including: managing director and EVP, Americas; advertising director; commercial director; and publisher of *The Economist* in North America.

Keith White
Managing director and EVP, CQ Roll Call. Joined the Group in 2009 as associate director, CQ Roll Call, as part of *Roll Call*'s acquisition of *Congressional Quarterly*. Previously spent eight years as general manager and publisher of *CQ* in Washington, DC.

Jora Gill
Chief digital officer. Joined the Group in June 2014 from Reed Elsevier.

Nigel Ludlow
Left the Group in October 2013, having served in a number of roles including most recently as managing director of the UK business.

Lori Michaels
Left the Group in January 2014. Formerly chief digital officer for The Economist Businesses.

DIRECTORS' REPORT

The directors present their report to shareholders, together with the audited consolidated financial statements, for the year ended March 31st 2014.

Developments and principal activities

The principal activities of the Group consist of publishing, the supply of business information, conferences, marketing services and the letting of property. Further information about the activities, developments and likely future developments of the Group are described on pages 5-11.

Results and dividends

The profit after tax for the financial year to March 31st 2014 was £44.0m (2013: £48.7m). A final dividend of 94.0p per share (2013: 88.7p) is proposed for the year to March 31st 2014. Together with the interim dividend and the special dividend already paid, this makes a total proposed dividend for the year of 168.7p (2013: 168.9p). The final dividend will be paid on July 29th 2014 to shareholders on the register at the close of business on June 17th 2014.

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 51.

Directors

Profiles of the directors appear on pages 14 and 15. All executive directors have contracts of employment.

Directors' indemnities

The company provides, to the extent permitted by law, an indemnity to all directors and officers of the company and its subsidiaries in respect of claims against them arising in respect of the conduct of the business of the Group. The company has also purchased directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such directors and officers in the execution of their duties. These were in force during the year and up to the date of the financial statements.

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 15), 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 105 "A" special shareholders. The "B" special shares are all held by The Financial Times Limited. John Elkann, John Micklethwait, Rupert Pennant-Rea, Sir Simon Robertson, Lady Lynn Forester de Rothschild and Eric Schmidt were appointed by the "A" special shareholders. The "B" special shareholders appointed Sir David Bell, Rona Fairhead, John Ridding, Chris Stibbs and Luke Swanson.

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 Conduct Authority to report on compliance with the UK Corporate Governance Code, but has always sought to run its corporate affairs in line with best practice. It therefore follows the main principles of the UK Corporate Governance Code as closely as is felt to be reasonably practicable and useful to shareholders. The directors' report, including the directors' report on remuneration, which has been considered and approved by the Board, describes how the company has applied and complied with these principles, with the following main exceptions:

- Given the calibre and experience of the non-executive directors, the Board does not believe it is necessary to identify a senior independent director or to offer professional training to non-executive directors (although this would be available on request).

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

- Some shareholder meeting procedures do not comply.

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

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

Board

The Board currently comprises nine non-executive directors and two executive directors. The non-executive directors have a breadth of successful commercial and professional experience and they exercise independent judgment. Rona Fairhead was, until April 30th 2013, chairman and chief executive of the Financial Times Group and an executive director of Pearson plc. She will step down as a director in July 2014. Luke Swanson is transformation director of Pearson plc. Lady Lynn Forester de Rothschild and John Elkann are each directly or indirectly interested in a significant number of shares (see page 21). Details of directors' interests and, in relation to the executive directors only, their interests in the employee share ownership trust, are given in the directors' report on remuneration on pages 21-23.

The Board is chaired by Rupert Pennant-Rea and has met for regular business six times in the 12 months to March 31st 2014. The Board also convenes at other times on an ad hoc basis or in committee when events warrant. It is responsible for the overall direction and strategy of the Group and for securing the optimum performance from the Group's assets. It also exercises control by determining matters specifically reserved for it in a formal schedule which only the Board may change: these matters include significant acquisitions and major capital expenditure. The Board carries out regular reviews of matters undertaken by management under delegated authority. The company's articles of association require the approval of the trustees for some actions.

Board committees

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

The remuneration committee is made up of three non-executive directors. It is chaired by Rupert Pennant-Rea, and the other members are Sir David Bell and John Elkann.

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 Group's annual review of risk highlighted the following principal areas: changes to its markets (including the rise of digital and mobile reading, the migration of advertising spend to digital formats and other marketing service channels and the commoditisation of information products); the global shift of economic power from West to East; volatility of the surplus/deficit on the UK defined-benefit pension scheme; business continuity (including the breakdown of operational systems from external attack, the failure of key suppliers or a global disaster); the impact on our business of cybercrime attacks; brand and reputational risk (from libel action or infringement of the Group's intellectual property rights); regulatory risk, such as changes to privacy or employment laws; and the financial operations of the company, specifically foreign exchange, cash management and tax. During the year the Group continued to monitor closely its compliance with the UK Bribery Act, and confirmed that it has adequate anti-bribery procedures in place covering staff, suppliers and agents.

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 monthly forecasts. The charts on pages 2 and 3 include some of the key performance indicators which are used to measure business performance. 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 and bribery 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 audit manager reports to the Group chief financial officer but also has direct access to the chairman of the audit committee. The manager attends all audit committee meetings and makes formal reports to the committee. The register of key business risks and mitigation actions are 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 Group operates in a clear and ethical context, and the Board has therefore approved the following guiding principles:

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

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

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

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

- We respect environmental standards and comply with relevant local laws. We take environmental issues seriously. We review the environmental impact of our operations, specifically carbon emissions, annually.

- *The Economist* and its sister publications, *Intelligent Life* and *The World In* series, account for the majority of our annual spend on paper and printing. All suppliers of paper and print services used in producing these publications adhere to one or more of the following internationally recognised environmental standards: ISO 14001, FSC and PEFC.

- 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. We support staff who through disability or illness are unable to perform their duties, by adapting the work environment and hours of work to suit the employee where it is reasonable for the business.

- The Group is committed to increasing staff diversity. We particularly focus on ensuring that we recruit from the widest possible pool of talent. We are also keen that people feel comfortable and valued at work, regardless of their background. We recognise that it is essential to keep employees informed of the progress of the Group. We regularly provide employees with information on the Group's activities and its financial performance through staff meetings and communication through our intranet. We have a strong consultative culture and we follow legal and regulatory requirements to consult with staff on major issues affecting the company.

Annual general meeting

The notice convening the annual general meeting, to be held at 12.15pm on Thursday July 17th 2014 at the British Academy of Film and Television Arts, can be found on page 60.

"A" special share class meeting

The notice convening a class meeting of the "A" special shares, to be held after the annual general meeting on Thursday July 17th 2014 at the British Academy of Film and Televisions Arts, can be found on page 62.

Independent 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 3 on page 36.

Disclosure of information to auditors

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

Going concern

The financial strength of the Group and the company, as explained in the financial review on pages 24-25, supports the preparation of the financial statements on the going-concern basis.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
Oscar Grut
Secretary
June 17th 2014

DIRECTORS' REPORT ON REMUNERATION

The committee

The remuneration committee of the Board is made up of three non-executive directors: Rupert Pennant-Rea (chairman), Sir David Bell and John Elkann. The quorum necessary for the transaction of business is two members. The committee is responsible for the remuneration policy for senior executives of the Group and the policy and structure of Group bonus schemes. In determining remuneration, the committee follows a policy designed to attract, retain and motivate high-calibre executives, aligned with the interests of shareholders.

Directors' interests as at March 31st

Table 1	2014		2013	
Beneficial holdings	"A" Special	Ordinary	"A" Special	Ordinary
Rupert Pennant-Rea	75,000	8,450	75,000	8,450
Sir David Bell	-	-	-	-
John Elkann[1]	-	1,190,000	-	1,190,000
Rona Fairhead	-	-	-	-
John Micklethwait	2,950	19,100	550	19,100
John Ridding	-	-	-	-
Sir Simon Robertson	-	4,800	-	4,800
Lynn Forester de Rothschild[2]	240,440	3,841,548	240,440	3,841,548
Chris Stibbs	250	15,989	250	15,989
Luke Swanson	-	-	-	-
Andrew Rashbass[3] (retired July 2013)	650	16,809	650	16,809
Philip Mengel (retired January 2014)	-	4,250	-	4,250
Eric Schmidt	-	-	-	-
Holding as a trustee				
Lynn Forester de Rothschild[2]	-	1,305,002	-	1,305,002
John Micklethwait[4]	-	97,500	-	97,500
Rupert Pennant-Rea[4]	-	97,500	-	97,500

[1] Indirectly held by a company of which he is a director and chief executive officer.

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

[3] Beneficial ownership, but not legal title, in 5,000 ordinary shares passed prior to March 31st 2014.

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

Chris Stibbs and John Micklethwait each have the right to acquire 22,500 ordinary shares under the restricted share scheme described on the next page. Since March 31st 2014, Chris Stibbs has been awarded the right to acquire a further 25,000 ordinary shares under the same scheme. Andrew Rashbass's right to acquire 37,500 ordinary shares under the scheme lapsed on his resignation in July 2013.

The executive directors of the company, together with all employees of the Group, are beneficiaries of the company's employee share ownership trust. As such, the directors are treated as interested in the 193,407 ordinary shares (2013: 154,277) held by the trustee of the trust.

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

(a) Annual bonus plans

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

(b) Executive long-term plan

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

(c) The Economist editorial long-term plan

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

(d) The Group long-term plan

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

(e) Restricted share scheme

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

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. The table includes future and uncashed entitlements under both annual and long-term incentive schemes.

Table 2
Remuneration for the years ended March 31st

	Salary/fees	Annual bonus	Long-term plan	Benefits	Total	
	2014	2014	2014	2014	2014	2013
	£000	£000	£000	£000	£000	£000
Rupert Pennant-Rea	126	-	-	-	126	126
Sir David Bell	38	-	-	-	38	38
John Elkann	38	-	-	-	38	38
Rona Fairhead	38	-	-	-	38	38
Philip Mengel (retired January 2014)	38	-	-	-	38	44
John Micklethwait	310	214	-	16	540	549
Andrew Rashbass (retired July 2013)	137	-	-	5	142	993
John Ridding[1]	6	-	-	-	6	-
Sir Simon Robertson	44	-	-	-	44	44
Lady Lynn Forester de Rothschild	38	-	-	-	38	38
Chris Stibbs	366	384	-	15	765	556
Luke Swanson[1]	38	-	-	-	38	38
Eric Schmidt [2]	-	-	-	-	-	-
Total	1,217	598	-	36	1,851	2,502

[1] Paid to The Financial Times Limited/Pearson.
[2] Fees waived.

Directors' accrued pensions

The pensions which would be paid annually on retirement at age 65 based on service with the company to March 31st 2014 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

Table 3

	Age at March 31st 2014	Accrued pension at March 31st 2014	Accrued pension at March 31st 2013	Change
John Micklethwait	51	£132,006	£128,486	£3,520
Chris Stibbs	The company contributed £40,759 to the defined-contribution pension scheme (2013: £35,650).			

John Micklethwait ceased to accrue benefits in the plan, becoming a deferred member at March 31st 2012. The increase above relates to deferred revaluation.

FINANCIAL REVIEW

Operating result

Operating profit for the Group for the financial year ended March 31st 2014 was £59.0m, which was 13% lower than last year on revenues that were 4% lower. Operating profit was affected by a significant increase in marketing expenditure in the year as the Group invested behind its long-term strategy of increasing profitable circulation. These charges increased by 29% or £8.5m. Overall, the Group saw good growth in digital lines, marketing service businesses and EIU healthcare, and in circulation gross margin produced by *The Economist*. The Group, however, continued to be affected by the ongoing decline in print advertising pages sold across the industry, seeing these revenues decline by 16%. There was also a reduction in legislative subscription revenues in our Washington operations, which were performing in tight and competitive market conditions. Total costs were 2% lower year on year but excluding the extra marketing expenditure decreased by 6%, benefiting from lower print and distribution costs as our business transitions to digital, as well as lower overheads associated with restructuring actions in the previous year. Although the dollar weakened from $1.52 at the start of the year to $1.66 by the end, it averaged $1.59 in 2013-14 compared with $1.58 in the previous year and was not therefore significant in influencing operating profits between years.

Profit before tax

Profit before tax fell by 11% to £56.9m. This included a small profit on disposal of our European Voice operations in Belgium. Finance charges decreased by £1.1m, reflecting additional finance income from the defined-benefit pension scheme (£0.5m), valued under FRS 17 principles, and lower interest charges (£0.6m) with lower debt levels including the final repayment of certain term loans from Barclays and Royal Bank of Scotland (RBS).

Taxation

The effective rate of taxation for the year was 23%, which was 1% lower than last year because of the utilisation of additional tax losses from earlier years. The underlying rate of tax is 26% compared with 25% last year which, despite the 1% reduction in the UK tax rate, is due to the international mix of profits and the impact of the change in rate on UK deferred tax assets and other sundry items.

Profit after tax and earnings per share

Profit after tax and basic earnings per share fell by 10% to £44.0m and 175.8p respectively.

Balance sheet

Profit retained in the year and a reduction in the pension fund deficit (see below) led to a £6.8m reduction in the deficit on shareholders' funds to £4.5m. The Group's underlying balance sheet remained strong. The Economist Complex was held at a cost of £15.8m rather than its independently assessed market value of £88.5m and at the year end there was £42.9m of cash on hand. Within liabilities there was £100.3m of income received in advance from customers, a considerable financial strength of the Group. Net debt was reduced by £12.6m in the year largely because of the strong positive cashflows generated. Part of the reduction however, £4m, came from foreign exchange mainly through revaluation of our dollar-denominated net indebtedness with the dollar weakening from $1.52 at the start of the year to $1.66 by the end.

Pensions

The Group operates a number of pension schemes. These include the UK defined-benefit plan, which is the only scheme of its type in the Group.

The last triennial actuarial valuation of that fund was conducted at January 1st 2013 and showed a gross deficit of £22.8m. The company and the trustees formally agreed the assumptions used to calculate the deficit and also the approach to funding the deficit during the financial year. This included payment of a special contribution of £5.0m to the fund in September 2013.

At March 31st 2014 this plan, valued under FRS 17 principles, had a deficit of £9.3m net of deferred tax (2013: £22.0m). Since the last year end, gross liabilities increased by £0.4m, held down by a slight increase in the discount rate and easing of inflation rates, while asset values grew by £17.3m and there was a consequent reduction in the related deferred tax asset of £4.1m.

Dividend

During the financial year, the directors of the company followed their normal practice of reviewing the feasibility of paying a special dividend in the light of cashflows, trading conditions and the investment needs of the business. This annual assessment led to the payment of a special dividend of £7.9m in December 2013 along with the interim dividend. The special dividend (31.7p per share), when added to the interim dividend (43.0p per share) and last year's final dividend (88.7p per share), brought the total paid in the year to 163.4p (2013: 163.2p). This represented a yield of 6.1%. The total dividend was covered 1.1 times by basic earnings per share (2013: 1.2 times) while the ongoing dividend, excluding the special dividend, was covered 1.3 times (2013: 1.6 times).

Treasury

Our treasury policy and approach is to identify and to constantly monitor and manage financial risks, including foreign-exchange and interest-rate exposures, as well as maintaining tight control over loan and cash balances. This includes policies to manage insolvency risk associated with counterparties that hold our deposits. 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 the Group chief executive and chief financial officer, provides guidance and acts as a monitor of treasury activities. The treasury department acts as a cost centre and not as a profit centre.

The Group had net debt of £15.3m at the year end (2013: £27.9m), including a finance lease liability for the Economist Complex.

At the year end the Group had access to significant borrowing facilities at favourable rates. These totalled £49.0m and included revolving multi-currency credit facilities with Barclays for £40.0m and RBS for £9.0m. The facilities incur non-utilisation fees of 0.5% and, if drawn, incur interest at LIBOR, plus 1.25%. At March 31st 2014 the facilities were unutilised. During the year the Group allowed certain unutilised term loan facilities with Barclays and RBS to lapse, which were considered excess to current requirements.

At the year end the Group had borrowings of £55.6m (2013: £64.1m). These largely related to loan notes totalling \$85.0m taken out under a Private Shelf Agreement with Pricoa to fund the CQ acquisition in 2009-10. These notes bear interest at between 7.72% and 7.93% and are repayable between July 2014 and 2019, with the first tranche of notes therefore shown as a current liability in these accounts. There was also a term loan of £4.9m with Barclays taken out in November 2013 to finance the Bazian acquisition. It bears interest at a rate of LIBOR plus 1.25% and is repayable in instalments by January 2017. During the year the Group made final repayments of \$5.5m on term loans with Barclays, originally associated with the Capitol Advantage acquisition, and RBS.

Cash and deposits at March 31st 2014 totalled £42.9m (2013: £38.7m). Our policy is to deposit cash not required as working capital, as soon as practicable, in AAA-rated and AA-rated money-market funds. These funds were earning 0.40% for sterling deposits and 0.08% for US deposits at the year end. 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 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 the use of forward foreign-exchange contracts and currency options and through funding US acquisitions with US dollar-denominated loans. Foreign-exchange risk is only actively managed on currencies where the net exposure exceeds £3m, currency equivalent, per year. The split of net cash balances between dollars, euros, sterling and other currencies is kept under constant review. The Group does not establish or maintain instruments that hedge the translation of overseas profits.

Other financial assets which potentially subject the Group to credit risk consist principally of trade debtors. The concentration of credit risk associated with debtors is minimised due to distribution over many customers in different countries and in different industries.

Cashflow

The Group's operating cashflow of £69.0m was 117% of operating profit. This included the £5.0m special contribution to the pension fund, as well as some timing benefits from cash coming through from the previous year where an earlier Easter reduced receipts and some payments delayed at this year end. But, in the main, it showed the strong ongoing capacity of the Group's business model to generate cashflow.

There was a cash inflow before financing of £9.7m reflecting regular payments for interest, capital expenditure, taxes and dividends plus special dividends and some final settlements on past acquisitions. The previous year saw an outflow of £11.3m at this level and included £9.6m associated with the healthcare businesses acquired.

International Financial Reporting Standards

The Group currently prepares its financial statements in accordance with UK GAAP. However, the adoption of new accounting standards will shortly become mandatory. Accordingly, the Board has decided that it would be in the best interests of the company and its shareholders to adopt International Financial Reporting Standards (IFRS) for the year ending March 31st 2016 and is preparing for their implementation. A full due diligence process will be completed during the year, under the supervision of the Group's auditors and the audit committee of the Board, to ensure the appropriate implementation of IFRS. The adoption of IFRS means that any deficit in the UK defined-benefit pension scheme must be recognised for the first time as a realised loss in the company's accounts, which will decrease the distributable reserves (out of which dividends are paid) of the company. Future increases in the amount of the deficit will be reflected as further realised losses.

In addition, under IFRS the effect of movements in foreign-exchange rates on non-sterling balances outstanding between the company and its subsidiaries will change. In particular, technical differences in the treatment of foreign-exchange gains and losses on amounts owed to the company, and foreign-exchange gains and losses on amounts owed by the company, will lead to increased volatility in the level of the company's distributable reserves. In order to create a buffer against this risk to the company's ability to pay dividends, the Board is proposing a capital reduction exercise of a nature commonly carried out by companies under the Companies Act 2006. A full description of this proposal is included in the notice of annual general meeting on page 60.

Shane Naughton

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE ECONOMIST NEWSPAPER LIMITED

Report on the financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the company's affairs as at March 31st 2014 and of the Group's profit and cashflows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements and company financial statements (the "financial statements"), which are prepared by The Economist Newspaper Limited, comprise:

- the Consolidated balance sheet and company balance sheet as at March 31st 2014;
- the Consolidated profit and loss account and statement of total recognised gains and losses for the year then ended;
- the Consolidated cashflow statement for the year then ended;
- the reconciliation of movements in total shareholders' deficit for the year then ended;
- a summary of significant accounting policies; and
- the Notes to the financial statements, which includes other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgments, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Philip Stokes
(Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
June 18th 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT

NOTE	Years ended March 31st	2014 £000	2013 £000
1	**Turnover**	**331,545**	**345,961**
	Cost of sales	(95,072)	(99,326)
	Gross profit	**236,473**	**246,635**
	Distribution costs	(34,466)	(36,622)
	Marketing, development and other administrative costs	(136,057)	(135,730)
10	Goodwill amortisation	(6,945)	(6,778)
1	**Operating profit**	**59,005**	**67,505**
25	Profit on sale of business	297	-
	Profit on ordinary activities before finance charges	**59,302**	**67,505**
2	Net finance costs	(2,378)	(3,513)
1,3	**Profit on ordinary activities before taxation**	**56,924**	**63,992**
6	Taxation on profit on ordinary activities	(12,945)	(15,306)
	Profit for the year	**43,979**	**48,686**
18	**Retained profit for the financial year**	**3,073**	**7,815**

Dividends proposed and unpaid at the year end were £23,506,000 (2013: £22,216,000). Dividends paid in the year were £40,906,000 (2013: £40,871,000).

9	**Basic earnings per share (pence)**	**175.8**	**194.4**
9	Diluted earnings per share (pence)	175.3	193.6
7	Dividends paid per share (pence)	163.4	163.2
	Dividend cover (times)	1.1	1.2

CONSOLIDATED BALANCE SHEET AT MARCH 31ST

NOTE		2014 £000	2013 £000
	Fixed assets		
10	Intangible assets	101,587	116,242
11	Tangible assets	27,223	28,329
		128,810	**144,571**
	Current assets		
12	Stocks	2,695	2,193
13	Debtors	61,337	67,740
14	Deferred taxation	1,648	2,348
19	Cash at bank and in hand	42,854	38,705
		108,534	**110,986**
15	Creditors: amounts falling due within one year	(81,411)	(71,668)
	Unexpired subscriptions and deferred revenue	(100,330)	(108,001)
	Net current liabilities	**(73,207)**	**(68,683)**
	Total assets less current liabilities	**55,603**	**75,888**
16	Creditors: amounts falling due after more than one year	(48,939)	(63,030)
	Net assets excluding pension and other post-retirement obligations	**6,664**	**12,858**
20	Pension and other post-retirement obligations (net of deferred tax)	(11,183)	(24,221)
1	**Net liabilities**	**(4,519)**	**(11,363)**
	Capital and reserves		
17	Called-up share capital	1,260	1,260
18	Profit and loss account	(5,779)	(12,623)
	Total shareholders' deficit	**(4,519)**	**(11,363)**

The company balance sheet is shown on page 55.

The consolidated financial statements were approved by the Board of directors and authorised for issue on June 17th 2014. They were signed on its behalf by:

Rupert Pennant-Rea
Chris Stibbs
Directors

The notes on pages 35-59 form an integral part of these consolidated financial statements.

The Economist Newspaper Limited registered number 236383

CONSOLIDATED CASHFLOW STATEMENT

NOTE	Years ended March 31st	2014 £000	2013 £000
19	**Net cash inflow from operating activities**	**68,960**	**59,941**
	Returns on investments and servicing of finance		
	Interest received	32	81
	Interest paid	(4,909)	(5,337)
	Finance lease interest paid	(208)	(208)
		(5,085)	(5,464)
	Taxation		
	UK corporation tax paid	(6,876)	(11,643)
	Overseas tax paid	(2,566)	(1,236)
		(9,442)	(12,879)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(3,115)	(2,508)
	Acquisitions and disposals		
	Purchase of subsidiary undertakings	(735)	(10,983)
	Cash acquired with subsidiary undertakings	-	1,415
	Cash received from sale of business	38	-
		(697)	(9,568)
	Equity dividends paid to shareholders		
7	Amounts paid	(40,906)	(40,871)
	Net cash inflow/(outflow) before use of liquid resources and financing	**9,715**	**(11,349)**
	Management of liquid resources		
19	Cash (placed on)/drawn from short-term deposits	(12,595)	7,555
	Financing		
	Capital element of finance lease payments	(2)	(2)
	(Purchase)/sale of own shares	(999)	232
	Drawdown of unsecured loan facility	19,000	39,900
	Repayment of unsecured loan facility	(22,566)	(41,920)
19	**Decrease in net cash**	**(7,447)**	**(5,584)**

	Reconciliation of net cashflow to movement in net debt		
	Decrease in cash in the year	**(7,447)**	**(5,584)**
	Cash outflow/(inflow) from increase/(decrease) in liquid resources	12,595	(7,555)
	Cash outflow from decrease in lease financing	2	2
	Cash outflow from debt financing	3,566	2,020
	Change in net debt resulting from cashflows	**8,716**	**(11,117)**
	Other non-cash changes	(81)	(81)
	Exchange translation differences	3,975	(2,726)
	Movement in net debt in the year	12,610	(13,924)
	Net debt brought forward at April 1st	(27,872)	(13,948)
19	**Net debt carried forward at March 31st**	**(15,262)**	**(27,872)**

Cash and deposits at March 31st 2014 amounted to £42,854,000 (2013: £38,705,000).

The notes on pages 35-59 form an integral part of these consolidated financial statements.

OTHER STATEMENTS

Statement of total recognised gains and losses
Years ended March 31st

NOTE		2014 £000	2013 £000
	Profit for the financial year	43,979	48,686
	Exchange translation differences arising on consolidation	(1,136)	920
20	Actual return less expected return on pension scheme assets	(824)	12,986
20	Experience loss arising on the pension scheme liabilities	-	(538)
20	Changes in assumptions underlying the present value of pension scheme liabilities	8,025	(32,631)
	Actuarial gain/(loss) on other post-retirement benefits	275	(281)
	UK tax attributable to the actuarial (gain)/loss	(1,570)	4,707
	Total recognised gains for the year	**48,749**	**33,849**

Reconciliation of movements in total shareholders' deficit
Years ended March 31st

		2014 £000	2013 £000
	Profit for the year	43,979	48,686
	Dividend paid	(40,906)	(40,871)
	Retained profit	3,073	7,815
18	Other recognised gains/(losses)	5,906	(15,757)
18	Net (purchase)/sale of own shares	(999)	232
18	Exchange translation differences arising on consolidation	(1,136)	920
	Net decrease/(increase) in shareholders' deficit	**6,844**	**(6,790)**
	Opening shareholders' deficit	(11,363)	(4,573)
	Closing shareholders' deficit	**(4,519)**	**(11,363)**

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. There is no material difference between the profit on ordinary activities before taxation and the profit for the years stated above and their historical cost equivalents.

PRINCIPAL ACCOUNTING POLICIES

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

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The financial strength of the Group and the company, as explained in the financial review on pages 24-25, supports the preparation of the financial statements on the going-concern basis.

Basis of consolidation

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

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

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, research, marketing services, delegate fees and rental income net of advertising agency commissions and trade discounts, and excluding intra-Group sales, value-added tax and other sales-related taxes.

Circulation and advertising revenue relating to a newspaper or other publication is recognised on the date of publication, or, in the case of free publications, the date of dispatch. Subscription revenues, whether from print circulation, digital or online, 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.

On certain contracts for the sale of digital editions of *The Economist*, where a third-party company acts as a principal, revenue recognised by the Group represents the royalty or commission received from this third-party company. Where the Group acts as principal, subscription or circulation revenue is recognised gross of commission costs. 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. Research revenues are generally derived from sales of economic, industry and management research products to clients. These revenues are accrued or deferred and recognised over the contract term in line with milestones or on delivery of the final product in accordance with the contract.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance-sheet date. Transactions in foreign currencies are re-translated into sterling at the rate of exchange ruling at the date of transaction. Balance sheets of subsidiary undertakings have been translated into sterling at the rates of exchange ruling at the balance-sheet date.

Exchange differences arising from the retranslation of the opening net investments to closing rates are recorded as movements on reserves. Exchange differences arising on the retranslation of borrowings taken out to finance overseas investments are taken to reserves, together with any tax-related effects. All other exchange differences are included in the profit and loss account. Profit and loss accounts and cashflows of subsidiary undertakings are translated into sterling at the average rate for the year.

The Group enters into forward currency and option contracts to hedge currency exposures. Losses or realised gains arising from the closing of contracts are included within the trading results for the year. Other gains or losses on open contracts are deferred.

Share-based payments

The Group awards certain employees entitlements to cash-settled share-based payments in accordance with its long-term incentive scheme arrangements. The fair value of these awards is measured and updated using an appropriate option-pricing model. The key assumptions used in calculating the fair value of the awards are the discount rate, the Group's share price volatility, dividend yield, risk-free rate of return and expected option life. These assumptions are set out in note 8. Management regularly performs a true-up of the estimate of the number of awards that are expected to vest. This is dependent on the anticipated number of leavers. In addition to the key assumptions above, the value of the awards is dependent upon the future profits of the Group and the Group's relative market performance, which management is required to estimate. A liability equal to the portion of the services received is recognised at the current fair value determined at each balance-sheet date.

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

Goodwill is provided and written off on a straight-line basis over the acquisition's useful economic life, which is generally estimated to be 20 years.

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 and research costs represent costs incurred for conferences planned to be held or research projects delivered 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 as a reduction of the rental expense. Rental income is recognised on a straight-line basis over the lease term.

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

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

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

Trade debtors
Trade debtors are stated at their carrying value less provision for bad and doubtful debts and anticipated future sales returns.

Taxation

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

Deferred taxation

Deferred taxation is 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 amounts billed or payments received in advance of services being provided, primarily conference fees, custom research and rental income.

Pension and other post-retirement benefits

Contributions to pensions under defined-contribution schemes are recognised as an employee benefit expense in the profit and loss as and when they are due.

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

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

Finance costs

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

Website development costs

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

Segmental information

Prior year comparatives for turnover and operating profit by business have been reclassified to conform with current year presentation following the reorganisation of The Economist regional businesses to a global structure.

Tangible fixed assets

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

Asset type	Depreciation method	Depreciation rate per year
Long and short leasehold property	Straight-line basis	Duration of lease
Fixtures and fittings	Straight-line basis	7-14%
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%
Assets under construction	No depreciation	0%

NOTE 1 Segment information

	Turnover		Operating profit	
	2014	2013	2014	2013
		Restated		Restated
Analysis by business	£000	£000	£000	£000
The Economist Businesses	232,670	240,899	35,748	45,067
The Economist Intelligence Unit	47,455	47,463	12,147	11,437
CQ Roll Call	47,812	51,996	7,291	6,969
Other businesses	3,608	5,603	3,819	4,032
	331,545	345,961	59,005	67,505

Reported revenue represents revenue generated from external customers, and inter-segment revenue has been eliminated. Other businesses include Ryder Street Properties which owns and manages the Economist Complex in London and European Voice which was sold in April 2013.

	Turnover		Profit before tax		Net (liabilities)/assets	
	2014	2013	2014	2013	2014	2013
Analysis by origin of legal entity	£000	£000	£000	£000	£000	£000
United Kingdom	204,661	212,028	48,533	43,850	44,530	(52,687)
Europe	5,159	4,967	(601)	1,017	(107,393)	(22,109)
North America	111,000	119,273	8,158	18,054	49,964	54,788
Asia	10,725	9,693	834	1,071	8,380	8,645
	331,545	345,961	56,924	63,992	(4,519)	(11,363)

	2014	2013
Turnover by customer location	£000	£000
United Kingdom	59,609	57,871
North America	152,833	166,062
Europe	59,692	60,999
Asia	43,850	45,289
Other	15,561	15,740
	331,545	345,961

NOTE 2 Net finance costs

	2014 £000	2013 £000
Interest receivable	32	81
Interest payable and similar charges	(5,137)	(5,856)
Other finance income	2,727	2,262
	(2,378)	(3,513)
Interest payable on bank overdrafts and loans	(662)	(1,210)
Amortisation of issue costs of bank loan	(81)	(81)
Interest payable on other loans	(4,186)	(4,357)
Interest payable on finance lease	(208)	(208)
Interest payable and similar charges	(5,137)	(5,856)
Net return on pension scheme and other post-retirement liabilities	2,727	2,262
Other finance income	2,727	2,262

NOTE 3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:	2014 £000	2013 £000
Auditor's remuneration		
Audit of the company's annual financial statements	132	130
Fees payable to the company's auditor and its associates for other services		
Audit of the company's subsidiaries	299	296
Further assurance services	173	21
Tax advice and compliance	126	143
Other services	100	-
Operating lease rentals		
Plant and equipment	163	223
Land and buildings	7,049	8,289
Depreciation and amortisation		
On owned assets	3,330	3,321
On assets held by finance lease	55	55
Amortisation of goodwill	6,945	6,778

The Group also incurred fees of £nil (2013: £128,000) in relation to due diligence services paid to its auditor, which have been capitalised as part of acquisitions.

NOTE 4 Directors' emoluments

The details of directors' emoluments are shown in table 2, page 23, within the directors' report on remuneration.

NOTE 5 Employees

The year-end and average monthly number of employees, including executive directors, was as follows:

	2014		2013	
	Average	Year-end	Average	Year-end
The Economist Businesses	729	750	780	744
The Economist Intelligence Unit	308	305	297	309
CQ Roll Call	275	275	316	290
	1,312	1,330	1,393	1,343

	2014	2013
Employment costs including executive directors' emoluments	£000	£000
Wages and salaries	91,084	99,268
Social security costs	7,532	8,482
Defined-benefit pension costs	2,659	3,390
Other pension costs	3,615	3,444
	104,890	114,584

Wages and salaries include £2,176,000 (2013: £4,447,000) of restructuring-related costs.

NOTE 6 Taxation on profit on ordinary activities

	2014	2013
The taxation charge based on the result for the year is made up as follows:	£000	£000
UK corporation tax at 23% (2013: 24%)	12,553	10,220
Overseas taxation	820	3,865
UK deferred taxation	933	820
Overseas deferred taxation	391	965
	14,697	15,870
Adjustments in respect of previous years		
UK corporation tax	(743)	(744)
Overseas taxation	(825)	(479)
UK deferred taxation	(105)	444
Overseas deferred taxation	(79)	215
	12,945	15,306

Included within the deferred tax charge for the year is an FRS 17 charge of £446,000 (2013: £120,000). The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%).

NOTE 6 Taxation on profit on ordinary activities (continued)

Current tax rate reconciliation	2014 %	2013 %
UK tax rate	23.0	24.0
Expenses not deductible for tax purposes	(0.8)	(0.6)
Depreciation in excess of capital allowances	0.1	0.1
Movement in provisions	(0.5)	(1.0)
Overseas tax rates	(0.4)	1.9
Timing of goodwill amortisation	1.0	0.6
Overseas tax losses	-	(0.9)
FRS 17 pension movement	0.1	-
Impact of Group financing	(3.2)	(3.0)
Other	4.2	0.8
Adjustments to tax charge in respect of previous years	(2.8)	(1.9)
Current tax rate reflected in earnings	20.7	20.0

Future tax charges will be affected by tax-rate and other legislative changes in the jurisdictions in which the Group operates. Changes to the geographical distribution of taxable profits and exchange rates will also affect future tax changes due to the differences in tax rates applicable in different countries.

NOTE 7 Dividends

Cash dividends paid	2014 £000	2013 £000
Final dividend for previous year of 88.7p per share (2013: 83.0p per share)	22,216	20,780
Interim dividend paid of 43.0p per share (2013: 40.2p per share)	10,758	10,070
Special dividend paid of 31.7p per share (2013: 40.0p per share)	7,932	10,021
	40,906	40,871

All shareholders other than holders of the trust shares (see note 17) receive the above dividend per share. Dividends amounting to £270,000 (2013: £255,000) in respect of the company's shares held by the ESOP (note 18) have been deducted in arriving at the aggregate of dividends paid.

Dividends proposed in respect of the year	2014 £000	2013 £000
Interim dividend paid of 43.0p per share (2013: 40.2p per share)	10,758	10,070
Special dividend paid of 31.7p per share (2013: 40.0p per share)	7,932	10,021
Final dividend proposed of 94.0p per share (2013: 88.7p per share)	23,506	22,216
	42,196	42,307

The directors are proposing a final dividend in respect of the financial year ending March 31st 2014 of 94.0p. Dividends amounting to £182,000 in respect of the company's shares held by the ESOP have been deducted in arriving at the total dividend proposed of £23,506,000. The proposed final dividend is subject to approval by shareholders and has not been recognised as a liability in these financial statements.

NOTE 8 Share-based payments

The Group has recorded total liabilities at March 31st 2014 of £2,555,000 (2013: £3,543,000), of which £1,241,000 (2013: £692,000) relates to awards which had vested at the year end. The total credit recognised with respect to cash-settled, share-based payment transactions was £299,000 (2013: £524,000 charge).

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

Executive long-term plan

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

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

	At March 31st 2014	At March 31st 2013
Weighted average share price (£)	27.26	26.31
Weighted average exercise price (£)	25.51	24.76
Expected volatility (%)	30	33
Expected life (months)	18	18
Risk-free rate (%)	0.6	0.2
Expected dividend yield (%)	4.5	4.4
Forfeiture rate (%)	5.0	5.0

The expected volatility is determined by calculating the historical volatility of the Group's share price over the previous ten years and by calculating the historical TSR volatility of the comparator group over the relevant life of the schemes. Dividends are included in the fair value calculation or are invested as additional units.

During the year, 344,000 long-term plan units (2013: 389,000) were granted with a weighted average fair value at March 31st of £4.84 (2013: £3.16). No long-term plan units (2013: 209,000) vested at March 31st with a weighted average fair value at March 31st of £nil (2013: £2.60).

NOTE 8 Share-based payments (continued)

Restricted share scheme

This scheme is for key employees who have been awarded a right to acquire ordinary shares at a nominal price between two and six years after the date of the award. The Group has the discretion to pay out shares or cash on exercise. The value of the award is based on the share price and dividends paid during the vesting period.

	At March 31st 2014		At March 31st 2013	
Restricted share scheme	No. of options	Weighted average share price (£)	No. of options	Weighted average share price (£)
Outstanding at the beginning of the year	99,000	28.12	60,000	27.14
Granted	10,000	27.60	66,500	25.00
Lapsed	(37,500)	(28.08)	-	-
Exercised	(2,500)	(28.55)	(27,500)	(27.45)
Outstanding at the end of the year	69,000	29.89	99,000	28.12
Exercisable at the year end	35,570	30.62	2,500	28.71

The weighted average remaining contractual life for outstanding options at March 31st 2014 was 12 months (2013: 21 months).

NOTE 9 Earnings per share

Basic earnings per share are calculated on earnings of £43,979,000 (2013: £48,686,000) and the 25,200,000 ordinary and special shares in issue (2013: 25,200,000) less those held by the ESOP, being on average 177,000 shares (2013: 154,000), resulting in a weighted average number of shares of 25,023,000 (2013: 25,046,000). Normalised earnings per share, before non-operating exceptional items, is based on earnings of £43,682,000 (2013: £48,686,000).

	2014			2013		
	Earnings £000	Weighted average number of shares 000s	Earnings per share pence	Earnings £000	Weighted average number of shares 000s	Earnings per share pence
Basic earnings per share	43,979	25,023	175.8	48,686	25,046	194.4
Adjustment in respect of non-operating exceptional items						
- Profit on sale of business	(297)	25,023	(1.2)	-	-	-
- Attributable taxation	-	25,023	-	-	-	-
Normalised earnings per share	43,682	25,023	174.6	48,686	25,046	194.4

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

	2014	2013
Weighted average number of shares (000s)	25,023	25,046
Effect of dilutive share options (000s)	69	99
Weighted average number of shares (000s) for diluted earnings	25,092	25,145

NOTE 10 Intangible fixed assets

	Goodwill £000
Cost	
At April 1st 2013	143,321
Exchange translation differences	(9,540)
At March 31st 2014	133,781
Accumulated amortisation	
At April 1st 2013	27,079
Charge for the year	6,945
Exchange translation differences	(1,830)
At March 31st 2014	32,194
Net book value at March 31st 2014	101,587
Net book value at March 31st 2013	116,242

NOTE 11 Tangible fixed assets

	Leasehold buildings		Plant and		
	Long	Short	machinery	Equipment	Total
Group	£000	£000	£000	£000	£000
Cost					
At April 1st 2013	35,494	5,061	2,781	31,458	74,794
Additions	-	612	-	2,313	2,925
Disposals	-	(53)	(2)	(546)	(601)
Exchange translation differences	(445)	(182)	-	(828)	(1,455)
At March 31st 2014	35,049	5,438	2,779	32,397	75,663
Accumulated depreciation					
At April 1st 2013	15,608	1,884	2,781	26,192	46,465
Provided during year	265	346	-	2,774	3,385
Disposals	-	(53)	(2)	(479)	(534)
Exchange translation differences	(115)	(159)	-	(602)	(876)
At March 31st 2014	15,758	2,018	2,779	27,885	48,440
Net book value at March 31st 2014	19,291	3,420	-	4,512	27,223
Net book value at March 31st 2013	19,886	3,177	-	5,266	28,329

The directors have been advised that the market value of the Economist Complex at March 31st 2014 was £88,500,000 (2013: £70,900,000); the book value is £15,759,000 (2013: £16,037,000) and the balance-sheet value is £13,246,000 (2013: £13,521,000) after deducting the finance lease payable. Included within the cost of leasehold buildings is capitalised interest of £2,312,500 (2013: £2,312,500).

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

	2014 £000	2013 £000
Cost or valuation	6,798	6,798
Aggregate depreciation	(1,519)	(1,464)
Net book value	5,279	5,334

NOTE 12 Stocks

	2014	2013
	£000	£000
Raw materials	1,142	1,282
Work-in-progress	1,513	852
Finished goods	40	59
	2,695	2,193

NOTE 13 Debtors

	2014	2013
Due within one year	£000	£000
Trade debtors	41,895	49,226
Other debtors	4,306	4,674
Prepayments and accrued income	13,646	13,840
Tax recoverable	1,490	-
	61,337	67,740

Other debtors includes loan notes amounting to £2,361,000 (2013: £2,572,000) received in part consideration for the sale of the Group's majority interest in the trade and assets of CFO Publishing Corporation (USA). There are two loan notes for $1,200,000 and $2,700,000 bearing interest at 15% and 5% respectively. The loan notes are redeemable on January 11th 2017 and July 11th 2017.

NOTE 14 Deferred taxation

Summary of movements in deferred tax asset	£000
At April 1st 2013	2,348
Charge to the profit and loss account	(694)
Credited to other recognised gains for the year	21
Exchange difference	(27)
At March 31st 2014	1,648

The effect of the change in tax rates is to reduce the deferred tax asset by £151,000 (2013: £81,000).

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

	2014	2013
	£000	£000
Excess of depreciation over capital allowances	576	616
Loss relief	385	437
Other timing differences	687	1,295
	1,648	2,348

The Group has accumulated trading losses of £4,489,000 (2013: £7,412,000) in Asia of which £3,474,000 (2013: £6,301,000) have not been recognised. The Group has recognised Hong Kong trading losses to the value of the losses expected to be used in the next three years.

A deferred tax asset of £317,000 (2013: £365,000) has been recognised for carried-forward losses in the United States and Asia on the basis that forecast profits in those regions against which the tax asset can be recovered will arise. A deferred tax asset of £68,000 (2013: £72,000) has been recognised in respect of US state income tax losses carried forward.

NOTE 14 Deferred taxation (continued)

Changes to the UK main corporation tax rate from 23% (effective on April 1st 2013), to 21% (effective from April 1st 2014) and to 20% (effective from April 1st 2015) were substantively enacted on July 2nd 2013. The relevant UK deferred tax balances have been remeasured to the rate which is expected to apply to the period when the assets are realised and the liabilities are settled, based on the tax rates substantively enacted by the balance-sheet date.

NOTE 15 Creditors: amounts falling due within one year

	2014 £000	2013 £000
Bank loans and overdrafts (note 16)	9,176	3,546
Trade creditors	14,323	11,015
Other creditors including taxation and social security	29,190	27,158
Accruals	28,722	29,949
	81,411	71,668
Other creditors including taxation and social security comprise:		
Corporation tax	10,983	9,193
Other tax and social security payable	2,438	1,870
Other creditors	15,769	16,095
	29,190	27,158

NOTE 16 Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Finance leases	2,512	2,515
7.93% unsecured loan note 2019-20	12,429	16,357
7.72% unsecured loan note 2019-20	29,833	39,258
Term loan	4,165	4,900
	48,939	63,030

Maturity of debt

In one year or less, or on demand	9,176	3,546
In more than one year, but not more than two years	9,176	9,995
In more than two years, but not more than five years	28,754	31,946
In more than five years	8,497	18,574
	55,603	64,061

The company has bank loans and loan notes of £55,603,000 as at March 31st 2014 (2013: £64,061,000). In January 2012, the company entered into revolving credit facilities of £49,000,000. These facilities are unsecured and expire in January 2017 and were undrawn at March 31st 2014. The company also has a £4,900,000 term loan facility which is repayable between July 2014 and January 2017, as well as UK overdraft facilities which are subject to review in January 2017.

NOTE 16 Creditors: amounts falling due after more than one year (continued)

The company entered into a ten-year committed loan note arrangement in August 2009 to fund the acquisition of Congressional Quarterly. The loan notes are repayable annually in equal instalments from the fifth to the tenth year after inception with the first instalment payable in July 2014. The unsecured loan notes were drawn down in two tranches and are stated net of unamortised issue costs of £433,000 (2013: £514,000). These costs, together with the interest expense, are all allocated to the profit and loss account over the ten-year term of the facility at a constant carrying amount. The US dollar-denominated loan notes were valued at the closing exchange rate and resulted in an unrealised gain of £4,913,000 (2013: loss of £2,924,000).

	2014	2013
Maturity of finance leases	£000	£000
Future minimum payments under finance leases were as follows:		
Within one year	1	1
In more than one year, but not more than two years	2	2
In more than two years, but not more than five years	3	3
After five years	2,507	2,510
	2,513	2,516

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

NOTE 17 Equity share capital

	Authorised		Issued and fully paid	
At March 31st 2014 and 2013	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 17. The trust shares participate in a distribution of capital only to a limited extent and accordingly are not treated as equity share capital.

NOTE 18 Reserves

Consolidated profit and loss account	2014 £000	2013 £000
At April 1st	(12,623)	(5,833)
Retained profit for the year	3,073	7,815
Other recognised gains/(losses) relating to the year	5,906	(15,757)
Net (purchase)/sale of own shares	(999)	232
Exchange translation differences arising on consolidation	(1,136)	920
At March 31st	(5,779)	(12,623)

The cumulative goodwill written off to profit and loss reserves by the Group is £17,943,000 (2013: £17,943,000) and arises mainly from the purchase of Business International in 1986, CFO in 1988 and Roll Call, Inc in 1992 and 1993. A portion of the goodwill relating to the acquisition of CFO Publishing Corporation (USA) in 1988, and previously written off to reserves, was credited following the sale of the business in 2010.

At March 31st 2014, there were 193,407 shares (2013: 154,277) of 5p each with a nominal value of £9,670 (2013: £7,714) in The Economist Newspaper Limited (own shares) held by the ESOP. The ESOP provides a limited market for ordinary shares of The Economist Newspaper Limited to be bought and sold. Employees of the Group can apply to buy shares from the ESOP twice a year at the latest indicative share valuation, and all other shareholders can offer to sell their shares to the ESOP. A subsidiary company, The Economist Group Trustee Company Limited, acts as trustee of the ESOP and handles all share transactions. The ESOP has not waived its entitlement to dividends on these shares. At March 31st 2014, 69,000 (2013: 99,000) 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 2013	1,303
Net purchase of own shares	999
At March 31st 2014	2,302

NOTE 19 Notes to the consolidated cashflow statement

Reconciliation of operating profit to net cash inflow from operating activities	2014 £000	2013 £000
Operating profit	59,005	67,505
Depreciation of tangible fixed assets	3,385	3,376
Goodwill amortisation	6,945	6,778
Loss on disposal of tangible fixed assets	67	121
Increase in stocks	(606)	(193)
Decrease/(increase) in debtors	3,657	(1,135)
Increase/(decrease) in creditors	4,631	(9,601)
Decrease in unexpired subscriptions and deferred revenue	(980)	(4,513)
Decrease in provisions	(7,144)	(2,397)
Net cash inflow from operating activities	68,960	59,941

Analysis of net debt	At April 1st 2013 £000	Cashflow £000	Debt £000	Acquisitions £000	Other non-cash changes £000	Exchange movement £000	At March 31st 2014 £000
Cash at bank and in hand	17,995	(7,447)	-	-	-	(465)	10,083
Cash placed on short-term deposits	20,710	12,595	-	-	-	(534)	32,771
Total cash balances	38,705	5,148	-	-	-	(999)	42,854
Debt due within one year	(3,546)	-	3,566	-	(10,075)	879	(9,176)
Debt due after one year	(60,515)	-	-	-	9,993	4,095	(46,427)
Finance leases due within one year	(1)	2	-	-	(2)	-	(1)
Finance leases due after one year	(2,515)	-	-	-	3	-	(2,512)
Net debt	(27,872)	5,150	3,566	-	(81)	3,975	(15,262)

At March 31st 2014 cash balances included £3,544,000 (2013: £2,746,000) of deposits collected from tenants of the Group's property business. This cash is only accessible in the event of the tenant defaulting.

NOTE 20 Pension and other post-retirement liabilities

Analysis of pension and other post-retirement obligations (net of deferred tax)	2014 £000	2013 £000
UK Group scheme	(9,270)	(22,034)
Post-retirement benefits	(1,913)	(2,187)
	(11,183)	(24,221)

The Group operates pension schemes for most of its employees throughout the world, which are funded by the Group. The main scheme for UK staff who joined before 2003 (the UK Group scheme) provides funded defined benefits. The scheme has a defined-contribution underpin and provides for those employees who joined before 2003, for the better of defined-benefit and defined-contribution benefits. Defined-contribution schemes are operated for UK and non-UK staff. In addition, the Group provides unfunded, unapproved pension arrangements in respect of certain current and former 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 UK Group scheme has been closed to new members since January 1st 2003; a defined-contribution scheme is available to new joiners. As a result, under the projected unit credit method, the current service cost is expected to increase as members approach retirement. The company contributed 18.3% of pensionable salaries to fund ongoing service costs during the year and £350,000 to fund scheme expenses. The company also contributed £6,920,000 (2013: £2,929,000) in the year to repay the actuarial deficit which included a £5,000,000 lump-sum payment. The best estimate of contributions expected to be paid to the scheme in 2014-15 is £4,295,000.

The most recent full actuarial valuation of the UK defined-benefit scheme was at January 1st 2013. This showed the market value of assets of the main UK scheme to be £221,570,000. The actuarial valuation of pension liabilities was £244,356,000, leaving a deficit of £22,786,000. The actuarial method used for the valuation was the projected unit method. The foregoing liabilities represent the Scheme Specific Funding (SSF) Technical Provisions as agreed by the Group and the trustees. The SSF level of funding was 91%. The January 2013 valuation was used as a basis for determining the ongoing company funding rate, effective August 7th 2013.

NOTE 20 Pension and other post-retirement liabilities (continued)

The FRS 17 valuation reflects HM Revenue and Customs (HMRC) rules relating to commutation of tax-free cash effective April 6th 2006. Past scheme experience indicates that the majority of retirees take the maximum level of cash available. Cash commutation factors, which are regularly reviewed by the trustees, remained based around a factor of 16:1 at age 60.

The main overseas schemes and one UK scheme are based on defined contributions; amounts totalling £238,000 (2013: £128,000) were accrued in respect of these schemes at year end.

UK Group scheme

The valuation of the UK Group scheme has been updated by independent actuaries to March 31st 2014. The major assumptions used to determine this valuation are as follows:

	2014 %	2013 %	2012 %
Inflation	3.4	3.4	3.5
Increase in pensionable salaries	3.4	3.4	3.5
Increase in pensions in payment	3.2	3.3	3.3
Increase in deferred pensions	2.8	2.8	2.9
Discount rate for scheme liabilities	4.5	4.4	5.1

The mortality assumptions used in the valuation of the scheme are summarised in the table below, and have been selected to reflect the characteristics and the experience of the membership of the plan. This has been done by using SAPS1 light tables with longevity projection based on CMI 2011 and the year in which the member was born, with a 1% per-year underpin to future improvements (2013: SAPS1 light tables, CMI 2011, year of birth, 1% underpin).

	2014 years	2013 years
Longevity at age 65 for current retirees		
- Men	88.8	88.8
- Women	90.1	90.0
Longevity at age 65 for future retirees, current age 45		
- Men	90.1	90.1
- Women	91.6	91.5

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 2014 %	Value at March 31st 2014 £000	Long-term rate of return expected at March 31st 2013 %	Value at March 31st 2013 £000	Long-term rate of return expected at March 31st 2012 %	Value at March 31st 2012 £000
Equities	7.45	145,149	7.35	139,667	8.00	116,937
Government and corporate bonds	3.72	79,217	3.33	70,712	3.93	67,270
Property	6.45	29,127	6.85	26,222	7.00	25,294
Other	3.15	2,857	2.47	2,467	2.90	1,886
Total market value of assets		256,350		239,068		211,387
Present value of scheme liabilities		(268,084)		(267,684)		(224,593)
Deficit in the scheme		(11,734)		(28,616)		(13,206)
Related deferred tax asset		2,464		6,582		3,169
Net pension deficit		(9,270)		(22,034)		(10,037)

NOTE 20 Pension and other post-retirement liabilities (continued)

Reconciliation of fair value of scheme assets	2014 £000	2013 £000
April 1st	239,068	211,387
Expected return on scheme assets	14,677	13,849
Actuarial (loss)/gain	(824)	12,986
Employee contributions	581	645
Disbursements	(6,581)	(5,509)
Contributions paid by employer	9,429	5,710
March 31st	256,350	239,068

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed-interest investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £13,853,000 (2013: £26,835,000).

Reconciliation of present value of scheme liabilities	2014 £000	2013 £000
April 1st	(267,684)	(224,593)
Current service cost	(2,659)	(3,390)
Employee contributions	(581)	(645)
Interest cost	(11,766)	(11,396)
Disbursements	6,581	5,509
Actuarial gain/(loss)	8,025	(33,169)
March 31st	(268,084)	(267,684)

Sensitivity analysis of scheme liabilities

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

	Change in assumption by	Impact on scheme liabilities
Inflation	0.5%	8.0%
Pensionable salaries	0.5%	1.7%
Pensions in payment	0.5%	6.9%
Revaluation rate of deferred pensions	0.5%	2.1%
Discount rate	0.5%	9.0%

If the average expected age of death of pensioners lengthened by one year, the liabilities of the scheme would increase by 2.8% (2013: 2.8%).

Analysis of the amount charged to operating profit	2014 £000	2013 £000
Current service cost	2,659	3,390

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

Analysis of the amount credited to other finance income	2014 £000	2013 £000
Expected return on pension scheme assets	14,677	13,849
Interest on pension scheme liabilities	(11,766)	(11,396)
Net income	2,911	2,453

NOTE 20 Pension and other post-retirement liabilities (continued)

History of experience gains and losses

Difference between the actual and expected return on scheme assets	2014	2013	2012	2011	2010
Amount (£000)	(824)	12,986	(2,789)	2,621	34,139
Percentage of scheme assets	0%	5%	(1%)	1%	19%
Experience (losses)/gains on scheme liabilities					
Amount (£000)	-	(538)	999	58	7,866
Percentage of the present value of the scheme liabilities	0%	0%	0%	0%	4%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses					
Amount (£000)	7,201	(20,183)	(32,474)	6,164	2,289
Percentage of the present value of the scheme liabilities	3%	(8%)	(14%)	3%	1%

Since the adoption of FRS 17 in 2006 a cumulative net loss before taxation of £44,253,000 has been charged through the statement of total recognised gains and losses in respect of actuarial revaluations of the pension scheme.

Other post-retirement benefits

The Group provides post-retirement medical benefits to certain former employees. At March 31st 2014, 51 retired and former employees (2013: 51) were eligible to receive benefits. As at March 31st 2014 the Group estimated the present value of its accumulated post-retirement medical benefits obligation to be £1,913,000 (2013: £2,187,000), 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 5.35% per year (2013: 5.40%) and a discount rate to represent the time value of money of 4.50% (2013: 4.40%). Actual premiums paid are being set against this provision, which is periodically assessed for adequacy.

NOTE 21 Financial commitments

Operating leases Land and buildings, leases expiring	2014 £000	2013 £000
Within one year	767	782
Between two and five years	1,513	1,887
After five years	5,139	5,559
	7,419	8,228

Plant and equipment, leases expiring		
Within one year	16	62
Between two and five years	76	63
	92	125

NOTE 22 Capital commitments and contingent liabilities

At March 31st 2014, there was £119,000 capital expenditure contracted for but not provided in the financial statements (2013: £nil). There are contingent Group liabilities in respect of legal claims, indemnities, warranties and guarantees in relation to former businesses. None of these claims is expected to result in a material loss to the Group.

NOTE 23 Related party transactions

The Financial Times Limited holds 50% of the issued share capital in the company and is entitled to appoint six out of a total of 13 places for directors on the company's Board. The Financial Times Limited is a wholly owned subsidiary of Pearson plc. The Group sold goods and services to Pearson plc and subsidiary companies to a total value of £229,816 (2013: £73,646) in the normal course of trade during the year, and acquired goods and services to a total value of £365,012 (2013: £242,700), excluding director's fees described on page 23. The aggregate balances outstanding with these companies as at March 31st 2014 were £nil (2013: £7,655) due to the Group and £29,297 (2013: £69,611) due from the Group.

NOTE 24 Acquisitions

During the prior year the Group made the following acquisitions:

Prior year acquisition of Clearstate (Pte) Limited (Clearstate)

In April 2012 the Group acquired 100% of the ordinary share capital of Clearstate for an initial consideration of Singapore $10,000,000 (£4,976,000). The following table sets out the book values for the identifiable assets and liabilities acquired and their fair value to the Group:

	2013 £000
Tangible fixed assets	30
Debtors	554
Cash at bank and in hand	79
Total assets	663
Creditors	
Creditors: amounts falling due within one year	(155)
Deferred revenue	(142)
Net assets acquired	366
Goodwill	6,552
Consideration	6,918
Consideration satisfied by:	
Cash consideration	4,976
Deferred consideration	1,742
Related costs of acquisition	200
	6,918
Net cash outflow in respect of the acquisition comprised:	
Cash consideration and acquisition costs	5,176
Cash at bank and in hand acquired	(79)
	5,097

Goodwill is reviewed where there is an indication of impairment. Given the performance of Clearstate since its acquisition, no impairment is required.

NOTE 24 Acquisitions (continued)

Prior year acquisition of Bazian Limited (Bazian)

In November 2012 the Group acquired 100% of the ordinary share capital of Bazian for an initial consideration of £4,900,000. The following table sets out the book values for the identifiable assets and liabilities acquired and their fair value to the Group:

	2013 £000
Tangible fixed assets	9
Debtors	248
Cash at bank and in hand	1,336
Total assets	1,593
Creditors	
Creditors: amounts falling due within one year	(748)
Deferred revenue	(114)
Net assets acquired	731
Goodwill	5,947
Consideration	6,678
Consideration satisified by:	
Cash consideration	4,900
Working capital adjustment	735
Deferred consideration	777
Related costs of acquisition	266
	6,678
Net cash outflow in respect of the acquisition comprised:	
Cash consideration and acquisition costs	5,901
Cash at bank and in hand acquired	(1,336)
	4,565

Goodwill is reviewed where there is an indication of impairment. Given the performance of Bazian since its acquisition, no impairment is required.

NOTE 25 Disposals

On April 19th 2013, the Group sold the trade and assets of European Voice. The following table sets out the profit on disposal of the business:

	2014 £000
Tangible fixed assets	10
Stocks	2
Debtors	26
Creditors	(297)
Gain on disposal	297
Total sales proceeds	38
Sales proceeds comprised:	
Cash consideration	1,100
Sale costs	(786)
Working capital settlement	(276)
	38

There was an operating cash outflow of £42,000 relating to European Voice in the period and tax payments of £nil.

NOTE 26 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 13 (2013: 13) forward exchange contracts, and 13 (2013: 13) option contracts. The value of forward contracts outstanding at the year end is £687,000 (2013: £833,000 liability). The value of the option contracts at the year end is £440,000 (2013: £416,000 liability).

Company balance sheet at March 31st

NOTE		2014 £000	2013 £000
	Fixed assets		
27	Tangible assets	5,966	5,732
27	Investments	284,054	292,146
		290,020	**297,878**
	Current assets		
27	Stocks	604	622
27	Debtors: due after one year	163,664	182,400
27	Debtors: due within one year	39,517	56,498
27	Deferred taxation	1,512	1,781
	Cash at bank and in hand	16,897	16,832
		222,194	**258,133**
27	Creditors: amounts falling due within one year	(204,236)	(188,273)
	Unexpired subscriptions and deferred revenue	(25,667)	(25,166)
	Net current (liabilities)/assets	**(7,709)**	**44,694**
	Total assets less current liabilities	**282,311**	**342,572**
27	Provisions for liabilities and charges	(1,263)	(1,493)
27	Creditors: amounts falling due after more than one year	(126,839)	(265,833)
	Net assets	**154,209**	**75,246**
	Capital and reserves		
17	Called-up share capital	1,260	1,260
27	Profit and loss account	152,949	73,986
	Equity shareholders' funds	**154,209**	**75,246**

The financial statements were approved by the Board of directors and authorised for issue on June 17th 2014.
They were signed on its behalf by:

Rupert Pennant-Rea
Chris Stibbs
Directors

Company statement of total recognised gains and losses

Years ended March 31st

	2014 £000	2013 £000
Profit for the financial year	120,672	63,987
Exchange translation differences arising on foreign currency net investment hedge	66	(233)
Actuarial gain/(loss) on other post-retirement benefits	165	(228)
UK deferred tax attributable to the actuarial (gain)/loss	(35)	62
Total recognised gains for the year	**120,868**	**63,588**

NOTE 27 Notes to company balance sheet

Tangible fixed assets	Leasehold buildings: short	Plant and machinery	Equipment	Total
Cost	£000	£000	£000	£000
At April 1st 2013	2,956	976	20,473	24,405
Additions	3	-	1,435	1,438
Disposals	(23)	(2)	(538)	(563)
At March 31st 2014	2,936	974	21,370	25,280
Accumulated depreciation				
At April 1st 2013	39	976	17,658	18,673
Provided during year	184	-	934	1,118
Disposals	-	(2)	(475)	(477)
At March 31st 2014	223	974	18,117	19,314
Net book value at March 31st 2014	2,713	-	3,253	5,966
Net book value at March 31st 2013	2,917	-	2,815	5,732

Fixed assets: investments	Shares in Group companies
Cost and net book value	£000
At April 1st 2013	292,146
Exchange translation differences	(8,092)
At March 31st 2014	284,054

The directors believe that the carrying value of the investments is supported by their underlying net assets.
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
TEG India Private Limited (India)
The Economist Group Trustee Company Limited *
The Economist Investments (Holdings) Limited (Guernsey)*
CQ-Roll Call, Inc (USA)
Capitol Advantage LLC (USA)
Bazian Limited*
The Economist Group (Asia/Pacific) Limited (Hong Kong)
The Economist Group (US Holdings) Limited
The Economist Newspaper Group, Inc (USA)
The Economist Group Singapore Pte Limited (Singapore)*
The Economist Group France S.a.r.l (France)*
The Economist Group (Switzerland) SA (Switzerland)*
Clearstate (Pte.) Limited (Singapore)
EuroFinance Conferences Limited*
TEG Massachusetts Corporation (USA)
TVC Group Limited*
The Television Consultancy Limited
The Economist (Shanghai) Management Consulting Company Limited (China)

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

NOTE 27 Notes to company balance sheet (continued)

Stocks	2014 £000	2013 £000
Raw materials	580	575
Finished goods	24	47
	604	622

Debtors Due after one year	2014 £000	2013 £000
Amounts owed by Group companies	163,664	182,400

Debtors owed by Group companies includes an amount of £149,051,000 (2013: £163,372,000) which bears interest of 5.9% per year.

Due within one year	2014 £000	2013 £000
Trade debtors	14,505	19,871
Amounts owed by Group companies	20,025	31,280
Other debtors	527	836
Prepayments and accrued income	4,460	4,511
	39,517	56,498

Summary of movements in deferred tax asset	£000
At April 1st 2013	1,781
Adjustments to tax charge in respect of previous year	58
Charge to the profit and loss account	(206)
Credited to other recognised gains for the year	21
Effect of changes in tax rates	(142)
At March 31st 2014	1,512

Assets recognised for deferred taxation under the liability method are:	2014 £000	2013 £000
Excess of depreciation over capital allowances	287	348
Post-retirement benefits	375	355
Other timing differences	850	1,078
	1,512	1,781

NOTE 27 Notes to company balance sheet (continued)

Creditors: amounts falling due within one year	2014 £000	2013 £000
Bank loans and overdraft	9,176	3,546
Trade creditors	5,504	5,046
Amounts owed to Group companies	160,734	152,598
Other creditors including taxation and social security	11,613	10,022
Accruals	17,209	17,061
	204,236	188,273
Other creditors including taxation and social security comprise:		
Corporation tax	3,226	1,286
Other tax and social security payable	1,464	1,437
Other creditors	6,923	7,299
	11,613	10,022

Creditors: amounts falling due after one year	2014 £000	2013 £000
7.93% unsecured loan note 2019-20	12,429	16,357
7.72% unsecured loan note 2019-20	29,832	39,258
Term loan	4,165	4,900
Amounts owed to Group companies	80,413	205,318
	126,839	265,833

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

Maturity of unsecured bank loans and overdrafts		
In one year or less, or on demand	9,176	3,546
In more than one year, but not more than two years	9,176	9,995
In more than two years, but not more than five years	28,754	31,946
In more than five years	8,497	18,574
	55,603	64,061

The company has bank loans and loan notes of £55,603,000 as at March 31st 2014 (2013: £64,061,000). In January 2012, the company entered into revolving credit facilities of £49,000,000. These facilities are unsecured and expire in January 2017 and were undrawn at March 31st 2014. The company also has a £4,900,000 term loan facility which is repayable between July 2014 and January 2017, as well as UK overdraft facilities which are subject to review in January 2017.

The company entered into a ten-year committed loan note arrangement in August 2009 to fund the acquisition of Congressional Quarterly. The loan notes are repayable annually in equal instalments from the fifth to the tenth year after inception with the first instalment payable in July 2014. The unsecured loan notes were drawn down in two tranches and are stated net of unamortised issue costs of £433,000 (2013: £514,000). These costs, together with the interest expense, are all allocated to the profit and loss account over the ten-year term of the facility at a constant carrying amount. The US dollar-denominated loan notes were valued at the closing exchange rate and this resulted in an unrealised gain of £4,913,000 (2013: loss of £2,924,000).

NOTE 27 Notes to company balance sheet (continued)

Provisions for liabilities	Provisions for post-retirement benefits £000
At April 1st 2013	1,493
Charge to the profit and loss account	88
Credit to the statement of total recognised gains and losses	(208)
Utilised in year	(110)
At March 31st 2014	1,263

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.

Reserves: profit and loss account	2014 £000	2013 £000
At April 1st	73,986	51,037
Retained profit for the year	79,766	23,116
Net (purchase)/sale of own shares	(999)	232
Other recognised gains/(losses) relating to the year	196	(399)
At March 31st	152,949	73,986

The directors have taken advantage of the exemption under section 408 of the Companies Act 2006 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 £120,672,000 (2013: £63,987,000).

Share-based payments

The company has recorded total liabilities at March 31st of £1,701,000 (2013: £2,374,000). Refer to Note 8 for further details of the share-based incentive schemes.

Financial commitments **Operating leases**	2014 £000	2013 £000
Land and buildings, leases expiring		
Within one year	387	444
Between two and five years	127	111
After five years	1,202	1,202
	1,716	1,757
Plant and equipment, leases expiring		
Within one year	5	8
Between two and five years	8	103
	13	111

At March 31st 2014, there was £119,000 capital expenditure contracted for but not provided in the financial statements (2013: £nil). The company has guaranteed certain bank overdrafts and property leases of its subsidiaries and the bank overdraft of the Group's employee share ownership plan trustee company. The annual cost of property leases guaranteed by the company is currently £619,000 (2013: £707,000) per year.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at the British Academy of Film and Television Arts, 195 Piccadilly, London W1J 9LN on Thursday July 17th 2014 at 12.15pm, for the purposes set out below.

1. To receive the accounts and the reports of the directors and the auditors for the year ended March 31st 2014.
2. To declare a final dividend of 94.0 pence per share in respect of the year ended March 31st 2014 to all "A" Special, "B" Special and Ordinary shareholders on the company's register of members at the close of business on June 17th 2014.
3. To reappoint PricewaterhouseCoopers LLP as the company's auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the company.
4. To authorise the directors to fix the remuneration of the auditors.
5. To consider and, if thought fit, to pass the following resolution as a special resolution[1]:

THAT

(a) the capital of the Company be and is hereby increased by the creation of one new deferred share of £1 (the "Deferred Share") having attached thereto the following rights and restrictions:
   (i) the Deferred Share shall:
      (A) not entitle its holder to receive any dividend or other distribution (other than pursuant to paragraph (C) below);
      (B) not entitle its holder to receive notice of or to attend (either personally or by proxy) or vote at (either personally or by proxy) any general meeting of the Company;
      (C) entitle its holder on a return of assets on a winding up of the Company (but not otherwise) to repayment of the amount paid up or credited as paid up on it up to a maximum of £1 per share, only after payment:
         I. in respect of each Trust Share, of the aggregate of the capital paid up or credited as paid up on such share; and
         II. in respect of each Ordinary Share, "A" Special Share and "B" Special Share, of the aggregate of the capital paid up or credited as paid up on such share and the payment in cash or specie of £1 billion on each such share;
      (D) not entitle its holder to any further or other right of participation in the assets of the Company; and
      (E) not be transferable;
   (ii) the issue of the Deferred Share shall be deemed to confer on the Company irrevocable authority at any time thereafter to retain the certificate for such Deferred Share, pending its cancellation;
   (iii) any cancellation of the Deferred Share for no consideration by way of reduction of capital shall not involve a variation of the rights attaching thereto; and
   (iv) the rights attached to the Deferred Share shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking in priority to or *pari passu* with or subsequent to such shares or by any amendment to or variation of the rights of any other class of shares of the Company;

(b) the Directors be and hereby are generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot the Deferred Share of £1 in accordance with this resolution, such authority to expire on March 31st 2015 and to be additional and without prejudice to any authority to allot shares existing at the date hereof;

1. An explanatory note is included on page 63.

(c) notwithstanding the requirement in Article 151 of the Articles of Association to appropriate capitalised reserves *pro rata* to the holders of Ordinary Shares, "A" Special Shares and "B" Special Shares in paying up on their behalf shares of a nominal amount equal to the sum capitalised, the directors be and are hereby authorised:
    (i) to capitalise the sum of £107,385,935, being the amount standing to the credit of the "other reserve" of the Company at March 31st 2014 (representing an unrealised profit of the Company); and
    (ii) to appropriate such sum, and apply such amount in paying up in full one Deferred Share of £1 for allotment and distribution credited as fully paid up, to Mr Oscar Grut, with £107,385,934 of the amount so appropriated being transferred to the Company's share premium account; and

(d) the directors of the Company having made a solvency statement in accordance with section 643 of the Companies Act 2006:
    (i) the Company's share capital be reduced from £1,260,006 to £1,260,005 by cancelling the deferred share of £1 in the capital of the Company; and
    (ii) the share premium account of the Company be cancelled.

By order of the Board
Oscar Grut
Secretary

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

June 17th 2014

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

A form of proxy is enclosed. To be valid, it must be completed and signed in accordance with the instructions and delivered to the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY at least 48 hours before the meeting.

NOTICE OF GENERAL MEETING OF "A" SPECIAL SHAREHOLDERS

Notice is hereby given that a separate general meeting of the holders of the "A" Special Shares will be held at the British Academy of Film and Television Arts, 195 Piccadilly, London W1J 9LN on Thursday July 17th 2014 immediately following the annual general meeting to be held at 12.15pm for the purpose of considering and, if thought fit, passing the following resolution as a special resolution:

THAT this separate general meeting of the holders of the "A" Special Shares of 5 pence each hereby sanctions and consents to every variation or abrogation of the special rights attached to those shares which is, may be or is deemed to be involved in or effected by the passing or implementation of resolution 5 set out in the notice convening the annual general meeting of the Company for July 17th 2014, a copy of which notice has been produced to this meeting and, for the purpose of identification, signed by the Chairman.

By order of the Board
Oscar Grut
Secretary

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

June 17th 2014

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

A form of proxy is enclosed. To be valid, it must be completed and signed in accordance with the instructions and delivered to the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY at least 48 hours before the meeting.

Explanatory Notes to the Special resolutions

Under UK company law, the Company may only pay a dividend to its members out of distributable reserves (which, in general terms, is the sum of realised profits and losses). As described below, the adoption by the Company of International Financial Reporting Standards (IFRS) will mean that its level of distributable reserves will be reduced on a one-off basis and may be subject to further reduction and/or volatility in the future. The Board therefore proposes to undertake a reduction of capital in order to generate additional distributable reserves in the Company, thereby preserving its ability to pay dividends in the future.

The Company currently prepares its financial statements according to existing UK GAAP. The UK Financial Reporting Council issued new accounting standards in 2012 and 2013. These new standards mean that the Company will no longer be able to prepare its accounts under existing UK GAAP. Accordingly, the Company has decided to adopt IFRS from and including the year ending March 31st 2016.

The adoption of IFRS means that the current amount of the UK defined benefit pension scheme deficit (£9,270,000 as at March 31st 2014) must be recognised for the first time as a realised loss in the Company's accounts, which will decrease the distributable reserves of the Company. Any future increase in the amount of the deficit will be reflected as a further realised loss.

In addition, under IFRS, the effect of movements in foreign exchange rates on non-sterling balances outstanding between the Company and its subsidiaries will change. In particular, technical differences in the treatment of foreign exchange gains and losses on amounts owed to the Company, and foreign exchange gains and losses on amounts owed by the Company, will lead to increased volatility in the level of the Company's distributable reserves.

The Board proposes that the directors be authorised to capitalise an unrealised profit of £107,385,935 by applying it in paying up one new deferred share, with £107,385,934 transferred to the Company's share premium account. The deferred share, due to its very restricted rights, will have no economic value. The Company will then cancel both the deferred share and the associated share premium pursuant to a reduction of capital. It is expected that the reserve of £107,385,935 arising on cancellation will be distributable.

The capitalisation of profit and subsequent capital reduction require shareholder approval. Resolution 5 will be proposed as a special resolution at the annual general meeting for this purpose. The trustees of the Company, who hold the trust shares in the Company, are entitled to vote on this resolution pursuant to Article 69(B) of the Company's articles of association. They have informed the Company that they do not object to this proposal and therefore do not intend to vote the trust shares on the resolution. The votes of holders of Ordinary Shares, "A" Special Shares and "B" Special Shares will therefore determine whether it is passed.

Although the deferred share will have no economic value and is expected to be in issue for only a short period, under the articles of association of the Company, its issue to Mr Oscar Grut (who is Group General Counsel and Company Secretary) is deemed to be a variation of the class rights of the holders of the "A" Special Shares and of the "B" Special Shares. The holders of not less than three-fourths in nominal amount of the "B" Special Shares have consented in writing to this deemed variation. The consent of the holders of the "A" Special Shares will be sought at a separate meeting of the holders of the "A" Special Shares, which will be held immediately after the annual general meeting.

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