The Economist Group

Annual report 2007

# Annual report 2007

# Annual report


**3** From the chairman

**4** Five-year summary

**5** From the chief executive

**6** The Economist brand family

- **6** The Economist
- **9** Economist Intelligence Unit

**11** CFO brand family

**12** Government brands


# Report and accounts


**16** Directors

**17** Trustees, Board and management committees

**18** Directors' report

**22** Directors' report on remuneration

**25** Financial review

**27** Auditors' report

**28** Consolidated profit and loss account

**29** Consolidated balance sheet

**30** Consolidated cashflow statement

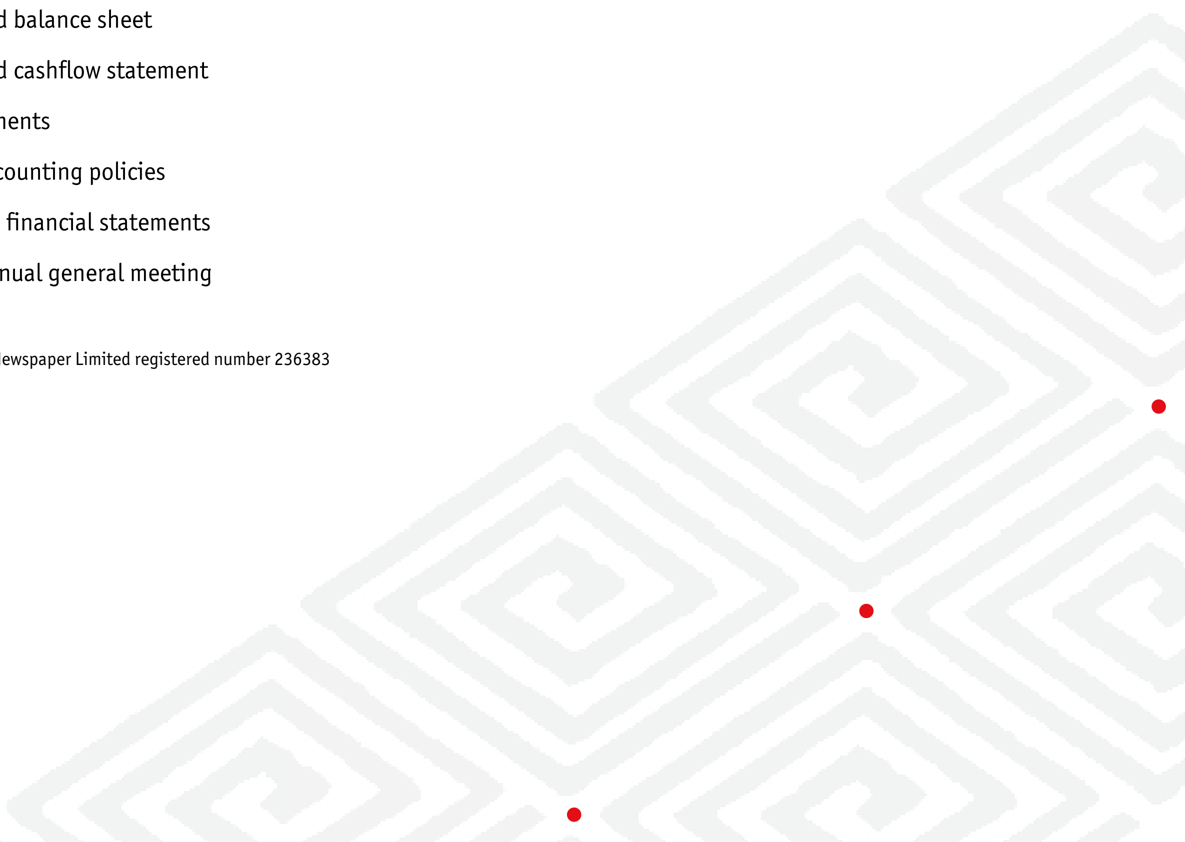
**31** Other statements

**32** Principal accounting policies

**35** Notes to the financial statements

**60** Notice of annual general meeting


The Economist Newspaper Limited registered number 236383



## From the chairman

**The Economist Group has had another strong year as our strategy continues to yield excellent results. We expect to build on this performance as our businesses show robust growth.**

Profit before tax was £49m, an increase of 59%. While £11m of PBT is attributable to the disposal of our holding in Commonwealth Business Media, Inc, the underlying driver was turnover, up 14% over the prior year. Operating cashflow also increased and stood at £33m, compared with £29m last year. Not many comparable companies reporting in sterling have done so well against the background of a sharply falling dollar. The Board is recommending a final dividend of 54.5p, making 75.5p for the financial year, which represents an increase of 20% over the prior year. The company additionally paid a special dividend of 139p in December 2006, and made further special contributions of £18m to offset the deficit in the UK defined benefit pension scheme. This deficit (net of tax), as recorded in the accounts, now stands at £8m. At the end of the calendar year, the Board will consider the possibility of a further special dividend.

The continuing strong performance of the business is, of course, central to our ability to boost dividends. We will always be exposed to movements in the advertising cycle, but in our largest business, *The Economist*, circulation (a key leading indicator for us) continues to flourish. I am very pleased to report another new peak in circulation, which reached 1.2m in the July-December 2006 audit period. The benefits of circulation growth on advertising revenue tend to flow into the next year, so we look forward to this with confidence.

Celebrating its 60th year, the Economist Intelligence Unit has increased its turnover again, by 8%. Growth is coming mainly from new initiatives such as industry coverage and bespoke services for customers.

*Roll Call* is a cyclical business, its revenues dipping during US election years when Congress normally sits for fewer days. But 2006 was an exception to the rule. The business's revenues were up 4% on the previous period, which had itself been a strong year.

The CFO brand family also grew year on year. Revenue growth of 22% came largely from EuroFinance, the business we acquired in January 2006. *CFO* magazine in the US has been affected by the migration of some IT client advertising budgets to the internet. However, there was growth in financial services advertising, and we see potential for further growth online and in other areas such as bespoke research across the brand family.

We view the future with confidence. Our research shows that our print products have largely retained their relevance in this increasingly electronic world, and this will provide the basis for further gains in market share even while other parts of the print industry are challenged. We plan to invest more in our electronic businesses, which are already showing substantial growth. We believe there are good reasons to see the development of the internet as more of an opportunity than a threat for our business, at least for the foreseeable future. This is not meant to sound sanguine, but we see the potential to enrich our range of content for readers and to widen the opportunities for our advertising clients.

I look forward to another strong year.

**Robert Wilson**

# Five-year summary

| Profit and loss | 2007<br>£m | 2006<br>£m | 2005<br>£m | 2004<br>£m | 2003<br>£m |
|---|---|---|---|---|---|
| Turnover | 248 | 218 | 197 | 191 | 192 |
| Operating profit | 36 | 28 | 24 | 24 | 22 |
| Non-operating exceptional items | 11 | 1 | 1 | - | - |
| Profit on ordinary activities before finance income | 47 | 29 | 25 | 24 | 22 |
| Net finance income | 2 | 2 | 2 | - | - |
| Profit before taxation | 49 | 31 | 27 | 24 | 22 |
| Profit after taxation | 34 | 22 | 27 | 18 | 16 |

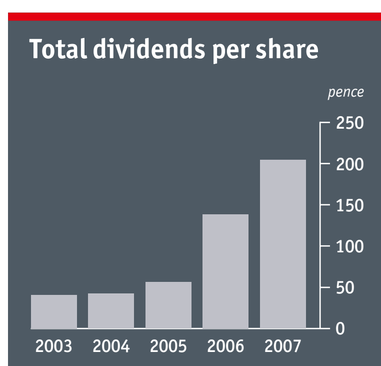
| Balance sheet and cashflow | | | | | |
|---|---|---|---|---|---|
| Fixed assets | 41 | 38 | 24 | 25 | 28 |
| Net cash balance | 31 | 55 | 73 | 69 | 55 |
| Net current (liabilities)/assets | (36) | (5) | 27 | 18 | 7 |
| Long-term creditors and provisions | (13) | (29) | (27) | (32) | (40) |
| Net (liabilities)/assets | (8) | 4 | 24 | 11 | (5) |
| Net cash inflow from operating activities | 33 | 29 | 24 | 31 | 29 |

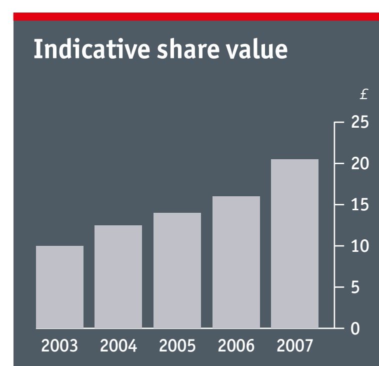
| Margin and earnings per share | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Operating profit to turnover | 14.6% | 13.1% | 12.4% | 12.6% | 11.4% |
| Basic earnings per share | 134.9p | 88.4p | 109.1p | 71.0p | 67.9p |
| Earnings per share before non-operating exceptional items | 105.2p | 87.1p | 84.9p | 69.5p | 66.4p |

| Dividends and shares | | | | | |
|---|---|---|---|---|---|
| Final and interim dividends per share | 64.8p | 59.0p | 57.5p | 43.3p | 41.8p |
| Special dividend per share | 139.0p | 79.4p | - | - | - |
| Total dividends per share* | 203.8p | 138.4p | 57.5p | 43.3p | 41.8p |
| Times covered (excluding non-operating exceptional items) | 0.5 | 0.6 | 1.5 | 1.6 | 1.6 |
| Indicative share value | £20.50 | £16.00 | £14.00 | £12.50 | £10.00 |

The results for the year ended March 31st 2006 have been restated to reflect the adoption of FRS 20, "Share-based payment".

*For definition, see note 9 on page 40.





## From the chief executive

**I am delighted to report that the momentum of the recent past has carried on into this year. We made record profits: underlying profits from continuing businesses, operating profit, and profits before and after tax are all at record levels. Our strategy is working and this is reflected in our results. In many parts of the business we are achieving new highs, most notably at *The Economist*, which remains our largest business.**

The revenue performance of the company is strong. Total revenues have increased by 14% over the previous year; our print advertising figure is 12% higher. Given the performance of the total market for print advertising, this is a notable achievement.

Print remains an important component of the company (and, reassuringly, our research suggests that the role of our print products remains undiminished in the lives of our readers). But no media company can ignore what is happening with the internet. Here we are experiencing dramatic rates of growth. Our electronic advertising revenue increased by 39% last year. Electronic revenues across the Group represented 17% of the total turnover. This bears comparison with our peers.

Because of the continuing success of our print franchise, we can afford to invest appropriately in our digital presence. We do not wish to chase traffic or eyeballs, but plan to build an electronic presence with the same quality that has given our other businesses their longevity.

Within the businesses this has been a year of considerable achievement. *The Economist*'s worldwide circulation of 1.2m is now ahead of the English-language circulations of *BusinessWeek, Forbes* and *Fortune*. There were also several important editorial developments, like the new international section in the paper.

At Economist.com we have added many new features including enhanced data services, pieces from our writers around the world and *Economist*-style blogs on economics and politics.

There has been progress in other parts of the business, too. Revenue at the Economist Intelligence Unit has increased by 8%. We continue to build complementary parts of the business such as the industry offering, but we are very well positioned to take advantage of increasing interest in emerging markets and will be launching new products and services over the coming year.

Despite challenges in its US print advertising, the CFO brand family has seen year-on-year growth too. Much of this has been due to the successful integration of our acquisition, EuroFinance. Total revenues were up by 22% to £24m and operating profits increased by £2m. We have also seen encouraging growth at CFO.com and are planning to expand *CFO*'s geographic reach with the launch of an Indian print advertising edition.

Our government brands, *Roll Call* and *European Voice*, are leaders in their respective markets. Here, too, we see opportunities for electronic growth. In line with our policy of acquiring businesses that fit our strategy, we bought GalleryWatch last year as a bolt-on to *Roll Call*, an excellent complement to our existing activity.

When we survey our markets, the area—apart from electronic media—where we see the most attractive opportunities is Asia. We have a good business in China, and India is our next priority, where we aim to increase circulation and thus advertising for *The Economist*, and will establish CFO and the Economist Intelligence Unit, whose very successful government roundtable was a notable flagship event in March 2007.

I am grateful to everyone in the Group for achieving the successes of the past year, and it is also with heartfelt thanks that we wish a happy retirement to David Laird, who since 1979 has worked around the company in a variety of roles, and who successfully established the CFO brand.

We have had success, but we are not complacent. We have to focus our talent and creativity to exploit a period of considerable change in our industry.

**Helen Alexander**

## The Economist brand family

**The Economist brand family is in a strong position. Brand family turnover rose by 13% to £205m and operating profit stood at £27m, growing by 30%.**

Our success continues to be built on high-quality, independent analysis. While *The Economist* continues to underpin many of the values of the brand, the fact that we can create and distribute a compelling view of the world over multiple platforms, including print, web and events, is a source of strength.

Readers are increasingly sophisticated in the ways in which they want to consume what we write, and advertisers demand an increasing degree of flexibility and responsiveness from all media owners. Our strong relationship with such a desirable audience that is so difficult to reach through other means, coupled with a broad product set and international presence, makes The Economist Group a valuable partner for many clients.

Many of the issues facing the world have an international if not global dimension. The Economist brand family is ideally positioned to be the commentator, interpreter and forecaster of the phenomenon of globalisation as it gathers in pace and impact.

## The Economist

***The Economist* and its associated businesses, including Economist.com, *The World In...* and *Intelligent Life*, have had another year in which a number of records have been broken. *The Economist*'s worldwide circulation was 1,197,712 in the July-December 2006 ABC (Audit Bureau of Circulations) audit. Combined advertising revenues are up across the business by 20%.**

This year's successes, coming on top of progress made in previous years, are now widely acknowledged across the industry. In Britain *The Economist* was named Medium of the Year by *Campaign* magazine, beating Google into second place. In the United States, *The Economist* made it into *Adweek*'s 2007 Hot List, an influential summary of the top ten magazines to watch.

This continued fast growth, coupled with research among readers and potential readers, gives us considerable confidence for the future. Research which we undertook in Chicago, New York and London shows that affluent, educated adults of all ages continue to look for the rich coverage of the sort *The Economist* provides in print, particularly at the weekend. They consume *The Economist* and other weekend reads as a ritual pleasure, making time for it and shutting out distractions. This is very different from snacking on news throughout the working week where, between interruptions, they jump in and out of sources largely on the internet. Compared with daily newspapers, therefore, the magazine format and the weekly nature of *The Economist* meet the many needs of our audience, whether they are 25 or 50 years old.

At the same time, there are opportunities online. The target audience remains the same but, online, the Economist brand meets the different needs of that audience. If they are consuming *The Economist* as a four-course gourmet meal at the weekend, they use Economist.com as a companion to the newspaper (for the archive, for instance) or to look at our analysis of the news during the day, or at what other readers are saying about what we write. For *The Economist*, it is not about print versus web: there are interesting opportunities in both media.

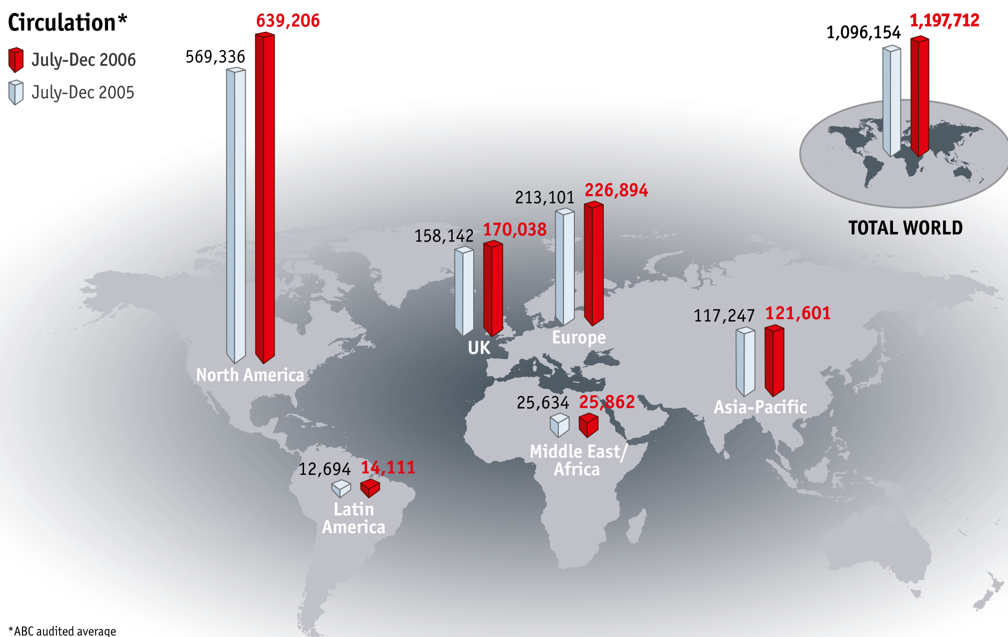
Advertisers recognise the strength of *The Economist*'s relationship with its readers, both online and in print. Increasingly, too, advertisers seek to reach the high-end audience through a range of channels: the newspaper and Economist.com, of course; but also through the conference and research businesses of the Economist Intelligence Unit. A single editorial product for all *The Economist*'s readers around the world continues to be the right approach for us.

*Economist* readers in different countries often have more in common with each other as global citizens than they do with citizens in their own country. That advertising clients recognise this continues to be reflected in the brand's leadership in international (pan-regional and worldwide) advertising.

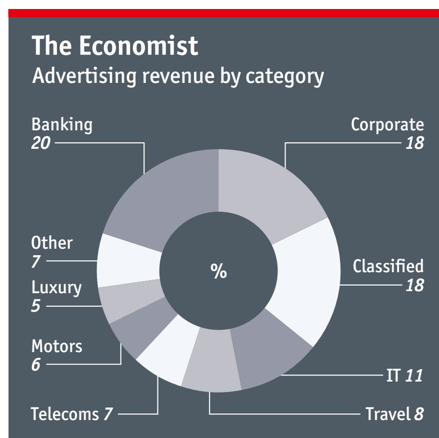
However, in addition to the markets for international advertising, *The Economist* also competes for domestic advertising in the UK and the United States. Since large, English-speaking markets are important for the business, we have also launched a South Asia (India and its neighbours) advertising edition, to tap the market for advertisers who are looking to reach India's fast-growing elite.

Print advertising revenues at *The Economist* were up 18%, demonstrating that this strategy of having a stake in multiple advertising markets is powerful and is working well.

The momentum of circulation growth all over the world gives us confidence that it will continue. As well as being good business in its own right, it also allows us to engage with the world's decision-making elite, the foundation of our advertising success. Moreover, the brand is growing fast, and profitably, on the web. We shall continue to invest around the world, in particular in the United States and on the internet, in order to make the most of these opportunities.



Under *The Economist*'s new editor, John Micklethwait, editorial highlights included coverage of the mid-term elections in America, the Israeli incursion into Lebanon and North Korea's nuclear bomb, as well as the continuing controversies over global warming and Wall Street's tussle with the City of London. *The Economist* has seen the introduction of a new financial markets column, Buttonwood (previously only available online), and a new international section, which captures global stories that fall between regional sections—everything from arms control and human rights to the environment and even an international divorce guide.




We have re-designed Economist.com to introduce more daily content, including columns, blogs, a daily chart and a weekly Correspondent's Diary. A particular success was the weekly podcast: by the end of the year nearly 600,000 people were downloading audio content from the website each month. Economist.com also received two honours in the Webby awards, for its economics blog, Free Exchange, and for the quality of the writing on the site.

*The Economist* has gained circulation, as well as revenue, in all our main markets. In North America, the average circulation of the newspaper in the July-December 2006 ABC period reached 639,206, a year-on-year increase of 12%.

In its first year in the National Magazine Awards, given by the American Society of Magazine Editors, *The Economist* was shortlisted for "general excellence" in the 500,000-1,000,000 circulation category. And journalists continued to receive honours, including the David Watt prize and three Wincott awards. *The Economist* was voted Best Magazine by the *Chicago Tribune*.

In North America advertising revenues continued to grow, with an increase over the previous year of 25% for the newspaper and 57% for Economist.com. Investment will continue in the United States to develop the audience there that advertisers want to reach. We have rolled out the marketing campaign, pioneered successfully in Baltimore, to Denver, Austin, Boston and San Francisco. We have advertised nationally on public radio and in select publications. We have also re-designed all our direct marketing materials in the United States to reinforce the brand. Taken together, these initiatives have resulted in tripling brand awareness among our target audience, which itself continues to support our strong news-stand and subscription growth.

As the readership of *The Economist* grows, the demographic profile remains attractive: the annual Mendelsohn readership survey among the affluent in the United States showed last year that *The Economist*'s readership continued to rise, by over 6% in 2006. *The Economist* has the fifth-highest median income among all 102 publications measured by Mendelsohn. Additionally, *The Economist* ranks third among all publications for readers holding a college degree or higher.

Our UK circulation grew by 8% to 170,038 in the July-December 2006 ABC period, and delivered a significant increase in circulation profitability. Now in its 19th year, *The Economist*'s outdoor campaign continues to win creative awards, this year from Campaign Posters, Eurobest and Creative Circle.

The UK remains an important centre for international advertising, particularly pan-European and global. *The Economist* reaches the high-end audience in the UK and across Europe and the world, so its advertising position remains strong.

In continental Europe, our circulation grew by 6% to 226,894, with a significant improvement in circulation profitability. Newspaper advertising revenues were strong, increasing by 30% overall in the region, with revenues from the Paris office growing by 38%.

Across Europe, including Britain, the European Business Readership Survey showed a 40% increase in *The Economist*'s reach of senior business people over the past two years.

*The Economist*'s average issue sale in the Asia-Pacific region is now 121,601 (July-December 2006 ABC). This is significantly ahead of our regional competitors. We now sell over 17,000 copies per week in India and its neighbours, a 30% annual increase. In February 2007 we

had 72,000 unique visitors from China, the fourth-highest country worldwide, to Economist.com. India and Australia were also in the top ten.

Newspaper advertising revenue sold from Asia was up 37%, and advertising revenue for Economist.com was up 125%.

We are currently seeing the benefits of a sustained, long-term approach to investment. For the year ahead, we shall continue to invest in our editorial and in the brand across our various media platforms. Our objective remains to build a senior, decision-making audience that advertisers want to reach, both globally and in various markets around the world, and we are confident that we will set the hurdle even higher over the coming 12 months, be it in print or on the web.

## Economist Intelligence Unit

**The Economist Intelligence Unit celebrated its 60th anniversary in 2006 with revenue rising by 8%. The business is particularly subject to movements in the dollar exchange rate since this is the currency used for pricing in many of our leading markets; on a constant currency basis revenue growth was even stronger at 11%.**

We continue to develop our range of information services. As our clients extend their operations internationally, so they look to us for more granular analysis and forecasts on the countries where they do business. During the course of the year we increased the number of countries we assess for operating risk from 60 to 150 and the number we assess for credit risk from 100 to 120. We also now issue medium- and long-term forecasts on 82 major economies, up from 60 in the previous year.

Our clients are looking for depth as well as breadth in our coverage and this is expressed in a growing appetite for analysis and data on specific industries. We have added editorial resources in this area and increased the number of analytical articles on the *Industry Briefing* web service.

This appetite for depth is also expressed in a growing demand for bespoke research projects. During the year we were engaged by a variety of companies and government agencies to report on topics related to countries and industries, which often called on our expertise in economic modelling.

Sponsors are increasingly keen to reach our audience of senior decision-makers, supporting our conferences and some dedicated research projects. We have built a research panel of 20,000 senior executives who share their views with us on current business topics, and we use the findings of these surveys as the basis for reports. Clients increasingly are interested in using a variety of marketing channels and will sponsor conferences and webcasts, and buy pages in *The Economist* to advertise findings from the research.

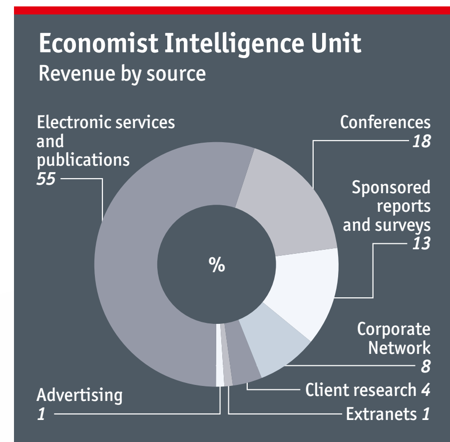
Economist Conferences has had a strong year. This was particularly driven by growth in the number of government roundtables. These bring government leaders together with an audience of senior business executives, and this year we ran high-profile events for the first time in countries such

as Albania, Canada, Iceland, Oman and Uruguay. We also returned to India after a gap of seven years to run one of our most successful roundtables of the year.

Celebrating our 60th year and being in the business of forecasting gave us the opportunity to publish a forecast of how the world might look in a further 60 years' time. The growing importance of technology was a key theme in our 60-year forecast and this is true in our own business where the internet is now the overwhelmingly dominant distribution channel. Our clients' expectations are increasing. We therefore plan a series of enhancements to our internet platform which will make our services more flexible and easier to use. However, the principal theme of our 60-year forecast was the continuing growth of developing countries.

We predict that China and India will have the greatest purchasing power in the world by 2066, with the United States close behind. Indonesia, Brazil and Russia will all be vying for the fourth spot in the league table. Our customers are responding to this growth with ever-greater interest in these developing countries. We plan to invest as we see demand grow, and we will provide them with more detailed information, supported by an enhanced presence in the markets in which we operate.

As business continues to globalise, the Economist Intelligence Unit is in an excellent position to benefit. We will continue to invest in people and services to underpin further revenue and margin growth. With the Economist Intelligence Unit alongside *The Economist*, we have a strong proposition for international customers and clients.



## CFO brand family

**The CFO brand family's revenue increased by 22% to £24m in the current year and operating profit increased by £2m. A very strong performance by our new acquisition, EuroFinance, was to a degree offset by lower print advertising revenue for *CFO* in the United States.**

The CFO audience of senior decision-makers is more valuable than ever and the brand franchise remains strong. In the latest US Business Readership Survey, *CFO* magazine had the best coverage of CFOs and was ranked first among senior purchase influencers in more categories than any other magazine. This strong performance in research was also reflected elsewhere in the world. In the European Business Readership Survey, *CFO Europe*'s penetration among those surveyed grew by 60%.

The appeal among readers is a result of high-quality editorial, and this is widely recognised in the industry, where *CFO* magazine won the *Folio* B-to-B Business/Finance Gold award for editorial excellence and Janet Kersnar, editor of *CFO Europe*, was shortlisted for the 2006 British Society of Magazine Editors' Awards.

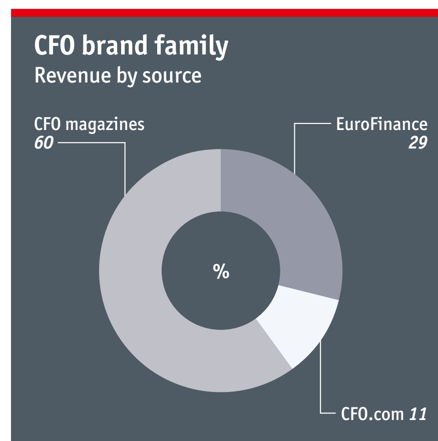
*CFO* readers are also engaging even more with our brand on the internet. CFO.com continues to reach new levels of revenue and performance, and it won the prestigious Jesse H Neal award for best business website in its category. It achieved the highest ever number of page views in a single month at 1.5m in January and its highest number of unique users in a single month at 371,000 in March 2007.

As readers migrate online, advertisers follow. *CFO* is not immune to what has affected the industry as a whole, and advertising pages, particularly in the technology category, have decreased in the US edition as a consequence. The priority for the brand is therefore to continue to increase the pace of growth at the website. CFO has ambitious plans for the site which we will develop through the course of the financial year. We will increase editorial resources devoted to CFO.com and we will invest in a number of areas, including searchable databases and career management content. All activity will be in line with the brand's mission to equip the senior financial executive for success.

The other priority for the brand in the coming year is to extend its footprint in India. *CFO Asia* will launch a quarterly advertising edition for India and increase its circulation there by 20%. The team will take the CFO Rising event to India, running a conference in the coming autumn.

Elsewhere in the brand family, EuroFinance completed its first year. There was a rigorous integration plan and the business beat what was an already aggressive budget. Its flagship event, held in Florence in September, attracted 1,800 delegates and exceeded sponsorship and delegate revenue targets by 26% and 20% respectively.

The CFO brand family remains the primary targeted media asset aimed at an important constituent part of the high-end audience. We will continue to invest behind the brand to extend the franchise geographically and so that its online presence matches the print and event activities in reach and value.



## Government brands

**The Economist Group's brands targeted at senior decision-makers in government consist of *Roll Call, European Voice* and GalleryWatch, acquired last autumn as a complement to *Roll Call*. Collectively revenues were up to £14m, an increase of 11% over the prior year.**

R*oll Call*'s position as the leading media brand on Capitol Hill was highlighted in the latest Erdos & Morgan readership survey, which confirmed the title as the best-read publication for congressional opinion leaders. As a result, *Roll Call* continued to benefit in growth in spending by clients wishing to reach its influential audience.

2006 was an unusual year. The normal pattern is that there is a dip in advertising activity during mid-term election years. However, an active legislative agenda and the fact that Congress sat for longer than expected meant that *Roll Call* was able to publish more issues than anticipated. Its revenues therefore were 4% higher than the previous year.

Qualified circulation for the title was higher at over 19,000, largely as a result of additional copies being sent to Congress at the special request of the Senate. But online represented the most significant area of development.

*Roll Call* extended the range of services it can provide to readers and clients by acquiring GalleryWatch, a leading provider of real-time online legislative information and management services for searching, tracking and analysing the Federal (and also the Texas) legislative, regulatory and appropriations processes. GalleryWatch serves government-affairs professionals at government agencies, trade associations, corporations, and law and lobbying firms.

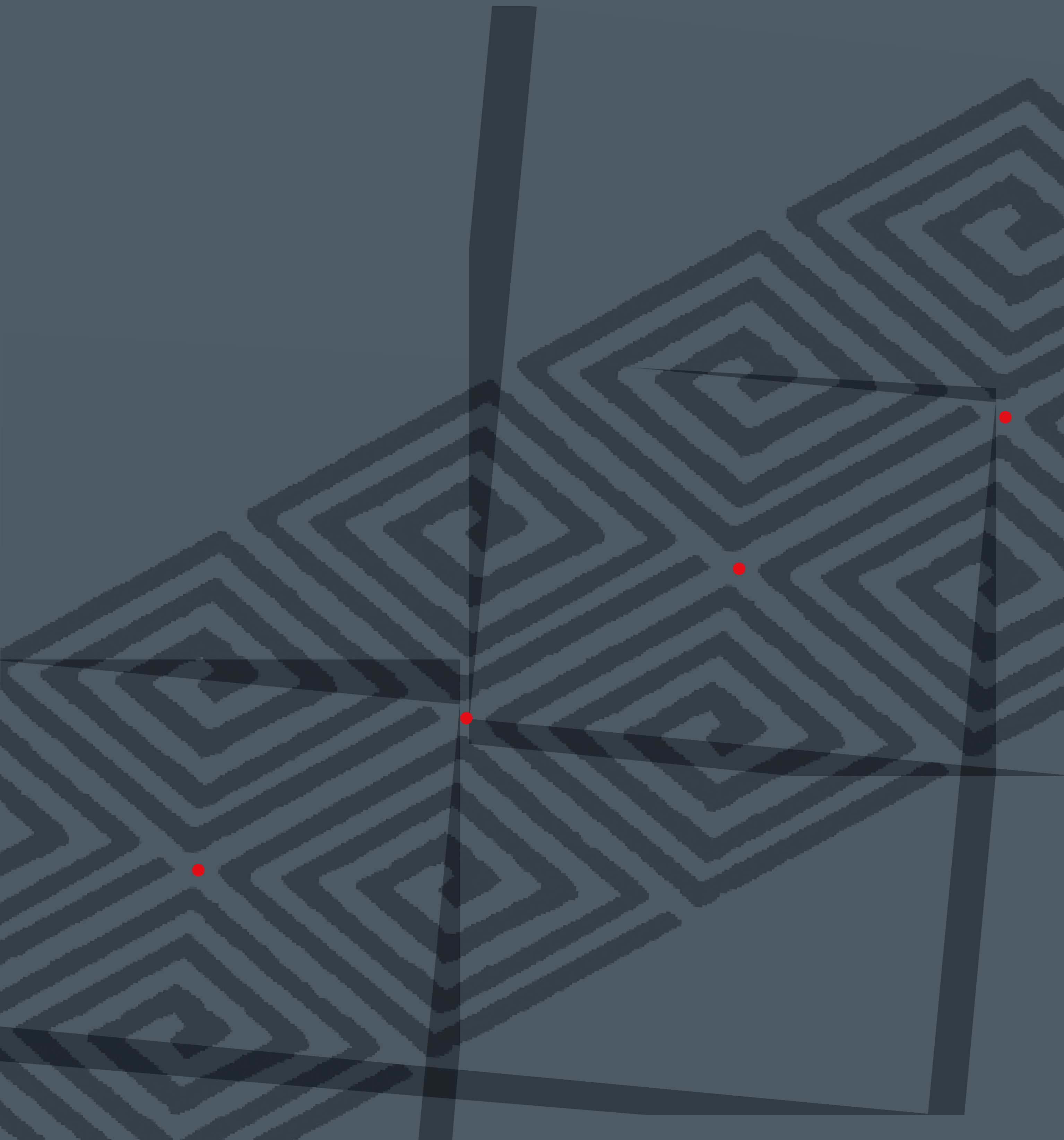
*Roll Call*'s management is implementing a comprehensive integration plan for GalleryWatch. We are investing in the business's growth, and it will benefit considerably from *Roll Call*'s marketing and editorial expertise, as well as from the title's existing strong ties to government-affairs professionals.

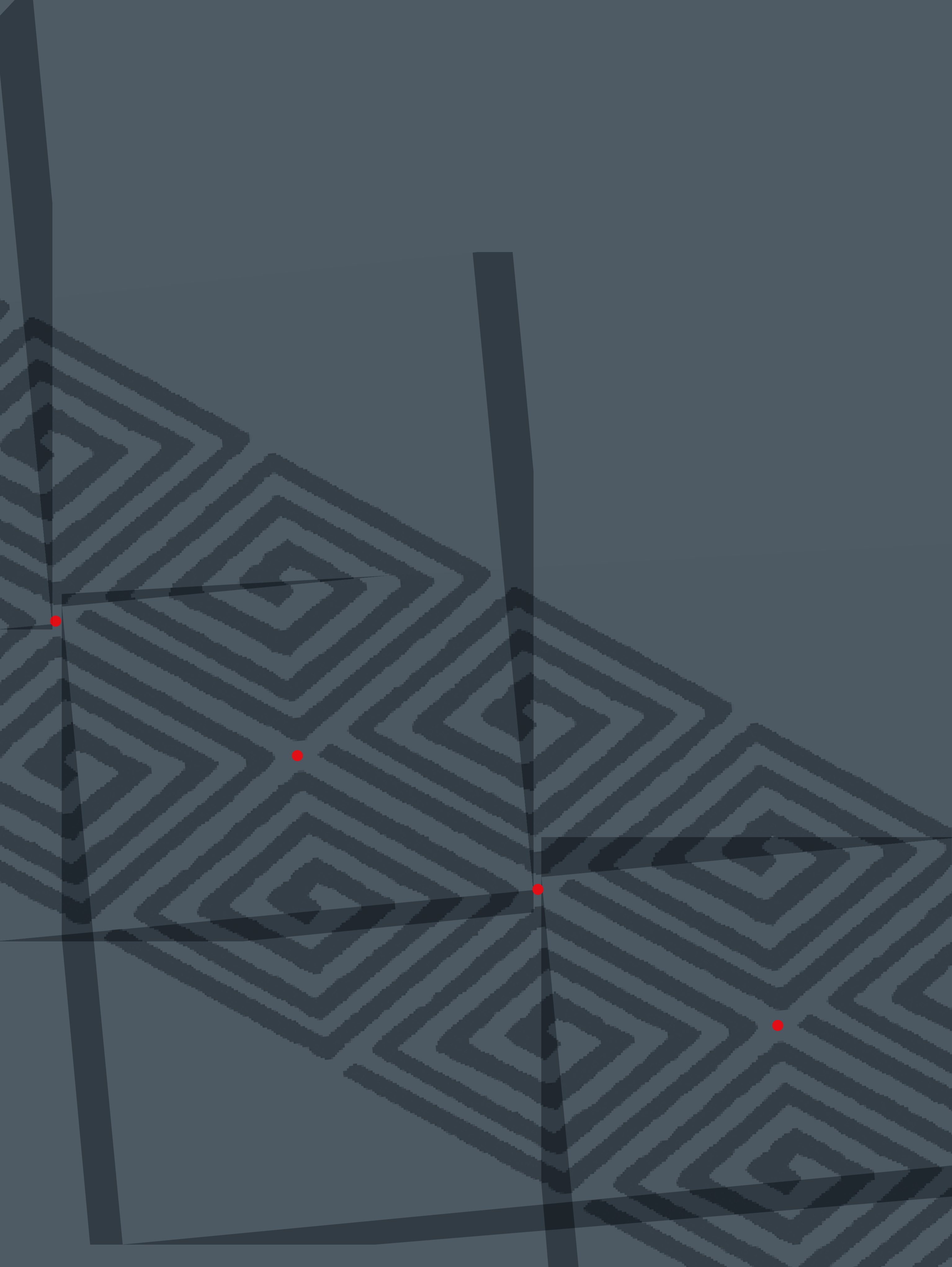
*European Voice* takes the *Roll Call* franchise and extends it to Brussels. Its pre-eminent position as the most influential media player focused on the affairs of the European Union is underlined by the guest list at its annual Europeans of the Year awards, the EV50. Attendees included the presidents of both the European Commission and Parliament as well as a number of other commissioners, government ministers and former heads of state.

*European Voice*'s revenues increased by 11% on the prior year and there was a corresponding rise in operating profit. The priority for the coming year is to expand the business's web presence, providing daily news and insight to build a more substantial audience which will prove attractive to clients.

The Group's government brands are an important constituent part of our strategy to reach the high-end audience through quality content. They are leading players in their respective markets, which are showing rapid growth, and we will continue to invest to yield greater profits from this strong position.

# Report and accounts





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## Directors

### Sir Robert Wilson

Appointed as non-executive chairman in July 2003, having served as a non-executive director since May 2002. Chairman of BG Group and a non-executive director of GlaxoSmithKline. Previously executive chairman of Rio Tinto.

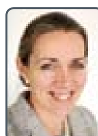
### Helen Alexander CBE

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

### Sir David Bell

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

### Rona Fairhead



Appointed as a non-executive director in July 2005. Chief executive of the Financial Times Group, an executive director of Pearson and a non-executive director of HSBC Holdings.

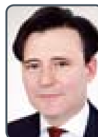
### John Gardiner

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

### Philip Mengel

Appointed as a non-executive director in July 1999. Director of Electro-Motive Diesel. Previously chief executive of US Can Corporation, English Welsh & Scottish Railway and Ibstock.

### John Micklethwait



Appointed as a director in May 2006, and editor of *The Economist* since April 2006, having joined the editorial staff in July 1987. Previously US editor. Co-author of four books (with Adrian Wooldridge), most recently "The Right Nation".

### Nigel Morris

Appointed as a non-executive director in May 2004. Co-founder of Capital One Financial Services and former chief operating officer and president of Capital One Financial Corporation. Member of the board of governors of London Business School and trustee of New Philanthropy Capital.

### Rupert Pennant-Rea

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

### Simon Robertson

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

### Lynn Forester de Rothschild

Appointed as a non-executive director in October 2002. Chief executive of EL Rothschild and a non-executive director of the Estée Lauder Companies. A director of the Outward Bound Trust and the ERANDA Foundation. Chair of the American Patrons of Tate and a member of the UN Advisors Group on Inclusive Financial Services.

### Lord Stevenson of Coddenham

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

### Chris Stibbs

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

## Trustees

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

**Baroness Bottomley of Nettlestone PC, DL** Trustee since October 2005. Heads the board practice of Odgers Ray & 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, Cambridge University Judge Institute of Management Studies and the Supervisory Board of Akzo Nobel NV. Non-executive director of BUPA.

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

**Bryan Sanderson** Trustee since May 2006. Chairman of the Sunderland Area Regeneration Company, co-chairman of the Asia Task Force, a governor of the London School of Economics and a director of Durham CCC.

## Board committees

### Remuneration committee

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

### Audit committee

**John Gardiner, chairman**
**Nigel Morris**
**Rupert Pennant-Rea (since September 19th 2006)**
**Lynn Forester de Rothschild**
**Sir Robert Wilson**

## Group management committee

**Helen Alexander**
**Chris Stibbs**
**John Micklethwait**

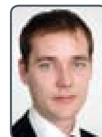
**Matthew Batstone**

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

**Martin Giles**

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

**Oscar Grut**



Group general counsel and company secretary. Joined the company in 1998 from Linklaters.

**David Laird**

Group commercial director. Joined the Group in 1978 as an advertising sales executive for *The Economist*, and worked in Frankfurt and New York before becoming the publisher of *CFO* magazine. Retired in April 2007.

**Nigel Ludlow**

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

**Paul McHale**

Group HR director. Joined the company in 1999 from United Biscuits and J Sainsbury.

**Andrew Rashbass**

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

# Directors' report

The directors present their report to shareholders, together with the audited financial statements, for the year ended March 31st 2007.

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

**Results and dividends** The profit after tax for the financial year to March 31st 2007 was £33.8m (2006: £22.1m). A final dividend of 54.5p per share (2006: 43.8p) is proposed for the year to March 31st 2007. Together with the interim dividend already paid, this makes a total for the year of 75.5p (2006: 62.9p). In addition, a special dividend of 139p per share was paid in December 2006 (January 2006: 79.4p). The final dividend will be paid on July 18th 2007 to shareholders on the register at the close of business on June 5th 2007.

**Property values** The directors have been advised that the open market value of the Economist Complex at March 31st 2007 was £92.2m; the balance sheet value is £15.9m. Based on this information, the directors consider that the aggregate market value of all the Group's properties exceeds their book value.

**Transactions with related parties** Details of transactions with related parties, which are to be reported under FRS 8, are set out in the notes to the financial statements on page 51.

**Charitable and political donations** During the financial year, the Group made contributions to charities amounting to £225,250 (2006: £295,364), including benefits granted in kind. No contributions were made for political purposes (2006: £nil).

**Directors** Profiles of the directors appear on page 16. John Micklethwait, editor-in-chief, was appointed as an executive director on May 23rd 2006. Rupert Pennant-Rea was appointed as a non-executive director on August 22nd 2006. All executive directors have contracts of employment.

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

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

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

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

- Given the calibre and experience of the non-executive directors, the Board does not believe it is necessary to identify a senior independent director.
- The directors' contracts of employment do not explicitly provide for compensation commitments in the event of early termination.
- Some AGM procedures do not comply.
- In view of the company's unique capital structure which gives the "A" special and "B" special shareholders the right to appoint directors, the directors do not stand for re-election.
- The Board has not undertaken a formal evaluation of its individual directors but has done so for the Board as a whole.

**Board** The Board currently comprises ten non-executive directors and three executive directors. The non-executive directors have a breadth of successful commercial and professional experience and they exercise independent judgment. Lord Stevenson, who was appointed by The Financial Times Limited, was until September 30th 2005 chairman of its parent company, Pearson plc. Sir David Bell is chairman of the Financial Times and Rona Fairhead is chief executive of the Financial Times Group; they are also executive directors of Pearson plc. Lynn Forester de Rothschild and her spouse, Sir Evelyn de Rothschild, are each interested in a significant number of shares (see page 22). Details of directors' interests and, in relation to the executive directors only, their interests in the employee share ownership trust, are given in the directors' report on remuneration on pages 22 to 24.

The Board is chaired by Sir Robert Wilson and has met for regular business six times in the 12 months to March 31st 2007. The Board also convenes at other times on an ad hoc basis or in committee when events warrant. It is responsible for the overall direction and strategy of the Group and for securing the optimum performance from the Group's assets. It also exercises control by determining matters specifically reserved for it in a formal schedule which only the Board may change: these matters include significant acquisitions and major capital expenditure. The Board carries out regular reviews of matters undertaken by management under delegated authority. The company's Articles of Association require the Board to obtain the approval of the trustees for some actions.

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

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

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

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

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

- A budgeting system which includes an annual budget and forward projections is approved by the Board. Monthly actual results are reported against the annual budget and revised forecasts are prepared as necessary. The company reports to shareholders at least twice a year.

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

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

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

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

**The Economist Group's Guiding Principles** The Board wishes the Group to operate in a clear and ethical context and has therefore approved the following Guiding Principles:

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

- Our ambition is to own and develop across the world intelligent media brands for the high-end audience that clients value. Underpinning our ability to fulfil this objective is our commitment to independence, integrity and delivering quality in everything we do. These values govern our relationships with readers, customers and clients, shareholders, staff, suppliers and the community at large.

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

- As an international company, we conduct business in many different markets around the world. In the countries in which we operate, we abide by local laws and regulations. We make an active contribution to local charities by charitable giving. We encourage our people to participate in charitable and community activity. We permit them to take time off for this purpose and we have begun to track the extent to which they take advantage of this policy.

- We respect environmental standards and comply with the relevant local laws. We take environmental issues seriously and consider these when placing contracts with suppliers of goods and services. 46% of our printers and paper manufacturers conform to or are working towards ISO 14001 standard or its regional equivalent.

- 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. 73% of staff in the United States and Europe (excluding staff at GalleryWatch, our recent acquisition) have received equal opportunities training, and we began the programme in Asia in March 2007. We support staff who through disability or illness are unable to perform their duties, by adapting the work environment and hours of work to suit the employee where it is reasonable for the business.

We recognise that it is essential to keep employees informed of the progress of the Group. We regularly provide employees with information on the Group's activities and its financial performance through staff meetings and communication through our intranet. We have a strong consultative culture and we follow legal and regulatory

requirements to consult with staff on major issues affecting the company.

Every two years the Group carries out a staff survey. The last one took place in September 2006; we had responses from 47% of staff. 81% of respondents agreed or strongly agreed that the Group is a good place to work (2004: 82%); 73% of respondents agreed or strongly agreed that the company conducts its business ethically (2004: 72%); 81% of respondents agreed or strongly agreed that they understood the Group's strategy (2004: 74%); and 77% of respondents agreed or strongly agreed that they understood what their business unit was doing to deliver its strategy (2004: 71%).

As part of a planned response to areas for potential improvement highlighted by the 2006 survey, the company has put in place a programme to improve the environmental impact of its offices and has made a commitment to explore ways to improve diversity in the Group.

**Payment of suppliers** The company aims to pay all of its suppliers within a reasonable period of their invoices being received and within any contractually agreed payment period, provided that the supplier also complies with all relevant terms and conditions. Subsidiary companies are responsible for agreeing the terms on which they trade with their suppliers. Trade creditors as at March 31st 2007 for the company represented on average 16 days of purchases (2006: 16 days).

**Annual general meeting** The notice convening the annual general meeting, to be held at 12.15pm on Tuesday July 10th 2007 at the Institute of Directors, can be found on page 60.

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

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

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

**Directors' statement of responsibilities** Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group to enable them to ensure the financial statements comply with the Companies Act 1985, for taking reasonable steps to safeguard the assets of the company and the Group, and for preventing and detecting fraud and other irregularities. The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements. The directors also confirm that applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and that the financial statements have been prepared on the going-concern basis.

By order of the Board
**Oscar Grut**
Secretary
June 5th 2007

# Directors' report on remuneration

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

**Directors' interests as at March 31st**

| **Table 1** | 2007 | | 2006 | |
|---|---|---|---|---|
| **Beneficial holdings** | "A" Special | Ordinary | "A" Special | Ordinary |
| Sir Robert Wilson | - | 10,490 | - | 8,940 |
| Helen Alexander | 25,785 | 22,215 | 25,785 | 13,720 |
| Sir David Bell | - | - | - | - |
| Rona Fairhead | - | - | - | - |
| John Gardiner | - | 1,000 | - | 1,000 |
| Philip Mengel | - | 1,000 | - | 1,000 |
| John Micklethwait (appointed May 23rd 2006) | - | 12,000 | - | 12,000 |
| Nigel Morris | - | 5,444 | - | 3,944 |
| Rupert Pennant-Rea (appointed August 22nd 2006) | 75,000 | 2,450 | 75,000 | 2,450 |
| Simon Robertson | - | 2,000 | - | 2,000 |
| Lynn Forester de Rothschild* | 240,440 | 2,037,000 | 240,440 | 2,037,000 |
| Lord Stevenson | - | 1,000 | - | 1,000 |
| Chris Stibbs | - | 700 | - | 700 |
| **Holding as a trustee** | | | | |
| Lynn Forester de Rothschild* | - | 2,012,550 | - | 2,012,550 |

*Includes the interests of her spouse, Sir Evelyn de Rothschild.

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

As at March 31st 2007, Helen Alexander held the right to acquire 23,750 ordinary shares (2006: 16,000) at a nominal price under the restricted share scheme described on the next page, having exercised such a right in respect of 16,000 ordinary shares during the year. Chris Stibbs held the right to acquire 7,344 ordinary shares (2006: nil) under the same scheme.

The executive directors of the company, together with all employees, are beneficiaries of the company's employee share ownership trust. As such, the directors are treated as interested in the 150,484 (2006: 182,895) shares held by the trustee of the trust.

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

**Current plans**

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

**(b) Executive long-term plan** Executive directors and some other senior employees were awarded performance units under the executive long-term plan. The units are equivalent in value to the company's ordinary shares. After a three-year performance period participants may receive 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 the Group's cumulative operating profit at the end of three years. The amount paid to each participant is determined by how many units have been awarded to the participant at the start of the three-year period. Payout is also contingent on the Group achieving an earnings hurdle.

**(d) Succession pool long-term plan** A pool of staff has been identified as having the potential to fill key senior positions in the medium to long term. They participate in this three-year cash bonus scheme designed to help us retain them. The size of the bonus pool is a percentage of Group cumulative operating profit at the end of three years. The amount paid to each participant is determined by how many units have been awarded to the participant at the start of the three-year period. Payout is also contingent on the Group achieving an earnings hurdle.

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

**Discontinued plans**

**Group long-term plan** Some senior employees were awarded performance units under the Group long-term plan which were equivalent in value to the company's ordinary shares. After three- and four-year performance periods participants might receive an incentive payment equal to a proportion of the increase in share price, depending on achievement of performance hurdles related to improved earnings. The final relevant performance period expired on March 31st 2007.

### Directors' remuneration

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

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

| | Salary/fees | Annual bonus | Long-term plan payments | Benefits | Total | |
|---|---|---|---|---|---|---|
| | 2007 | 2007 | 2007 | 2007 | 2007 | 2006 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Sir Robert Wilson | 80 | - | - | - | 80 | 80 |
| Helen Alexander | 365 | 256 | 192 | 17 | 830 | 589 |
| Sir David Bell[1] | 30 | - | - | - | 30 | 20 |
| Bill Emmott[2] | - | - | - | - | - | 531 |
| Rona Fairhead[1] | 30 | - | - | - | 30 | 20 |
| Kiran Malik[3] | - | - | - | - | - | 269 |
| John Gardiner | 36 | - | - | - | 36 | 36 |
| Philip Mengel | 36 | - | - | - | 36 | 36 |
| John Micklethwait[4] (appointed May 23rd 2006) | 216 | 119 | 21 | 13 | 369 | - |
| Nigel Morris | 30 | - | - | - | 30 | 30 |
| Rupert Pennant-Rea (appointed August 22nd 2006) | 18 | - | - | - | 18 | - |
| Simon Robertson | 30 | - | - | - | 30 | 20 |
| Lynn Forester de Rothschild | 30 | - | - | - | 30 | 30 |
| Lord Stevenson[5] | 30 | - | - | - | 30 | 30 |
| Chris Stibbs | 235 | 113 | - | 13 | 361 | 254 |
| Total | 1,166 | 488 | 213 | 43 | 1,910 | 1,945 |

1 Paid to Pearson plc
2 Includes a contractual payment in lieu of notice
3 Includes an ex gratia payment
4 Excludes salary paid before his appointment to the Board
5 Paid to Pearson plc until September 30th 2005

### Directors' accrued pensions

The pensions which would be paid annually on retirement at age 60 based on service with the company to March 31st 2007 are shown below. The table does not include any additional voluntary contributions or any resulting benefits.

**Table 3**

| | Age at March 31st 2007 | Accrued pension at March 31st 2007 | Accrued pension at March 31st 2006 /appointment | Increase |
|---|---|---|---|---|
| Helen Alexander | 50 | £154,643 | £140,577 | £14,066 |
| John Micklethwait (appointed May 23rd 2006) | 44 | £90,374 | £82,763 | £7,611 |
| Chris Stibbs | The company contributed £23,500 to the defined contribution scheme (2006: £16,502). | | | |

# Financial review

**Operating result** Operating profit at £36.1m is 27% higher than last year. The increase is driven by revenue growth of 14%, combined with strong operational leverage as we strive to maximise the amount of additional revenue that converts to profit. The results have been affected by the weaker US dollar. Excluding this, revenues would have been 17% higher and operating profit up 40%.

**Costs** Costs are 12% higher than last year, reflecting business activity and additional investment in *The Economist*'s circulation and the infrastructure to support growth. The gross margin improvement of 2% reflects the leverage effect referred to above. Distribution costs grew in line with revenue. Increases in marketing, development and administration costs reflect circulation and brand promotion and higher variable staff pay.

**Profit before tax** The Group has benefited from the disposal of its 19% interest in CBMI, resulting in an exceptional profit of £11.1m. Net finance income is £1.9m, down 3%, and reflects the significant one-off payments of the special dividend and to the UK defined benefit pension scheme. Profit before tax has increased by 59% to £49.2m.

**Taxation** The effective rate of tax of 31.3% (2006: 28.5%) reflects the return to a normal rate of taxation following full utilisation of tax losses in the United States. The underlying tax rate is 33% (2006: 34%). The normalised profit after tax margin increased from 10% to 10.6%.

**Earnings per share** Earnings per share increased by 53% from 88.4p to 134.9p. Normalised earnings per share, which excludes non-operating exceptional items, increased 21% from 87.1p to 105.2p.

**Pensions** The Group operates a number of pension schemes. The UK defined benefit plan is the only defined benefit scheme. The pension scheme deficit (net of deferred tax) was reduced by £17.0m to £7.6m at the balance sheet date. This was largely due to further special lump-sum contributions of £18m in the year as the Group again demonstrated its commitment to meet scheme liabilities (£5m was paid in each of the two previous years).

**Dividend** The cash dividend accounted for in the annual report includes a further special dividend of £34.8m paid in December 2006 (2006: £19.9m). The Board has proposed increasing the final dividend by 24% to 54.5p (2006: 43.8p), giving a total dividend per share of 214.5p, an increase of 51% over last year (2006: 142.3p). Excluding the special dividend, the total ongoing dividend is covered 1.8 times by current-year basic earnings per share and 1.4 times excluding non-operating exceptional items.

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

The Group has cash of £31.3m at the year end (2006: £54.8m). At the year end the Group's US-dollar balance exceeded the sterling cash on hand. Most of our cash is held in AAA-rated money market funds. These funds were yielding an average of 5.3% at the year end. This means that refinancing risks are low, though the Group is conscious of the need to ensure that adequate financing facilities can be made readily available to allow for future strategic direction. Borrowings are made from time to time under a number of facilities available to the Group including a committed £25m facility expiring in December 2009. Current facilities are considered to be adequate for the Group at this time. The only external debt at the year end was a finance lease on the Economist Complex.

The main currency exposure of business transactions relates to US-dollar receipts from sales in the United States. The foreign exchange risk on this and other smaller currency exposures is managed by the treasury department mainly through use of forward foreign exchange contracts and currency options. Foreign exchange risk is only actively managed on currencies where the net exposure exceeds £3m, currency equivalent, per year. At present this includes US dollars. The disposition of net cash balances between dollars and sterling is kept under constant review. The

Group does not hedge the translation of overseas profits or assets and liabilities into sterling.

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

The treasury department monitors the Group's exposure to changes in interest rates. At present no active hedging is being undertaken.

**Cashflow** The Group again demonstrated strong cash generation from operating activities with a healthy conversion ratio of 92% even after allowing for the special pension contributions of £17.1m. After the lump-sum pension payments, the special dividend and sale and purchases of investments, there was a cash outflow of £23.5m compared with an outflow last year of £18.5m.

**Foreign exchange** The translation of the Group's overseas trading results was adversely affected by the weaker average US-dollar exchange rate which existed throughout 2007. The Group did achieve higher hedging gains, but profit before tax was negatively affected by approximately £3.6m when compared with the previous year.

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

**Chris Stibbs**

# Auditors' report

We have audited the Group and parent company financial statements (the ''financial statements'') of The Economist Newspaper Limited for the year ended March 31st 2007 which comprise the Group profit and loss account, the Group and company balance sheets, the Group cashflow statement, the Group statement of total recognised gains and losses, the Group reconciliation of movements in equity shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We also, at the request of the directors (because the company applies the Listing Rules of the Financial Services Authority as if it were a listed company), review whether the corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, nor do we form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion** We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**
In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at March 31st 2007 and of the Group's profit and cashflows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors

London
June 5th 2007

# Consolidated profit and loss account

**Years ended March 31st**

| NOTE | | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|---|
| 1 | **Turnover** | | |
| | Continuing operations | 247,077 | 217,183 |
| | Acquisitions | 669 | 625 |
| | | **247,746** | **217,808** |
| | Cost of sales | (69,908) | (66,343) |
| | **Gross profit** | **177,838** | **151,465** |
| | Distribution costs | (24,029) | (22,269) |
| 2 | Marketing, development and other administrative costs | (116,939) | (100,620) |
| 12 | Goodwill amortisation | (731) | (120) |
| 1 | **Operating profit** | **36,139** | **28,456** |
| | Continuing operations | 36,327 | 28,733 |
| | Acquisitions | (188) | (277) |
| | | **36,139** | **28,456** |
| 3 | Profit on sale of fixed asset investments | 11,192 | 556 |
| | **Profit on ordinary activities before finance income** | **47,331** | **29,012** |
| 4 | Net finance income | 1,859 | 1,920 |
| 1,5 | **Profit on ordinary activities before taxation** | **49,190** | **30,932** |
| 8 | Taxation on profit on ordinary activities | (15,409) | (8,819) |
| | **Profit for the year** | **33,781** | **22,113** |

The final dividend proposed for the year is £13,652,000 (2006: £10,958,000). Dividends paid in the year were £51,013,000 (2006: £34,615,000).

| NOTE | | 2007 | 2006 |
|---|---|---|---|
| 11 | **Basic earnings per share (pence)** | **134.9** | **88.4** |
| 11 | Diluted earnings per share (pence) | 134.6 | 88.3 |
| 9 | Dividends paid per share (pence) | 203.8 | 138.4 |
| | Dividend cover (times) before non-operating exceptional items | 0.5 | 0.6 |

## Consolidated balance sheet at March 31st

| NOTE | | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|---|
| | **Fixed assets** | | |
| 12 | Intangible assets | 16,402 | 12,623 |
| 13 | Tangible assets | 24,148 | 25,238 |
| | | **40,550** | **37,861** |
| | **Current assets** | | |
| 14 | Stocks and work-in-progress | 1,591 | 2,186 |
| 15 | Debtors: due within one year | 47,856 | 41,937 |
| 16 | Deferred taxation | 6,163 | 6,102 |
| 22 | Cash and deposits | 31,263 | 54,753 |
| | | **86,873** | **104,978** |
| 17 | Creditors: due within one year | (56,000) | (45,829) |
| | Unexpired subscriptions and deferred revenue | (66,528) | (63,995) |
| | **Net current liabilities** | **(35,655)** | **(4,846)** |
| | **Total assets less current liabilities** | **4,895** | **33,015** |
| 18 | Creditors: due after one year | (2,858) | (2,526) |
| 19 | Provisions for liabilities and charges | (440) | (424) |
| | **Net assets excluding pension and other post-retirement liabilities** | **1,597** | **30,065** |
| 23 | Pension and other post-retirement liabilities (net of deferred tax) | (9,493) | (26,480) |
| 1 | **Net (liabilities)/assets** | **(7,896)** | **3,585** |
| | **Capital and reserves** | | |
| 20 | Called-up share capital | 1,260 | 1,260 |
| 21 | Profit and loss account | (9,156) | 2,325 |
| | **Equity shareholders' (deficit)/funds** | **(7,896)** | **3,585** |

The 2006 comparatives have been restated for the adoption of FRS 20 (see note 28).

The company balance sheet is shown in note 31.

The financial statements were approved by the Board of directors and authorised for issue on June 5th 2007. They were signed on its behalf by:

**Robert Wilson**

**Chris Stibbs**

Directors

The notes on pages 32-59 form an integral part of these financial statements.

## Consolidated cashflow statement

| NOTE | Years ended March 31st | 2007 £000 | 2006 £000 |
|---|---|---|---|
| 22 | **Net cash inflow from operating activities** | **33,402** | **28,612** |
| | **Returns on investments and servicing of finance** | | |
| | Interest received | 1,824 | 2,642 |
| | Interest paid | (264) | (248) |
| | Finance lease interest paid | (207) | (208) |
| | | 1,353 | 2,186 |
| | **Taxation** | | |
| | UK corporation tax paid | (4,975) | (3,060) |
| | Overseas tax paid | (4,911) | (922) |
| | | (9,886) | (3,982) |
| | **Capital expenditure and financial investment** | | |
| | Purchase of tangible fixed assets | (1,659) | (3,605) |
| | **Acquisitions and disposals** | | |
| 27 | Purchase of subsidiary undertakings | (5,741) | (9,709) |
| 27 | Cash acquired with subsidiary undertaking | 121 | 900 |
| 3 | Consideration on sale of fixed asset investment | 11,052 | - |
| | | 5,432 | (8,809) |
| | **Equity dividends paid to shareholders** | | |
| 9 | Amounts paid | (51,013) | (34,615) |
| | **Net cash outflow before use of liquid resources and financing** | **(22,371)** | **(20,213)** |
| | **Management of liquid resources** | | |
| 22 | Cash drawn from short-term deposits | 25,995 | 25,852 |
| | **Financing** | | |
| | Capital element of finance lease rental payments | (2) | (1) |
| | Sale of own shares | 533 | 292 |
| | Drawdown of unsecured loan facility | 13,000 | - |
| | Repayment of unsecured loan facility | (13,000) | - |
| | | 531 | 291 |
| 22 | **Increase in net cash** | **4,155** | **5,930** |

| NOTE | **Reconciliation of net cashflow to movement in net funds** | 2007 £000 | 2006 £000 |
|---|---|---|---|
| | **Increase in cash in the year** | **4,155** | **5,930** |
| | Cash inflow from decrease in liquid resources | (25,995) | (25,852) |
| | Cash outflow from decrease in lease financing | 2 | 1 |
| | **Change in net funds resulting from cashflows** | **(21,838)** | **(19,921)** |
| | Exchange translation differences | (1,650) | 1,446 |
| | Movement in net funds in the year | (23,488) | (18,475) |
| | Net funds brought forward at April 1st | 52,226 | 70,701 |
| 22 | **Net funds carried forward at March 31st** | **28,738** | **52,226** |

Cash and deposits at March 31st 2007 amounted to £31,263,000 (2006: £54,753,000).

# Other statements

## Statement of total recognised gains and losses

**Years ended March 31st**

| NOTE | | 2007 £000 | 2006 Restated £000 |
|---|---|---|---|
| | Profit for the year | 33,781 | 22,113 |
| | Exchange translation differences arising on foreign currency net investments | 1,253 | (1,440) |
| 23 | Actual return less expected return on pension scheme assets | 904 | 14,480 |
| 23 | Experience losses arising on pension scheme liabilities | (433) | (1,415) |
| 23 | Changes in assumptions underlying the present value of pension scheme liabilities | 5,361 | (22,014) |
| | Actuarial loss on other post-retirement benefits | (167) | (313) |
| | UK deferred tax attributable to the actuarial gain/(loss) | (1,700) | 2,779 |
| | **Total recognised gains for the year** | **38,999** | **14,190** |
| 28 | Prior year adjustment: | | |
| | Adoption of FRS 20 "Share-based payment" | (323) | |
| | **Total gains recognised since last annual report** | **38,676** | |

## Reconciliation of movements in equity shareholders' funds

**Years ended March 31st**

| | | 2007 £000 | 2006 Restated £000 |
|---|---|---|---|
| | Profit for the year | 33,781 | 22,113 |
| | Dividends paid | (51,013) | (34,615) |
| | Retained loss | (17,232) | (12,502) |
| 21 | Other recognised gains/(losses) | 3,965 | (6,483) |
| 21 | Net sale of own shares | 533 | 292 |
| 21 | Exchange translation differences arising on consolidation | 1,253 | (1,440) |
| | **Net deduction from shareholders' funds** | **(11,481)** | **(20,133)** |
| 28 | Opening shareholders' funds | 3,585 | 23,718 |
| | **Closing shareholders' (deficit)/funds** | **(7,896)** | **3,585** |

## Note of historical cost profits and losses

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

# Principal accounting policies

A summary of the more important Group accounting policies is set out below. Accounting policies have been consistently applied except that FRS 20 "Share-based payment" has been adopted in these statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly (note 28).

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

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

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

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

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

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

**Foreign currencies** Balance sheets have been translated into sterling at the rates of exchange ruling at the balance-sheet date. Exchange differences arising from the retranslation of the opening net investments and results for the year to closing rates are recorded as movements on reserves. Exchange differences arising on the retranslation of borrowings taken out to finance overseas investments are taken to reserves, together with any tax-related effects. All other exchange differences are included in the profit and loss account. Profit and loss accounts and cashflows are translated into sterling at the average rate for the year. The Group enters into forward currency and option contracts to hedge currency exposures. Realised losses or 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** In accordance with the transitional provisions, FRS 20 has been applied to all grants of performance awards after November 7th 2002 that were unvested at April 1st 2005. 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 set out in note 10. Management regularly perform 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 referred to above, the value of the awards is dependent upon the future profits of the Group and the Group's relative market performance. A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

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

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

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

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

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

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

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

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

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

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

**Share schemes** Shares held by the employee share ownership plan (ESOP) are shown at cost and recorded as a deduction in arriving at shareholders' funds.

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

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

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

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

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

**Pension and other post-retirement benefits** The cost of providing pensions under defined contribution schemes is charged against profits as they become payable.
For the defined benefit and post-retirement medical schemes, assets are measured at fair mid-market values, and the liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term to the liability. The pension scheme deficit is recognised in full, net of deferred tax, and presented on the face of the balance sheet.

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

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

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

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

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

# Notes to the financial statements

## NOTE 1 Segment information

| Turnover by business | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Economist brand family | 205,457 | 181,755 |
| CFO brand family | 24,324 | 19,881 |
| Government brands | 14,414 | 13,006 |
| Other businesses | 3,551 | 3,166 |
| | 247,746 | 217,808 |

Other businesses include Ryder Street Properties (which owns and manages the Economist Complex in London). Government brands' turnover includes £669,000 in respect of acquisitions. Turnover between brand families is not material.

| Operating profit by business | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| Economist brand family | 27,094 | 20,821 |
| CFO brand family | 2,361 | 534 |
| Government brands | 4,341 | 4,276 |
| Other businesses | 3,074 | 2,945 |
| Goodwill amortisation | (731) | (120) |
| | 36,139 | 28,456 |

Government brands' operating profit before goodwill amortisation includes a loss of £94,000 in respect of acquisitions.

Operating profit before goodwill amortisation from acquisitions is stated after charging cost of sales of £268,000 (2006: £262,000), distribution costs of £29,000 (2006: £nil) and marketing, development and administrative costs of £466,000 (2006: £520,000).

| Net(liabilities)/assets by business | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| Economist brand family | 283,452 | 247,845 |
| CFO brand family | (8,056) | (10,457) |
| Government brands | 8,201 | 5,874 |
| Other businesses | 2,665 | 1,774 |
| Shared activities | (294,158) | (241,451) |
| | (7,896) | 3,585 |

Dividends of The Economist Newspaper Limited are charged to shared activities. Government brands' net assets include £23,000 in respect of acquisitions.

## NOTE 1 Segment information (continued)

### Analysis of results by geographical region

| Turnover by customer location | 2007 £000 | 2006 £000 |
|---|---|---|
| United Kingdom | 53,413 | 51,704 |
| North America | 105,483 | 97,619 |
| Europe | 53,229 | 39,715 |
| Asia-Pacific | 25,904 | 21,807 |
| Other | 9,717 | 6,963 |
| | 247,746 | 217,808 |

North America turnover includes £669,000 in respect of acquisitions.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| Turnover by origin of legal entity | Total sales £000 | Inter-region sales £000 | Sales to third parties £000 | Total sales £000 | Inter-region sales £000 | Sales to third parties £000 |
| United Kingdom | 186,313 | (22,264) | 164,049 | 155,772 | (20,045) | 135,727 |
| North America | 75,535 | - | 75,535 | 74,413 | - | 74,413 |
| Europe | 4,241 | (2,112) | 2,129 | 4,498 | (1,832) | 2,666 |
| Asia-Pacific | 8,136 | (2,103) | 6,033 | 7,831 | (2,829) | 5,002 |
| | 274,225 | (26,479) | 247,746 | 242,514 | (24,706) | 217,808 |

North America turnover includes £669,000 in respect of acquisitions.

| Profit before taxation by origin of legal entity | 2007 £000 | 2006 Restated £000 |
|---|---|---|
| United Kingdom | 37,952 | 21,303 |
| North America | 10,152 | 8,279 |
| Europe | 731 | 839 |
| Asia-Pacific | 355 | 511 |
| | 49,190 | 30,932 |

North America profit before taxation includes a loss of £188,000 in respect of acquisitions.

| Net (liabilities)/assets by origin of legal entity | 2007 £000 | 2006 Restated £000 |
|---|---|---|
| United Kingdom | (4,080) | 18,835 |
| North America | (6,758) | (18,625) |
| Europe | 1,154 | 1,520 |
| Asia-Pacific | 1,788 | 1,855 |
| | (7,896) | 3,585 |

North America net liabilities include assets of £23,000 in respect of acquisitions.

## NOTE 2 Reorganisation costs

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Restructuring costs | (1,697) | (1,840) |
| Property relocation costs | - | (1,073) |
| | (1,697) | (2,913) |

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

## NOTE 3 Profit on sale of fixed asset investments

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Profit on sale of fixed asset investments | 11,192 | 556 |

The profit for the year relates to the sale of the Group's 18.6% convertible preference shareholding in Commonwealth Business Media, Inc, a US corporation which publishes directories and other trade publications, for £11.1m. In addition, £0.1m relates to the release of provisions for warranties and claims arising on the sale of the business of the Journal of Commerce, Inc in 2002. The profit for the year ended March 31st 2006 includes the release of provisions for warranties and claims arising on the sale of the Journal of Commerce, Inc in 2002.

## NOTE 4 Net finance income

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Interest receivable on cash deposits | 1,834 | 2,670 |
| Interest payable and similar charges | (485) | (413) |
| Other finance income/(charges) | 510 | (337) |
| | 1,859 | 1,920 |
| | | |
| Interest payable on bank overdrafts and loans repayable within five years | (278) | (205) |
| Interest payable on finance lease | (207) | (208) |
| Interest payable and similar charges | (485) | (413) |
| | | |
| Unwinding of discounts on onerous property contract provisions | (148) | (41) |
| Net return/(cost) on pension scheme and other post-retirement benefits | 658 | (296) |
| Other finance income/(charges) | 510 | (337) |

## NOTE 5 Profit on ordinary activities before taxation

| Profit on ordinary activities before taxation is stated after charging the following: | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| **Auditors' remuneration** | | |
| Audit of the company's annual accounts | 109 | 95 |
| **Fees payable to the company's auditors and their associates for other services** | | |
| Audit of the company's subsidiaries | 144 | 118 |
| Further assurance services | 18 | 175 |
| Tax advice and compliance | 178 | 275 |
| Corporate finance services | 141 | 98 |
| **Operating lease rentals** | | |
| Plant and equipment | 258 | 320 |
| Land and buildings | 4,596 | 5,513 |
| **Depreciation** | | |
| On owned assets | 2,569 | 2,418 |
| On assets held by finance lease | 55 | 54 |
| Loss on disposal of tangible assets | - | 6 |

## NOTE 6 Directors' emoluments

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

## NOTE 7 Employees

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Average | Year-end | Average | Year-end |
| Economist brand family | 773 | 802 | 764 | 774 |
| CFO brand family | 148 | 150 | 127 | 150 |
| Government brands | 102 | 127 | 86 | 89 |
| | 1,023 | 1,079 | 977 | 1,013 |

| Employment costs including executive directors' emoluments | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| Wages and salaries | 68,388 | 61,389 |
| Social security costs | 6,780 | 5,726 |
| Defined benefit pension costs | 5,233 | 4,522 |
| Other pension costs | 1,687 | 1,340 |
| | 82,088 | 72,977 |

## NOTE 8 Taxation on profit on ordinary activities

| The taxation charge based on the result for the year is made up as follows: | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| UK corporation tax at 30% (2006: 30%) | 7,419 | 4,354 |
| Overseas taxation | 2,151 | 540 |
| UK deferred taxation | 4,428 | 2,532 |
| Overseas deferred taxation | 1,970 | 2,220 |
| | 15,968 | 9,646 |
| **Adjustments in respect of previous years** | | |
| UK corporation tax | 425 | (1,206) |
| Overseas taxation | 175 | (140) |
| UK deferred taxation | (991) | 579 |
| Overseas deferred taxation | (168) | (60) |
| | 15,409 | 8,819 |

Included within the deferred tax charge for the year is a FRS 17 charge of £5,535,000 (2006: £1,837,000) and the impact of the use of previously recognised tax losses.

| Current tax rate reconciliation | 2007<br>% | 2006<br>Restated<br>% |
|---|---|---|
| UK tax rate | 30.0 | 30.0 |
| Expenses not deductible for tax purposes | 0.9 | 2.5 |
| Depreciation in excess of capital allowances | 0.1 | (0.3) |
| Utilisation of general provisions | 2.4 | (3.3) |
| Overseas tax rates | 0.5 | (0.3) |
| Overseas tax losses utilised | (3.4) | (6.4) |
| Timing of goodwill amortisation | 0.1 | (0.5) |
| Deferred income | 0.1 | 0.2 |
| FRS 17 pension movement | (11.2) | (6.0) |
| Adjustments to tax charge in respect of previous periods | 1.2 | (4.4) |
| Current tax rate reflected in earnings | 20.7 | 11.5 |

## NOTE 9 Dividends

| Cash dividends paid | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Final dividend paid of 43.8p per share (2006: 39.9p per share) | 10,958 | 9,975 |
| Interim dividend paid of 21.0p per share (2006: 19.1p per share) | 5,257 | 4,776 |
| Special dividend paid of 139.0p per share (2006: 79.4p per share) | 34,798 | 19,864 |
| | 51,013 | 34,615 |

All shareholders other than holders of the trust shares (see note 20) receive the above dividend per share. Dividends amounting to £345,000 (2006: £255,000) in respect of the company's shares held by the ESOP (note 21) have been deducted in arriving at the aggregate of dividends paid.

| Dividends proposed in respect of the year | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Final dividend proposed of 54.5p per share (2006: 43.8p per share) | 13,652 | 10,958 |
| Interim dividend paid of 21.0p per share (2006: 19.1p per share) | 5,257 | 4,776 |
| Special dividend paid of 139.0p per share (2006: 79.4p per share) | 34,798 | 19,864 |
| | 53,707 | 35,598 |

The directors are proposing a final dividend in respect of the financial year ending March 31st 2007 of 54.5p. Dividends amounting to £82,000 in respect of the company's shares held by the ESOP have been deducted in arriving at the total dividend proposed of £13,652,000. The proposed dividend is subject to approval by shareholders and has not been recognised as a liability in these financial statements.

## NOTE 10 Share-based payments

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

**Current plans**

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

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

**Discontinued plans**

**Group long-term plan**: Units were granted to certain executive directors and some other senior employees. The units have performance periods of three and four years with the value of the award equal to a proportion of the increase in share price, depending on achievement of performance hurdles related to improved earnings. These awards are taken in cash form only. This scheme was fully vested at March 31st 2007.

The Group has recorded total liabilities at March 31st of £11,708,000 (2006: £7,245,000), of which £8,118,000 (2006: £2,411,000) relates to awards which had vested at the year end.

The total expense recognised with respect to cash-settled share-based payment transactions was £7,661,000 (2006: £3,991,000).

## NOTE 10 Share-based payments (continued)

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 2007 | At March 31st 2006 |
|---|---|---|
| Weighted average share price (£) | 18.70 | 16.40 |
| Weighted average exercise price (£) | 15.00 | 12.40 |
| Expected volatility (%) | 25% | 30% |
| Expected life (months) | 18 | 16 |
| Risk-free rate (%) | 5.4% | 5.0% |
| Expected dividend yield (%) | 1.9% | 1.9% |
| Forfeiture rate (%) | 5% | 5% |

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

385,000 long-term plan units (2006: 368,000) were granted during the year with a weighted average fair value at March 31st of £6.47 (2006: £5.51).

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

| | At March 31st 2007 | | At March 31st 2006 | |
|---|---|---|---|---|
| **Restricted share scheme** | No. of options | Weighted average share price (£) | No. of options | Weighted average share price (£) |
| Outstanding at the beginning of the year | 28,524 | 16.56 | 49,800 | 14.00 |
| Granted during the year | 45,391 | 16.56 | - | - |
| Exercised during the year | (26,208) | 16.56 | (21,276) | 14.00 |
| Outstanding at the end of the year | 47,707 | 19.47 | 28,524 | 16.56 |
| | | | | |
| Exercisable at the end of the year | - | | 4,593 | |

The weighted average remaining contractual life for outstanding options at March 31st 2007 was 30 months (2006: 12 months).

## NOTE 11 Earnings per share

Basic earnings per share is calculated using earnings of £33,781,000 (2006 restated: £22,113,000) and the 25,200,000 ordinary and special shares in issue (2006: 25,200,000) less those held by the ESOP being on average 166,327 shares (2006: 190,777), resulting in a weighted average number of shares of 25,033,673 (2006: 25,009,223). Earnings per share before non-operating exceptional items is based on a profit of £26,347,000 (2006 restated: £21,779,000).

| | | 2007 | | | 2006 | |
|---|---|---|---|---|---|---|
| | Earnings | Weighted average number of shares | Earnings per share | Earnings Restated | Weighted average number of shares | Earnings per share Restated |
| | £000 | 000s | pence | £000 | 000s | pence |
| **Basic earnings per share** | 33,781 | 25,034 | 134.9 | 22,113 | 25,009 | 88.4 |
| - profit on sale of fixed asset investments | (11,192) | 25,034 | (44.7) | (556) | 25,009 | (2.2) |
| - attributable taxation | 3,758 | 25,034 | 15.0 | 222 | 25,009 | 0.9 |
| **Earnings per share before non-operating exceptional items** | 26,347 | 25,034 | 105.2 | 21,779 | 25,009 | 87.1 |

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

| | 2007 | 2006 |
|---|---|---|
| | 000s | 000s |
| Weighted average number of shares | 25,034 | 25,009 |
| Effect of dilutive share options | 56 | 38 |
| Weighted average number of shares for diluted earnings | 25,090 | 25,047 |

## NOTE 12 Intangible fixed assets

| | Goodwill |
|---|---|
| | £000 |
| **Cost** | |
| At April 1st 2006 | 12,743 |
| Additions (note 27) | 4,510 |
| At March 31st 2007 | 17,253 |
| | |
| **Accumulated amortisation** | |
| At April 1st 2006 | 120 |
| Charge for the year | 731 |
| At March 31st 2007 | 851 |
| | |
| **Net book value at March 31st 2007** | 16,402 |
| Net book value at March 31st 2006 | 12,623 |

## NOTE 13 Tangible fixed assets

| Group | Leasehold buildings Long £000 | Leasehold buildings Short £000 | Plant and machinery £000 | Equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At April 1st 2006 | 31,740 | 6,019 | 3,585 | 21,163 | 62,507 |
| Additions | - | 178 | 35 | 1,446 | 1,659 |
| Acquisitions | - | - | 37 | 14 | 51 |
| Disposals | - | - | - | (222) | (222) |
| Transfers | (24) | - | - | 24 | - |
| Exchange translation differences | (19) | (452) | (90) | (444) | (1,005) |
| At March 31st 2007 | 31,697 | 5,745 | 3,567 | 21,981 | 62,990 |
| **Depreciation** | | | | | |
| At April 1st 2006 | 12,504 | 3,310 | 3,492 | 17,963 | 37,269 |
| Provided during year | 655 | 535 | 6 | 1,428 | 2,624 |
| Disposals | - | - | - | (222) | (222) |
| Exchange translation differences | - | (372) | (74) | (383) | (829) |
| At March 31st 2007 | 13,159 | 3,473 | 3,424 | 18,786 | 38,842 |
| **Net book value at March 31st 2007** | 18,538 | 2,272 | 143 | 3,195 | 24,148 |
| Net book value at March 31st 2006 | 19,236 | 2,709 | 93 | 3,200 | 25,238 |

The directors have been advised that the market value of the Economist Complex at March 31st 2007 was £92,200,000 (2006: £70,650,000); the book value is £18,400,000 (2006: £19,200,000) and the balance sheet value is £15,900,000 (2006: £16,700,000) after deducting the finance lease payable. Included within the cost of leasehold buildings is capitalised interest of £2,312,500 (2006: £2,312,500).

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

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Cost or valuation** | 6,798 | 6,798 |
| Aggregate depreciation | (1,134) | (1,079) |
| Net book value | 5,664 | 5,719 |

## NOTE 14 Stocks and work-in-progress

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Raw materials | 1,270 | 1,782 |
| Work-in-progress | 287 | 364 |
| Finished goods | 34 | 40 |
| | 1,591 | 2,186 |

## NOTE 15 Debtors

| Due within one year | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Trade debtors | 35,248 | 31,238 |
| Other debtors | 1,974 | 2,091 |
| Prepayments and accrued income | 6,753 | 7,001 |
| Tax recoverable | 3,881 | 1,607 |
| | 47,856 | 41,937 |

## NOTE 16 Deferred taxation

| Summary of movements in deferred tax asset | £000 |
|---|---|
| At April 1st 2006 (restated) | 6,102 |
| Credit to the profit and loss account | 296 |
| Exchange difference | (235) |
| At March 31st 2007 | 6,163 |

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

| | 2007<br><br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| Excess of depreciation over capital allowances | 880 | 535 |
| Loss relief | - | 2,987 |
| Other timing differences | 5,283 | 2,580 |
| | 6,163 | 6,102 |

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

In the prior year, an asset was recognised on tax losses of £2,987,000 available in the United States. This asset has been fully utilised this year.

No asset has been recognised on accumulated trading losses of £5,352,000 (2006: £5,424,000) in Asia as the directors consider that it is not appropriate at this time to forecast that there will be sufficient profits in the relevant countries against which the tax asset can be recovered.

## NOTE 17 Creditors: due within one year

| | 2007 | 2006 |
|---|---|---|
| | | Restated |
| | £000 | £000 |
| Trade creditors | 4,649 | 4,142 |
| Other creditors including taxation and social security | 17,524 | 16,149 |
| Accruals | 33,827 | 25,538 |
| | 56,000 | 45,829 |
| Other creditors including taxation and social security comprise: | | |
| Corporation tax | 8,919 | 6,178 |
| Other tax and social security payable | 2,139 | 2,572 |
| Other creditors | 6,466 | 7,399 |
| | 17,524 | 16,149 |

The Group had no bank loans as at March 31st 2007 (2006: £nil). During the year the Group entered into an unsecured, three-year committed £25m facility. In addition, the Group has undrawn overdraft facilities which are subject to review by the end of January 2008.

## NOTE 18 Creditors: due after one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Finance leases | 2,524 | 2,526 |
| Other creditors | 334 | - |
| | 2,858 | 2,526 |

| | | |
|---|---|---|
| Future minimum payments under finance leases were as follows: | | |
| Within one year | 1 | 1 |
| In more than one year but not more than five years | 6 | 6 |
| After five years | 2,518 | 2,520 |
| | 2,525 | 2,527 |

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

## NOTE 19 Provisions for liabilities and charges

| | Onerous property leases £000 |
|---|---|
| At April 1st 2006 | 424 |
| Charged to the profit and loss account | 67 |
| Utilised in year | (152) |
| Unwinding of discount | 148 |
| Exchange difference | (47) |
| At March 31st 2007 | 440 |

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

## NOTE 20 Equity share capital

| At March 31st 2007 and 2006 | Authorised Number | Authorised £000 | Issued and fully paid Number | Issued and fully paid £000 |
|---|---|---|---|---|
| "A" special shares of 5p each | 1,575,000 | 79 | 1,260,000 | 63 |
| "B" special shares of 5p each | 1,575,000 | 79 | 1,260,000 | 63 |
| Ordinary shares of 5p each | 36,850,000 | 1,842 | 22,680,000 | 1,134 |
| Trust shares of 5p each | 100 | - | 100 | - |
| | | 2,000 | | 1,260 |

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

## NOTE 21 Reserves

| Consolidated profit and loss account | 2007 £000 | 2006 £000 |
|---|---|---|
| At April 1st as previously stated | 2,648 | 22,874 |
| Adoption of FRS 20 | (323) | (416) |
| At April 1st as restated | 2,325 | 22,458 |
| Retained loss for the year | (17,232) | (12,502) |
| Other recognised gains/(losses) relating to the year | 3,965 | (6,483) |
| Net sale of own shares | 533 | 292 |
| Exchange translation differences arising on consolidation | 1,253 | (1,440) |
| At March 31st | (9,156) | 2,325 |

The cumulative goodwill written off to profit and loss reserves by the Group is £22,800,000 (2006: £22,800,000) and arises mainly from the purchase of Business International in 1986, CFO Publishing Corporation in 1988 and Roll Call, Inc in 1992 and 1993.

At March 31st 2007, there were 150,484 shares (2006: 182,895) of 5p each with a nominal value of £7,524 (2006: £9,145) in The Economist Newspaper Limited (own shares) held by the ESOP. The ESOP provides a limited market for shares of The Economist Newspaper Limited to be bought and sold. Employees of the Group can apply to buy shares from the ESOP twice a year at the latest indicative share valuation and all other shareholders can offer to sell their shares to the ESOP. A subsidiary company, The Economist Group Trustee Company Limited, acts as trustee of the ESOP and handles all share transactions. The ESOP has not waived its entitlement to dividends on these shares. 47,707 (2006: 28,524) 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 2006 | 1,869 |
| Net sale of own shares | (533) |
| At March 31st 2007 | 1,336 |

## NOTE 22 Notes to consolidated cashflow statement

| Reconciliation of operating profit to net cash inflow from operating activities | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| Operating profit | 36,139 | 28,456 |
| Depreciation of tangible fixed assets | 2,624 | 2,472 |
| Goodwill amortisation | 731 | 120 |
| Loss on sale of tangible fixed assets | - | 6 |
| Decrease in stocks | 421 | 10 |
| Increase in debtors | (5,269) | (3,558) |
| Increase in creditors | 10,919 | 3,017 |
| Increase in unexpired subscriptions and deferred revenue | 6,159 | 4,482 |
| Decrease in provisions | (18,322) | (6,393) |
| Net cash inflow from operating activities | 33,402 | 28,612 |

Net cash inflow from operating activities was reduced by £17,100,000 due to special defined benefit pension contributions (2006: £5,000,000).

| Analysis of net funds | At April 1st<br>2006<br>£000 | Cashflow<br>£000 | Acquisition<br>£000 | Other<br>non-cash<br>changes<br>£000 | Exchange<br>movement<br>£000 | At March 31st<br>2007<br>£000 |
|---|---|---|---|---|---|---|
| Cash in hand | 8,079 | 4,034 | 121 | - | (742) | 11,492 |
| Cash placed on short-term deposits | 46,674 | (25,995) | - | - | (908) | 19,771 |
| Total cash balances | 54,753 | (21,961) | 121 | - | (1,650) | 31,263 |
| Finance leases due within one year | (1) | 2 | - | (2) | - | (1) |
| Finance leases due after one year | (2,526) | - | - | 2 | - | (2,524) |
| Net funds | 52,226 | (21,959) | 121 | - | (1,650) | 28,738 |

At March 31st 2007 cash balances included £1,827,000 (2006: £1,470,000) of deposits collected from tenants of the Group's property business. This cash is only accessible in the event of the tenant defaulting.

## NOTE 23 Pension and other post-retirement liabilities

| Analysis of pension and other post-retirement liabilities (net of deferred tax) | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| UK Group scheme | (7,559) | (24,538) |
| Post-retirement benefits | (1,934) | (1,942) |
| | (9,493) | (26,480) |

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

The most recent full actuarial valuation of the UK defined benefit scheme was at January 1st 2004. This showed the market value of assets of the main UK scheme to be £79,200,000. The actuarial valuation of pension liabilities was £109,800,000, leaving a deficit of £30,600,000. The actuarial method used for the valuation was the projected unit credit method. On a Minimum Funding Requirement basis, the level of funding was 91%. This valuation was used as a basis for agreeing the ongoing company funding rate which was set at 28.5% effective April 1st 2004. The next full valuation is currently being performed with an effective date as at January 1st 2007 in accordance with the statutory funding objective. The results are not yet available.

The scheme has been closed to new members since January 1st 2003; a defined contribution scheme has been available to joiners since then. As a result, under the projected unit credit method, the current service cost is expected to increase as members approach retirement. The company contribution rate to the UK Group scheme during the year was 17.1% of pensionable salaries to fund ongoing service costs. The company also contributed £2,045,000 to repay the deficit. This will increase by 4.6% per annum. Special contributions of £18.0m were made during the year. The best estimate of contributions expected to be made into the scheme next year is £5,500,000.

The FRS 17 valuation reflects new HM Revenue and Custom (HMRC) rules relating to commutation of tax-free cash effective April 6th 2006. Past scheme experience indicates that the majority of retirees take the maximum level of cash available. The effect of the new rule has reduced the deficit by £5,300,000. Cash commutation factors, which are regularly reviewed by the trustees, increased from a factor of of 12:1 to 15:1 at age 60. This has led to an increase in the deficit of £6,600,000. The provision in respect of unfunded, unapproved arrangements of £497,000 was transferred into the scheme during the year following the change to HMRC rules.

The main overseas schemes and one UK scheme are based on defined contributions; amounts totalling £81,000 (2006: £219,000) were accrued in respect of these schemes at year end.

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

### UK Group scheme

The valuation of the UK Group scheme has been updated by independent actuaries to March 31st 2007. The major assumptions used to determine this valuation are as follows:

| | 2007 % | 2006 % | 2005 % |
|---|---|---|---|
| Inflation | 3.0 | 2.7 | 2.7 |
| Increase in pensionable salaries | 4.5 | 4.5 | 4.5 |
| Increase in pensions in payment | 2.9 | 2.6 | 2.5 |
| Increase in deferred pensions | 3.0 | 2.7 | 2.7 |
| Discount rate for scheme liabilities | 5.4 | 5.0 | 5.4 |

The FRS 17 valuation is based on PA92 mortality tables with longevity projection based on medium cohort and the year in which the member was born.

If the discount rate or inflation rate assumption was altered by 0.1% then the estimate of the impact would be £3,400,000 and £2,700,000 respectively.

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 2007 % | Value at March 31st 2007 £000 | Long-term rate of return expected at March 31st 2006 % | Value at March 31st 2006 £000 | Long-term rate of return expected at March 31st 2005 % | Value at March 31st 2005 £000 |
|---|---|---|---|---|---|---|
| Equities | 8.4 | 92,215 | 7.8 | 73,460 | 7.8 | 56,199 |
| Government and corporate bonds | 5.1 | 49,385 | 4.5 | 43,698 | 5.0 | 32,717 |
| Property | 7.1 | 15,823 | 6.0 | 11,265 | 7.8 | 9,611 |
| Other | 5.5 | 1,654 | 4.5 | 705 | 4.8 | 1,220 |
| Total market value of assets | | 159,077 | | 129,128 | | 99,747 |
| Present value of scheme liabilities | | (169,876) | | (164,183) | | (131,954) |
| Deficit in the scheme | | (10,799) | | (35,055) | | (32,207) |
| Related deferred tax asset | | 3,240 | | 10,517 | | 9,662 |
| Net pension liability | | (7,559) | | (24,538) | | (22,545) |

| **Analysis of the amount charged to operating profit** | 2007 £000 | 2006 £000 |
|---|---|---|
| Current service cost | 4,968 | 4,522 |
| Past service cost | 265 | - |
| **Total operating charge** | 5,233 | 4,522 |

| **Analysis of the amount charged to other finance income/(charge)** | 2007 £000 | 2006 £000 |
|---|---|---|
| Expected return on pension scheme assets | 9,174 | 7,141 |
| Interest on pension scheme liabilities | (8,386) | (7,297) |
| **Net income/(charge)** | 788 | (156) |

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

| Analysis of amount recognised in statement of total recognised gains and losses | 2007 £000 | 2006 £000 |
|---|---|---|
| Actual return less expected return on the pension scheme assets | 904 | 14,480 |
| Experience losses arising on the pension scheme liabilities | (433) | (1,415) |
| Changes in assumptions underlying the present value of the scheme liabilities | 5,361 | (22,014) |
| **Actuarial gain/(loss) recognised in the statement of total recognised gains and losses** | 5,832 | (8,949) |

| Movement in deficit during the year | 2007 £000 | 2006 £000 |
|---|---|---|
| Deficit in scheme at April 1st | (35,055) | (32,207) |
| **Movement** | | |
| Current service cost | (4,968) | (4,522) |
| Past service cost | (265) | - |
| Contributions | 23,366 | 10,779 |
| Other finance income/(charge) | 788 | (156) |
| Transfer of unfunded/unapproved scheme | (497) | - |
| Actuarial gain/(loss) | 5,832 | (8,949) |
| **Deficit in scheme at March 31st** | (10,799) | (35,055) |

**History of experience gains and losses**

| Difference between the actual and expected return on scheme assets | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Amount (£000) | 904 | 14,480 | 2,695 | 8,135 | (21,983) |
| Percentage of scheme assets | 1% | 11% | 3% | 10% | (34%) |
| Experience losses on scheme liabilities | | | | | |
| Amount (£000) | (433) | (1,415) | (257) | (2,440) | 1,890 |
| Percentage of the present value of the scheme liabilities | - | (1%) | - | (2%) | 2% |
| Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses | | | | | |
| Amount (£000) | 5,832 | (8,949) | - | 10,089 | (22,042) |
| Percentage of the present value of the scheme liabilities | 3% | (5%) | - | 8% | (19%) |

**Other post-retirement benefits**

The Group provides post-retirement medical benefits to certain former employees. At March 31st 2007, 67 (2006: 67) retired employees were eligible to receive benefits. As at March 31st 2007 the Group estimated the present value of its accumulated post-retirement medical benefits obligation to be £1,934,000 (2006: £1,942,000), net of deferred taxation. These liabilities were confirmed by a qualified independent actuary. The principal assumptions used in estimating this obligation are healthcare premium cost escalation of 9% per year and a discount rate to represent the time value of money of 5.4%. Actual premiums paid are being set against this provision, which is periodically assessed for adequacy.

## NOTE 24 Financial commitments

| Operating leases<br>Land and buildings, leases expiring | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Within one year | 135 | 632 |
| Between two and five years | 3,280 | 2,763 |
| After five years | 927 | 297 |
| | 4,342 | 3,692 |

| Plant and equipment, leases expiring | | |
|---|---|---|
| Within one year | 33 | 34 |
| Between two and five years | 79 | 130 |
| | 112 | 164 |

## NOTE 25 Capital commitments and contingent liabilities

At March 31st 2007, there was £nil of capital expenditure contracted for but not provided in the financial statements (2006: £nil). There are contingent Group liabilities in respect of legal claims, indemnities, warranties and guarantees in relation to former businesses. None of these claims is expected to result in a material loss to the Group.

## NOTE 26 Related party transactions

The Financial Times Limited holds 50% of the issued share capital in the company and is entitled to appoint six out of a total of 13 places for directors on the company's Board. The Financial Times Limited is a wholly-owned subsidiary of Pearson plc. The Group sold goods and services to Pearson plc and subsidiary companies to a total value of £141,711 (2006: £71,693) in the normal course of trade during the year, and acquired goods and services to a total value of £42,097 (2006: £49,525). The aggregate balances outstanding with these companies as at March 31st 2007 were £14,683 (2006: £nil) due to the Group and £188 (2006: £188) due from the Group.

## NOTE 27 Acquisitions

On October 27th 2006, the Group acquired 100% of the issued share capital of LNNI.com, Inc, GalleryWatch.com, Inc and LNNI Services, Inc ("GalleryWatch"). GalleryWatch is accounted for as an acquisition. The purchase consideration comprised cash of £3,241,000, with deferred contingent consideration of up to an additional £1,400,000.

The deferred contingent consideration is to be paid on the basis of GalleryWatch meeting specific targets.

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

| | Book value £000 | Revaluations £000 | Accounting policy alignment £000 | Fair value to Group £000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Tangible assets | 56 | - | (5) | 51 |
| **Current assets** | | | | |
| Debtors | 396 | - | 11 | 407 |
| Cash | 121 | - | - | 121 |
| **Total assets** | 573 | - | 6 | 579 |
| **Creditors** | | | | |
| Creditors due within one year | (1,225) | 4 | (56) | (1,277) |
| **Net liabilities acquired** | (652) | 4 | (50) | (698) |
| Goodwill | | | | 4,510 |
| **Consideration** | | | | 3,812 |
| **Consideration satisified by:** | | | | |
| Cash | | | | 3,241 |
| Deferred contingent consideration | | | | 571 |
| | | | | 3,812 |
| **Net cash outflow in respect of the acquisition comprised:** | | | | |
| Cash consideration | | | | (3,241) |
| Cash at bank and in hand acquired | | | | 121 |
| | | | | (3,120) |

GalleryWatch contributed an outflow of £126,000 to the Group's net operating cashflows, paid £nil in respect of interest, £nil in respect of taxation and used £82,000 for capital expenditure.

In its last financial year to December 31st 2005, GalleryWatch made a loss after tax of £181,000. For the period since that date to the date of acquisition, GalleryWatch management accounts show £1,140,000 revenue, £1,507,000 costs and a £367,000 loss.

## NOTE 27 Acquisitions (continued)

### Prior year: acquisition of EuroFinance Conferences Limited

No adjustments have been made to the fair value of the assets and liabilities, disclosed in the 2006 annual report, for the purchase of EuroFinance Conferences Limited in January 2006. Deferred consideration of £2,500,000 was paid in respect of this acquisition during the year.

## NOTE 28 Prior year adjustment

The adoption of FRS 20 "Share-based payment" has required the Group to change its method of accounting for share-based payments.

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

| Consolidated balance sheet | Creditors: due within one year £000 | Deferred taxation £000 | Shareholders' funds £000 |
|---|---|---|---|
| 2006 as previously reported | (45,368) | 5,964 | 3,908 |
| Adoption of FRS 20 | (461) | 138 | (323) |
| 2006 restated | (45,829) | 6,102 | 3,585 |

| Consolidated profit and loss account | Operating profit £000 | Taxation on profit on ordinary activities £000 | Profit after taxation £000 |
|---|---|---|---|
| 2006 as previously reported | 28,322 | (8,778) | 22,020 |
| Adoption of FRS 20 | 134 | (41) | 93 |
| 2006 restated | 28,456 | (8,819) | 22,113 |

## NOTE 29 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 25 (2006: 51) forward exchange contracts, and one (2006: nil) option contract. The fair value of forward contracts outstanding at the year end is a £649,000 asset (2006: £784,000 liability) and of the option contract a £95,000 asset (2006: £5,000).

## NOTE 30 Post balance sheet events

In March 2007, the UK government announced that the corporate tax rate will be reduced from 30% to 28% for periods from April 1st 2008. In accordance with UK GAAP the rate of 30% is still used as the basis for the deferred tax calculation as the rate change has not yet been substantively enacted. Due to uncertainty regarding the reversal of timing of differences, an accurate estimate of the effect of this change cannot be made at this time.

## NOTE 31 Company balance sheet at March 31st

| NOTE | | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|---|
| | **Fixed assets** | | |
| 32 | Tangible assets | 3,451 | 3,728 |
| 32 | Investments | 85,260 | 85,621 |
| | | **88,711** | **89,349** |
| | **Current assets** | | |
| 32 | Stocks and work-in-progress | 423 | 334 |
| 32 | Debtors: due after one year | 14,613 | 14,613 |
| 32 | Debtors: due within one year | 43,667 | 39,561 |
| 32 | Deferred taxation | 2,942 | 1,519 |
| | Cash and deposits | - | 32,449 |
| | | **61,645** | **88,476** |
| 32 | Creditors: due within one year | (53,884) | (42,223) |
| | Unexpired subscriptions and deferred revenue | (19,575) | (18,138) |
| | **Net current (liabilities)/assets** | **(11,814)** | **28,115** |
| | **Total assets less current liabilities** | **76,897** | **117,464** |
| 32 | Provisions for liabilities and charges | (1,267) | (1,198) |
| | **Net assets** | **75,630** | **116,266** |
| | **Capital and reserves** | | |
| 20 | Called-up share capital | 1,260 | 1,260 |
| 32 | Profit and loss account | 74,370 | 115,006 |
| | **Equity shareholders' funds** | **75,630** | **116,266** |

The 2006 comparatives have been restated for the adoption of FRS 20.

The financial statements were approved by the Board of directors and authorised for issue on June 5th 2007.
They were signed on its behalf by:

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

## NOTE 32 Notes to company balance sheet

| Tangible fixed assets | Leasehold buildings: short | Plant and machinery | Equipment | Total |
|---|---|---|---|---|
| **Cost** | £000 | £000 | £000 | £000 |
| At April 1st 2006 | 2,053 | 1,038 | 15,663 | 18,754 |
| Additions | 14 | - | 792 | 806 |
| At March 31st 2007 | 2,067 | 1,038 | 16,455 | 19,560 |
| **Depreciation** | | | | |
| At April 1st 2006 | 82 | 1,033 | 13,911 | 15,026 |
| Provided during year | 305 | 3 | 775 | 1,083 |
| At March 31st 2007 | 387 | 1,036 | 14,686 | 16,109 |
| **Net book value at March 31st 2007** | 1,680 | 2 | 1,769 | 3,451 |
| Net book value at March 31st 2006 | 1,971 | 5 | 1,752 | 3,728 |

| Investments (fixed assets) | Shares in Group companies |
|---|---|
| **Cost and net book value** | £000 |
| At April 1st 2006 | 85,621 |
| Transfer | (361) |
| At March 31st 2007 | 85,260 |

## NOTE 32 Notes to company balance sheet (continued)

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

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

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

| | 2007 | 2006 |
|---|---|---|
| **Stocks and work-in-progress** | £000 | £000 |
| Raw materials | 389 | 294 |
| Finished goods | 34 | 40 |
| | 423 | 334 |

| **Debtors** | 2007 | 2006 |
|---|---|---|
| **Due after one year** | £000 | £000 |
| Amounts owed by Group companies | 14,613 | 14,613 |

| | 2007 | 2006 |
|---|---|---|
| **Due within one year** | £000 | £000 |
| Trade debtors | 19,166 | 15,121 |
| Amounts owed by Group companies | 21,897 | 20,920 |
| Other debtors | 725 | 1,187 |
| Prepayments and accrued income | 1,879 | 2,315 |
| Tax recoverable | - | 18 |
| | 43,667 | 39,561 |

## NOTE 32 Notes to company balance sheet (continued)

| **Summary of movements in deferred tax asset** | £000 |
|---|---|
| At April 1st 2006 (restated) | 1,519 |
| Charge to the profit and loss account | 1,423 |
| At March 31st 2007 | 2,942 |

| | 2007 | 2006 |
|---|---|---|
| | | Restated |
| Assets recognised for deferred taxation under the liability method are: | £000 | £000 |
| Excess of depreciation over capital allowances | 279 | 474 |
| Post-retirement benefits | 4 | 148 |
| Other timing differences | 2,659 | 897 |
| | 2,942 | 1,519 |

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

| | 2007 | 2006 |
|---|---|---|
| | | Restated |
| **Creditors: due within one year** | £000 | £000 |
| Trade creditors | 2,262 | 2,207 |
| Amounts owed to Group companies | 22,563 | 18,129 |
| Other creditors including taxation and social security | 9,642 | 6,949 |
| Accruals | 19,417 | 14,938 |
| | 53,884 | 42,223 |

| Other creditors including taxation and social security comprise: | | |
|---|---|---|
| Corporation tax | 4,289 | 831 |
| Other tax and social security payable | 1,757 | 2,199 |
| Other creditors | 3,596 | 3,919 |
| | 9,642 | 6,949 |

| | Provisions for retirement benefits |
|---|---|
| **Provisions for liabilities and charges** | £000 |
| At April 1st 2006 | 1,198 |
| Charge to the profit and loss account | 58 |
| Charge to the statement of recognised gains and losses | 102 |
| Utilised in year | (91) |
| At March 31st 2007 | 1,267 |

**Pensions**

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

## NOTE 32 Notes to company balance sheet (continued)

| Reserves: profit and loss account | 2007<br>£000 | 2006<br>Restated<br>£000 |
|---|---|---|
| At April 1st as previously stated | 115,198 | 41,532 |
| Adoption of FRS 20 | (192) | (246) |
| At April 1st as restated | 115,006 | 41,286 |
| Retained (loss)/profit for the year | (41,094) | 73,568 |
| Net sale of own shares | 533 | 292 |
| Other recognised losses relating to the period | (75) | (140) |
| At March 31st | 74,370 | 115,006 |

The directors have taken advantage of the exemption under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the company alone. The company's profit after tax for the financial year amounted to £9,241,000 (2006 restated: £99,484,000).

**Employees**

The average number of employees, including executive directors, was 345 (2006: 344). Their aggregate remuneration comprised:

| | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| Wages and salaries | 31,394 | 29,131 |
| Social security costs | 3,758 | 3,135 |
| Pension costs | 17,920 | 8,333 |
| | 53,072 | 40,599 |

**Share-based payments**

The company has adopted FRS 20. Refer to note 10 for further details of the share-based incentive schemes. The company has recorded total liabilities at March 31st of £7,060,000 (2006: £4,613,000).

| Financial commitments<br>Operating leases | 2007<br>£000 | 2006<br>£000 |
|---|---|---|
| **Land and buildings, leases expiring** | | |
| Within one year | 104 | 65 |
| Between two and five years | 151 | 195 |
| After five years | 682 | 38 |
| | 937 | 298 |
| **Plant and equipment, leases expiring** | | |
| Within one year | 25 | 21 |
| Between two and five years | 32 | 95 |
| | 57 | 116 |

At March 31st 2007, there was £nil of capital expenditure contracted for but not provided in the financial statements (2006: £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, although there were no overdrafts as at March 31st 2007. The annual cost of property leases guaranteed by the company is currently £nil (2006: £nil) per year.

## NOTE 32 Notes to company balance sheet (continued)

**Prior year adjustment**

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

| | Creditors: due within one year £000 | Deferred taxation £000 | Shareholders' funds £000 |
|---|---|---|---|
| 2006 as previously reported | (41,950) | 1,438 | 116,458 |
| Adoption of FRS 20 | (273) | 81 | (192) |
| 2006 restated | (42,223) | 1,519 | 116,266 |

The above adjustments resulted in an increase of £54,000 in the company's profit after tax.

# Notice of annual general meeting

Notice is hereby given that the annual general meeting of The Economist Newspaper Limited will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Tuesday July 10th 2007 at 12.15pm, for the following purposes:

**1.** To receive the accounts and the reports of the directors and the auditors for the year ended March 31st 2007

**2.** To declare the final dividend

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

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

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

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

June 5th 2007

A member entitled to attend and vote may appoint one or more proxies, who need not be shareholders, to attend and vote instead. A form of proxy is enclosed. It must first be signed by the appointer and delivered to the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol, BS99 3FA at least 48 hours before the meeting.